Mainland Headwear Holdings Limited

(Stock code: 1100)

Annual Report 2010

Contents

Corporate Information

DIRECTORS

Executive Directors

Mr. Ngan Hei Keung *(Chairman)*
Madam Ngan Po Ling, Pauline
(Deputy Chairman and Managing Director)
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

PricewaterhouseCoopers
Certified Public Accountants

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

HSBC Securities Services
(Bermuda) Limited
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

Chairman's Statement

Madam Pauline Ngan
Deputy Chairman and Managing Director

Mr. Ngan Hei Keung
Chairman

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 2010.

BUSINESS REVIEW

Overview

During the year under review, the Group achieved a turnaround recording encouraging results. In the face of multiple challenges, most notably rising raw material costs and wages, as well as labour shortage, the Group embarked on strategies which proved effective in tapping the opportunities presented by the recovering global economy and the burgeoning retail market in the PRC. Thus the Group delivered a significant improvement in overall performance during the year.

In the Manufacturing Business, the headwear market has been undergoing consolidation, with weaker players being eliminated, Group providing scope for stronger players such as Mainland Headwear to develop further. The internal measures we undertook, including stronger administrative and management procedures, and actions to address the labour shortage and bolster our overall productivity, delivered a satisfactory improvement in the operational performance of our Manufacturing Business.

As for the Retail Business, our LIDS and SANRIO businesses also performed satisfactorily and achieved turnaround in the second half of the year. Meanwhile, LIDS opened its first own-brand flagship store, "NOP", in Hong Kong. On top of the higher margin own-brand products, a variety of accessories were also introduced in the shop to further increase the gross profit margin of this business.

Chairman's Statement

Financial Review

For the year ended 31 December 2010, the Group's turnover increased by approximately 31.6% from HK$515,834,000 to HK$678,633,000. Gross profit surged 65.4% to HK$188,547,000 (2009: HK$113,992,000), while the gross profit margin grew 5.7 percentage points from 22.1% to 27.8%. During the year, the Manufacturing Business recorded a satisfactory performance. In addition to this, thanks to the remarkable improvement in the Retail Business, the Group successfully turned around its business with profit attributable to shareholders of HK$5,670,000 (2009: Loss attributable to shareholders was HK$45,133,000). Excluding the one-off expense of approximately HK$14,000,000 from the settlement of litigation with Concept One, the profit attributable to shareholders would have been HK$19,000,000.

Manufacturing Business

During the year under review, the Manufacturing Business boasted excellent results. Turnover substantially increased by 35.6% over the previous year to HK$544,601,000 (2009: HK$401,680,000), accounting for 78.8% of the Group's total turnover, continuing as our major revenue source. The rise in turnover was mainly a result of the consolidation in the headwear industry, as customers preferred to work with stronger and more stable headwear manufacturers, thus driving growth in orders.

However, the Group faced myriad external challenges during the year, including an appreciating RMB, and rising raw material prices and labour costs coupled with growing labour shortages. In addition, to fulfill the requirements of the sharp increase in orders with shorter delivery schedules, the Group adopted quicker yet more expensive transportation modes for some orders to expedite timely delivery so as to maintain a good long-term relationship with customers. This move has resulted in an increase in cost but fortunately the condition alleviated significantly during the second half of the year.

To cope with the challenges, the Group has strived to expand its customer base and launched various cost control and administrative improvement measures, thus, the Group recorded an operating profit of HK$32,767,000 (2009: operating loss of HK$2,613,000).

In relation to the litigation in Concept One's alleged breach of the manufacturing agreement, the Group signed a settlement agreement with Concept One in November 2010. The agreement resolved the uncertainty brought to the Group arising from further litigation, enabling the Group to focus more resources and time to develop its business in the future. However, the Group reflected a one-off loss of approximately HK$14,000,000 during the year accordingly.

During the year under review, the Group has reformed the administration and management system within its factories. Apart from reviewing the salary and fringe benefits provided to staff and offering a more attractive remuneration package, the Group has also encouraged staff to refer high calibre individuals to join the Group to address the labour shortage in the PRC and maintain sufficient production capacity to meet rising demand.

Chairman's Statement

Retail Business

The continued strong economic growth and rapid rise in the living standard of the PRC population has spurred market demand for high-end premium goods. These trends were instrumental to the Group's Retail Business recording a turnover of HK$112,678,000 during the year. This marked a rise of 16.8% over the same period last year (2009: HK$96,506,000) and accounted for about 16.3% of the Group's total turnover.

Although SANRIO and LIDS both reported satisfactory results last year and achieved turnaround in the second half, the Retail Business continued to record an operating loss of HK$4,227,000 this year (2009: Operating loss of HK$17,946,000). This was mainly attributable to the operating loss of HK$3,565,000 generated from the closure of the Diecui business.

SANRIO

Benefiting from the rising demand for high-end premium goods by consumers in first- and second-tier cities, turnover from the SANRIO operations climbed by 19.0% to HK$86,430,000 (2009: HK$72,636,000). The Group substantially increased the sales proportion of its self-developed products with higher profit margins from 45% to around 64%, leading to an improvement in gross profit margin from 52.7% last year to 57.2%. This increase in turnover has reduced the proportion of fixed costs such as distribution and administrative expenses, leading to a major drop in operating loss from HK$8,641,000 last year to HK$1,047,000. Worthy of attention is that the performance of SANRIO's business improved notably in the second half to record a profit.

Chairman's Statement

To satisfy the demand for a better shopping experience from customers in first-tier cities and enhance its brand image, the Group restructured its network of self-owned stores during the year, relocating specific stores to prime locations, expanding the area of its flagship stores and enriching its product mix. This strategy has proven to be successful, not only increasing sales of self-owned stores but also increasing franchisees in second and third-tier cities. As at 31 December 2010, the Group operated 47 Sanrio self-owned stores, a decrease of one store when compared with last year, and increased the number of franchise stores from 51 stores in the same period last year to 59 stores.

LIDS

LIDS registered a turnover of HK$25,757,000, rising 15.0% over the same period last year (2009: HK$22,391,000). This was mainly attributable to the satisfactory performance in second- and third-tier cities in the PRC and the Group's efforts to further develop the NOP own-brand business. During the year under review, the Group strived to increase the sales proportion of its own-brand products and introduced higher margin accessories. These initiatives have helped to improve the gross profit margin from 70.0% in the corresponding period last year to 76.3%. LIDS' business also achieved a turnaround in the second half of the year for the first time with an annual operating profit of HK$384,000 (2009: Operating loss of HK$3,236,000).

To further boost profitability, the Group unveiled its first own-brand flagship store, "NOP", in Central, Hong Kong in October 2010, offering its own-brand products with higher profit margins and other quality headwear and accessories. The enhanced and trendy product mix of the new store has initially been well received by the market.

As at 31 December 2010, the Group had 30 self-owned LIDS stores, of which 24 were in the PRC and six were in Hong Kong. In addition, the Group operated 13 LIDS franchise stores in the PRC and one own-brand store, "NOP", in Hong Kong.

Trading Business

The Trading Business of the Group generated a turnover of HK$33,644,000 (2009: HK$31,248,000) with an operating loss of HK$1,386,000 (2009: HK$2,101,000). This was mainly because the Group has invested resources in enhancing the European sales team during the year to further expand its customer base for the Manufacturing Business by leveraging its established relationships with major retailers in Europe. The Group believes the results would further reflect these efforts in the year ahead.

Chairman's Statement

Prospects

Looking ahead, the Group believes the reviving economies in the US and Europe and the increasing demand in the PRC market for high-end premium products present tremendous opportunities for its future development.

Manufacturing Business

For the Manufacturing Business, according to the manufacturing agreement signed with New Era, the minimum purchase value of New Era's orders for 2011 is to increase to US$17,500,000. The greater volume of business, together with its strong business partnership with New Era, is expected to continue to bring a stable and promising income to the Group.

In addition, the Group expects the growth momentum of orders to be sustained during the year ahead. To meet the increasing orders and alleviate the pressures of labour shortage and rising wages in the PRC, the Group plans to further expand its production scale in other regions.

Retail Business

In its Sanrio business, the Group is continuing to identify prime locations in first-tier cities in the PRC for large retail stores to boost its brand image and also with a view to attract more franchisees in second- and third-tier cities. Moreover, the Group plans to further enrich its product mix and continue to increase the sales proportion of its self-developed products in order to boost both sales and gross profit margins. Given the strong demand for high-end premium products driven by improving living standards of people in the PRC, the Group is very optimistic about the growth prospects of this business.

As for the LIDS business, the Group will actively develop the franchise business in the second- and third-tier cities and provide wholesale products to other large retail shops and department stores. In addition, in view of the satisfactory progress of its first own-brand flagship store, "NOP", in Hong Kong, the Group has already opened a branch store of "NOP" in Tsim Sha Tsui in mid-March and plans to seek other suitable locations to extend its retail network in Hong Kong.

At the same time, the Group will strengthen its cooperation with New Era by opening the first New Era store in Tsim Sha Tsui in March 2011. The store will mainly sell headwear for the sporting leagues for which the license is owned by New Era, including the NBA, NHL, MLB, etc. Riding on the Group's well-established retail and wholesale platform in the PRC and Hong Kong coupled with the rich industry experience of both parties, the Group is confident its further cooperation with New Era can boost this business.

Shenzhen factory – New Era building

Chairman's Statement

ACKNOWLEDGEMENT

The management remains steadfastly dedicated to creating and implementing the Group's strategy in the future to maximise the opportunities presented as the recovery of the global economy gathers momentum and to strive 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.

Ngai Hei Keung
Chairman

Hong Kong
29 March 2011

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2011, the Group had cash, bank balances and a portfolio of liquid investments totaling HK$187.1 million (2009: HK$143.5 million). About 65% and 15% of these liquid funds were denominated in US dollars and Renminbi respectively and the remainder mainly in HK dollars and Pound Sterling.

The increase in liquid funds was mainly attributable to increase in share capital. New Era exercised share options to subscribe for 46,093,000 shares at the average exercise price of HK$0.77 per share during 2010, which brought HK$35.5 million cash inflow to the Group.

As at 31 December 2010, the Group had banking facilities of HK$116.0 million (2009: HK$104.0 million), of which HK$106.0 million (2009: HK$101.5 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.

CAPITAL EXPENDITURE

During the year, the Group spent approximately HK$15.3 million (2009: HK$10.1 million) on additions to plant and equipment to upgrade its manufacturing capability. The Group had also spent HK$5.2 million (2009: HK$4.5 million) on the retail systems and opening of new retail stores in 2010.

For the year 2011, the Group has budgeted HK$10.0 million for capital expenditure to enhance its production capacity and efficiency, and HK$1.6 million for opening of new shops.

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

Management Discussion and Analysis

EXCHANGE RISK

Most assets and liabilities of the Group are denominated either in HK dollars, US dollars or Renminbi. The Group estimates that any 1% appreciation of the Renminbi is expected to reduce the gross margin of the Manufacturing Business by about 1.5%. However, as the Retail 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 2010, the Group employed 106 (2009: 101) employees in Hong Kong and Macau, and 3,459 (2009: 3,318) employees in the PRC and a total of 8 (2009: 6) employees in the UK. The expenditures for employees during the year were approximately HK$160.3 million (2009: HK$149.2 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.

Biographical Details of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Ngan Hei Keung

aged 55, 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 51, 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 executive 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. She was awarded the Bronze Bauhinie Star in the Hong Kong Special Administrative Region 2009 Hohours List.

Mr. James S. Patterson

aged 40, 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 16 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 6 years.

NON-EXECUTIVE DIRECTOR

Mr. Tse Kam Fow

aged 51, 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 since September 2007. 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 Thunder Sky Battery 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 61, 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 two 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, which are listed in the main board of the Stock Exchange.

Mr. Lo Hang Fong

aged 47, 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 ("Bonjour") and Z-Obee Holdings Limited ("Z-Obee"). Bonjour is listed in the main board of the Stock Exchange and Z-Obee is dual listed in the main board of the Stock Exchange and the main board of the Singapore Exchange.

Biographical Details of Directors and Senior Management

Mr. Liu Tieh Ching, Brandon, JP

aged 65, 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 50, 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 43, firstly joined the Company during July 1999 to May 2001 and rejoined the Company in March 2008. He is the Chief Financial Officer 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 fellow member 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. Maggie Gu

aged 34, first joined the Company in May 2003 and rejoined 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. Fung Hok Man, Samson

aged 48, firstly joined the Company in 2001 and left in 2003, rejoining in March 2007 as the General Manager of the Company's Manufacturing Branch in Panyu. Mr Fung has more than 20 years of experience in the textiles and in manufacturing management.

Biographical Details of Directors and Senior Management

Ms. Oei Oi Leung, Linda

aged 62, 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.

Mr. Samuel Wai

aged 51, firstly joined the Company from January 2006 to October 2008 and rejoined the Company in May 2009 as the Factory Operations Director. He graduated from Chengchi University in Taiwan with a Bachelor Degree in Arts. A veteran in textiles products, he has gained a wealth of experience through his employment at several leading Hong Kong apparel companies.

Mr. Ho Yun Hang, Kanny

aged 50, joined the Company in March 2011 as the General Manager (China) for the Licensed Sanrio brand on retail & wholesale management. Mr. Ho is a member of Hong Kong Institute of Marketing. Prior to his joining the group, he had held senior position in pioneer company of watches industry for more than 10 years. Besides, he had gained extensive sales and marketing experience on luxury brand products (Fashion & Accessories) in South East Asian market and China.

Ms. Yeung Wing Sze, Celia

aged 33, firstly joined the Company as a Product Manager of Lids operation during May 2005 to May 2007. She rejoined in March 2009 as the General Manager – Lids. Ms. Yeung holds a Bachelor of Arts in Fashion Design and a Master of Arts in Fashion and Textile Design from the Hong Kong Polytechnic University. She also holds a Master of Arts in Management and Marketing from the London College of Fashion in UK. Ms Yeung has worked in local and international renowned fashion and accessories retailing firms for many years.

Mr. Lau Ka Fai, Edward

aged 44, joined the Company in February 2009 and is the Product Development Director. Mr. Lau graduated from the Hong Kong Polytechnic (Now known as Hong Kong Polytechnic University) with a Bachelor of Arts in Fashion Design (with commendation). He holds a Master Degree in Business Administration in Management from Southeastern University Washington, DC. He is also a Diploma Member of the Chartered Society of Designers London. He has worked in creative and design areas within several global buying offices for more than 18 years and is now responsible for design and product development in the US and Asia.

Ms. Leung Ka Pik, Ada

aged 49, 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.

Corporate Governance Report

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 2010, 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 2010 are as follows:

Number of meetings		8
Executive Directors		
Mr. Ngan Hei Keung	*(Chairman)*	8
Madam Ngan Po Ling, Pauline	*(Deputy Chairman and Managing Director)*	8
Mr. James S. Patterson		4
Non-executive Director		
Mr. Tse Kam Fow		5
Independent Non-executive Directors		
Mr. Leung Shu Yin, William		5
Mr. Lo Hang Fong		3
Mr. Liu Tieh Ching, Brandon, JP		5

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 three Executive Directors, namely Mr. Ngan Hei Keung, Madam Ngan Po Ling, Pauline 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 12 to 14 of the annual report, which demonstrate a diversity of skills, expertise, experience and qualifications among members of the Board.

A.4. Appointments, Re-election and Removal

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

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

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

According to the Company's bye-law No. 87, at each annual general meeting, one-third of the Directors for the time being (or, if 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 2010 included reviewing the Board composition and reviewing and making recommendation to the Board on appointment of new Directors. During the year of 2010, 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 2010.

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 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 one meeting in 2010, which was attended by all members of the Committee. 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 2010 are set out in note 12 to the financial statements. Details of the share option schemes of the Company are set out in the Report of the Director and note 29 to the financial statements.

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

C. Accountability 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 2010, 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 pages 40 to 41 of the annual report for the year ended 31 December 2010.

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 two meetings in 2010 which were attended by all members of the Committee.

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

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

2. Reviewed and recommended to the Board approval of the audit fee proposal for 2010;

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 2011;

4. Reviewed and approved the Group's internal audit plan for 2011;

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 2009; and

7. Reviewed the Interim Report and the interim results announcement for the six months ended 30 June 2010.

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 2011.

The remuneration of the Group's external auditors is HK$1,433,000 for statutory audit fees as disclosed in note 9 to the financial statements and HK$500,000 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 2010 Annual General Meeting and Special 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 2011 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.

Report of the Directors

The directors of the Company (the "Directors") have pleasure in submitting their annual report together with the audited financial statements for the year ended 31 December 2010.

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 39 to the financial statements.

SEGMENTAL INFORMATION

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

RESULTS AND APPROPRIATION

An interim dividend of 1 HK cent (2009: 1 HK cents) per share, totaling HK$3,980,000 was paid on 21 October 2010. The Directors now recommend the payment of a final dividend of 2 HK cents (2009: 2 HK cents) per share in respect of the year ended 31 December 2010. Subject to the approval at the forthcoming annual general meeting, the final dividend will be payable on or after 31 May 2011 to the shareholders whose names appear on the register of members at the close of the business on 16 May 2011.

The register of members of the Company will be closed from 12 May 2011 to 17 May 2011 (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 11 May 2011.

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 page 110.

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	–	21%
Five largest customers in aggregate	–	50%
The largest supplier	14%	–
Five largest suppliers in aggregate	42%	–

As at 31 December 2010, New Era Cap Co., Inc., a major customer of the Group, was an affiliated company of New Era Cap Asia Pacific Limited ("NE"). NE holds 20% equity interest in the Company. 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.

Save as disclosed above, 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$20,530,000 (2009: HK$14,576,000) on 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 18 to the financial statements.

SHARE CAPITAL

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

Report of the Directors

RESERVES

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

As at 31 December 2010, the Company's reserves available for cash distribution amounted to HK$232,466,000 (2009: HK$205,181,000) as computed in accordance with the Companies Act 1981 of Bermuda. In addition, the Company's share premium account of HK$159,539,000 (2009: HK$125,377,000) as at 31 December 2010 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$7,000 (2009: HK$131,000).

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. 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*

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. Liu Tieh Ching, Brandon, *JP* and Mr. Leung Shu Yin, William shall retire by rotation at the forthcoming annual general meeting. Mr. Liu Tieh Ching, Brandon, *JP* and Mr. Leung Shu Yin, William 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.

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. 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 38 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

(i) 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.

(ii) On 21 October 2008, the Company entered into a manufacturing agreement (the "Manufacturing Agreement") with New Era Cap Asia Pacific Limited ("NE"), pursuant to which (i) NE agreed to purchase products from the Company with minimum purchase commitments for the three financial years ending 31 December 2011; (ii) Subscription of 16,758,000 shares of the Company at subscription price of HK$0.844 per share; and (iii) Option in respect of right to subscribe for share options agreed to be granted to NE. Under the Contingent Purchase Deed, NE is entitled to require Mr. Ngan Hei Keung ("Mr. Ngan") and Madam Ngan Po Ling, Pauline, ("Madam Ngan") who are executive directors and controlling shareholders of the Company to purchase up to 39,800,000 shares of the Company from subscription and exercise of the option and owned by NE over a six months period after a notice is served by NE, if NE have agreed to give purchase commitment under the Manufacturing Agreement on the occurrence of several events.

On 28 November 2008, independent shareholders of the Company approved the Manufacturing Agreement and the maximum aggregate annual value of supply transactions for the three years ending 31 December 2011 are HK$117,000,000, HK$273,000,000 and HK$273,000,000 respectively.

During 2010, an affiliated company of NE purchased goods totalling HK$142,790,000 from the Group.

Due to the interest in and benefits that Mr. Ngan and Madam Ngan (who are connected persons of the Company as they are Directors) can derive from Contingent Purchase Deed, the Manufacturing Agreement (including the supply transactions, subscription and grant of option) will constitute connected transaction and continuing connected transaction under the Listing Rules.

The above connected transactions were 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 transactions, and are fair and reasonable so far as the shareholders of the Company are concerned.

The Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued his unqualified letter containing his findings and conclusions in respect of the continuing connected transactions disclosed by the Group in page 31 of the Annual Report in accordance with paragraph 14A.38 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 31 December 2010, 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	–	207,128,000 *(notes 1, 2)*	45,800,000 *(notes 3, 4)*	252,928,000	63.55%
Madam Ngan Po Ling, Pauline	23,428,000 *(note 2)*	183,700,000 *(note 1)*	45,800,000 *(notes 3, 4)*	252,928,000	63.55%
Mr. James S. Patterson	–	–	2,000,000 *(note 5)*	2,000,000	0.50%

Notes:

(1) 183,700,000 shares are legally and beneficially owned by Successful Years International Co., Ltd., a company ultimately and beneficially owned by Mr. Ngan Hei Keung and Madam Ngan Po Ling, Pauline as to 40% and 60% respective.

(2) The 23,428,000 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.

(4) Each of Mr. Ngan and Madam Ngan has been granted share options under the Company's share option scheme to subscribe for 3,000,000 shares of the Company on 23 June 2009.

(5) Mr. Patterson has been granted share options under the Company's share option scheme to subscribe for 2,000,000 shares of the Company on 23 June 2009.

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 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 37,961,486 shares, which represented 9.5% of the issued share capital of the Company as at 31 March 2011.

At 31 December 2010, the Directors, employees, customers and suppliers of the Group had the following interests in options to subscribe for shares in the Company (market value per share is HK$1.42 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 HK$	Outstanding at 1.1.2010	Granted	Lapsed during the period	Outstanding at 31.12.2010	Market value per share at date of grant HK$
Director	23.06.2009	23.06.2010 – 22.06.2019	0.946	8,000,000	–	–	8,000,000	0.93
Employees	11.06.2008	11.06.2009 – 10.06.2018	1.190	1,000,000	–	–	1,000,000	1.16
	23.06.2009	23.06.2010 – 22.06.2019	0.946	8,600,000	–	–	8,600,000	0.93
	08.11.2010	08.11.2011 – 07.11.2020	0.92	–	2,000,000	–	2,000,000	0.92
				9,600,000	2,000,000	–	11,600,000	
Customers and suppliers	03.07.2002	03.07.2003 – 02.07.2010	2.455	2,145,000	–	(2,145,000)	–	2.45

(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.

		Number of underlying shares		
Tranche No.	**Exercise period**	**Outstanding at 1.1.2010**	**Exercised at during the year**	**Outstanding at 31.12.2010**
1	01.04.2009 – 02.01.2010	–	–	–
2	01.02.2010 – 31.07.2010	25,000,000	(25,000,000)	–
3	01.08.2010 – 31.01.2011	21,093,000	(21,093,000)	–
		46,093,000	(46,093,000)	–

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 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 2010 and 2011 ("Annual Periods") within six months after commencement of Annual Periods.

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 2010, 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:

Name	Capacity	Number of shares Personal interest	 Other interest	 Total	Percentage of interest
Successful Years International Co., Ltd. *(note 1)*	Beneficial owner	183,700,000	–	183,700,000	46.16%
Mr. Christopher Koch *(note 2)*	Interest of a controlled corporation	–	79,601,000	79,601,000	20.00%
New Era Cap Hong Kong LLC *(note 2)*	Interest of a controlled corporation	–	79,601,000	79,601,000	20.00%
New Era Cap Asia Pacific Limited *(note 2)*	Beneficial owner	79,601,000	–	79,601,000	20.00%

Notes:

1. Successful Years International Co., Ltd. is owned by Mr. Ngan Hei Keung and Madam Ngan Po Ling, Pauline as to 40% and 60% respectively. 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") subscribed 16,758,000 shares and exercised 62,843,000 option shares in accordance with 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 79,601,000.

Short positions in the underlying shares:

Name	Number of underlying shares	Percentage of interest
Mr. Christopher Koch	39,800,000 *(note)*	10%
New Era Cap Hong Kong LLC	39,800,000 *(note)*	10%
New Era Cap Asia Pacific Limited ("NE")	39,800,000 *(note)*	10%

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 2010, 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 11 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 2010, 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 29 March 2011, being the date of this report.

AUDITORS

During 2010, Grant Thornton resigned as the auditors of the Company and PricewaterhouseCoopers was appointed on the same day to fill the casual vacancy.

The financial statements for the year have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

By order of the Board

Ngan Hei Keung
Chairman

Hong Kong, 29 March 2011

Independent Auditor's Report

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羅兵咸永道會計師事務所

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TO THE SHAREHOLDERS 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 (together, "the Group") set out on pages 42 to 109, which comprise the consolidated and company balance sheets as at 31 December 2010, and the consolidated income statement, the consolidated statement of comprehensive income, 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 information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view 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, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 90 of the Companies Act 1981 of Bermuda, 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 about whether the consolidated financial statements are free from material misstatement.

Independent Auditor's Report

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2010 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 29 March 2011

Consolidated Income Statement

For the year ended 31 December 2010

	Note	2010 HK$'000	2009 HK$'000
Revenue	5, 6	**678,633**	515,834
Cost of sales	9	**(490,086)**	(401,842)
Gross profit		**188,547**	113,992
Other income	7	**1,077**	1,748
Other losses – net	8	**(12,420)**	(11,352)
Selling and distribution costs	9	**(81,913)**	(65,979)
Administration expenses	9	**(85,097)**	(93,861)
Profit/(loss) from operations		**10,194**	(55,452)
Share of results of a jointly controlled entity		**–**	209
Finance income – net	10	**1,037**	2,695
Profit/(loss) before income tax		**11,231**	(52,548)
Income tax expense	14	**(5,672)**	(140)
Profit/(loss) for the year		**5,559**	(52,688)
Attributable to:			
Owners of the parent		**5,670**	(45,133)
Non-controlling interests		**(111)**	(7,555)
		5,559	(52,688)
Earnings/(loss) per share attributable to owners of the parent	16		
Basic		**1.5 HK cents**	(13.4 HK cents)
Diluted		**1.5 HK cents**	(13.4 HK cents)
Dividends	17	**11,951**	10,390

The notes on pages 50 to 109 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2010

	2010 *HK$'000*	2009 *HK$'000*
Profit/(loss) for the year	**5,559**	(52,688)
Other comprehensive income		
Exchange differences on translation of financial statements of foreign operations	**3,899**	894
Total comprehensive income/(loss) for the year, net of tax	**9,458**	(51,794)
Attributable to:		
Owners of the parent	**9,493**	(44,133)
Non-controlling interests	**(35)**	(7,661)
Total comprehensive income/(loss) for the year	**9,458**	(51,794)

The notes on pages 50 to 109 are an integral part of these consolidated financial statements.

Consolidated Balance Sheet

As at 31 December 2010

	Note	2010 HK$'000	2009 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment	18	**118,678**	128,703
Land use rights	19	**816**	937
Goodwill	21	**4,958**	4,958
Other intangible asset	22	**2,041**	3,790
Other non-current receivables	24	**5,023**	–
Deferred tax assets	31	**152**	67
		131,668	138,455
Current assets			
Inventories	23	**130,518**	103,153
Trade and other receivables	24	**160,325**	167,644
Amount due from a related company	25	**941**	923
Financial assets at fair value through profit or loss	26	**1,423**	4,758
Tax recoverable		**604**	604
Cash and cash equivalents	27	**185,667**	138,729
		479,478	415,811
Total assets		**611,146**	554,266
EQUITY			
Equity attributable to owners of the parent			
Share capital	28	**39,800**	35,191
Other reserves		**216,873**	179,641
Retained earnings			
– Proposed dividends		**7,971**	7,038
– Others		**220,648**	227,429
		485,292	449,299
Non-controlling interests		**4,025**	8,740
Total equity		**489,317**	458,039
LIABILITIES			
Non-current liabilities			
Long service payment payable		**260**	73
Deferred tax liabilities	31	**629**	1,513
		889	1,586

Consolidated Balance Sheet

As at 31 December 2010

	Note	2010 HK$'000	2009 HK$'000
Current liabilities			
Trade and other payables	32	**106,448**	90,876
Amounts due to related companies	25	**1,435**	1,170
Income tax payable		**13,057**	2,595
		120,940	94,641
Total liabilities		**121,829**	96,227
Total equity and liabilities		**611,146**	554,266
Net current assets		**358,538**	321,170
Total assets less current liabilities		**490,206**	459,625

Ngan Hei Keung
Director

Ngan Po Ling, Pauline
Director

The notes on pages 50 to 109 are an integral part of these consolidated financial statements.

Balance Sheet

As at 31 December 2010

	Note	2010 HK$'000	2009 HK$'000
ASSETS			
Non-current assets			
Interests in subsidiaries	20	**418,192**	351,360
Other intangible asset	22	**2,041**	3,790
		420,233	355,150
Current assets			
Other receivables	24	**14,738**	22,730
Tax recoverable		**262**	227
Cash and cash equivalents	27	**4,581**	4,350
		19,581	27,307
Total assets		**439,814**	382,457
EQUITY			
Share capital	28	**39,800**	35,191
Other reserves	30	**263,655**	230,246
Retained earnings			
– Proposed dividends		**7,971**	7,038
– Others		**125,064**	98,712
		436,490	371,187
LIABILITIES			
Current liabilities			
Accrued charges and other payables	32	**3,324**	11,270
		3,324	11,270
Total equity and liabilities		**439,814**	382,457

Ngan Hei Keung
Director

Ngan Po Ling, Pauline
Director

The notes on pages 50 to 109 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2010

	Attributable to owners of the parent								
	Share capital *HK$'000*	Share premium *HK$'000*	Contributed surplus *HK$'000* *(note 30)*	Share based compensation reserve *HK$'000*	Exchange reserve *HK$'000*	Retained earnings *HK$'000*	Total *HK$'000*	Non-controlling interests *HK$'000*	Total equity *HK$'000*
At 1 January 2009	31,840	100,203	25,878	5,247	21,948	288,378	473,494	2,571	476,065
Loss for the year	–	–	–	–	–	(45,133)	(45,133)	(7,555)	(52,688)
Other comprehensive income:									
– Exchange differences on translation of financial statements of foreign operations	–	–	–	–	1,000	–	1,000	(106)	894
Total comprehensive loss for the year	–	–	–	–	1,000	(45,133)	(44,133)	(7,661)	(51,794)
Increase in shareholding of a subsidiary	–	–	–	–	–	–	–	13,830	13,830
2008 final dividend paid	–	–	–	–	–	(10,055)	(10,055)	–	(10,055)
2009 interim dividend paid	–	–	–	–	–	(3,352)	(3,352)	–	(3,352)
Issue of new shares	1,676	12,468	–	–	–	–	14,144	–	14,144
Exercise of share options	1,675	12,706	–	(1,083)	–	–	13,298	–	13,298
Equity settled share-based transactions	–	–	–	5,903	–	–	5,903	–	5,903
Share options cancelled	–	–	–	(4,534)	–	4,534	–	–	–
Share options lapsed	–	–	–	(95)	–	95	–	–	–
Transactions with owners	3,351	25,174	–	191	–	(8,778)	19,938	13,830	33,768
At 31 December 2009	35,191	125,377	25,878	5,438	22,948	234,467	449,299	8,740	458,039
Representing:									
2009 proposed final dividend						7,038			
Other retained earnings						227,429			
						234,467			

Consolidated Statement of Changes in Equity

For the year ended 31 December 2010

	Attributable to owners of the parent								
	Share capital *HK$'000*	Share premium *HK$'000*	Contributed surplus *HK$'000* *(note 30)*	Share based compensation reserve *HK$'000*	Exchange reserve *HK$'000*	Retained earnings *HK$'000*	Total *HK$'000*	Non-controlling interests *HK$'000*	Total equity *HK$'000*
At 1 January 2010	**35,191**	**125,377**	**25,878**	**5,438**	**22,948**	**234,467**	**449,299**	**8,740**	**458,039**
Profit for the year	–	–	–	–	–	5,670	5,670	(111)	5,559
Other comprehensive income:									
– Exchange differences on translation of financial statements of foreign operations	–	–	–	–	3,823	–	3,823	76	3,899
Total comprehensive income for the year	–	–	–	–	3,823	5,670	9,493	(35)	9,458
Reduction of share capital of a subsidiary	–	–	–	–	–	–	–	(4,680)	(4,680)
2009 final dividend paid	–	–	–	–	–	(7,538)	(7,538)	–	(7,538)
2010 interim dividend paid	–	–	–	–	–	(3,980)	(3,980)	–	(3,980)
Exercise of share options	4,609	34,162	–	(3,289)	–	–	35,482	–	35,482
Equity settled share-based transactions	–	–	–	2,536	–	–	2,536	–	2,536
Transactions with owners	4,609	34,162	–	(753)	–	(11,518)	26,500	(4,680)	21,820
At 31 December 2010	**39,800**	**159,539**	**25,878**	**4,685**	**26,771**	**228,619**	**485,292**	**4,025**	**489,317**
Representing:									
2010 proposed final dividend						7,971			
Other retained earnings						220,648			
						228,619			

The notes on pages 50 to 109 are an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2010

	Note	2010 HK$'000	2009 HK$'000
Operating activities			
Cash generated from/(used in) operations	33	**33,817**	(14,008)
Income tax refund/(paid)		**3,686**	(2,106)
Interest paid		**(62)**	(62)
Net cash generated from/(used in) operating activities		**37,441**	(16,176)
Investing activities			
Interest received		**1,099**	2,757
Acquisition of a subsidiary	34	**–**	(1,452)
Reduction of share capital of a subsidiary		**(4,680)**	–
Purchase of property, plant and equipment		**(20,530)**	(14,576)
Proceeds from disposal of property, plant and equipment		**4,435**	6,056
Net sale/(acquisition) of financial assets at fair value through profit or loss		**4,201**	(393)
Net cash used in investing activities		**(15,475)**	(7,608)
Financing activities			
Dividends paid		**(11,518)**	(13,407)
Proceeds from issue of shares		**35,482**	27,442
Net cash generated from financing activities		**23,964**	14,035
Net increase/(decrease) in cash and cash equivalents		**45,930**	(9,749)
Cash and cash equivalents at beginning of year		**138,729**	149,148
Effect of foreign exchange rate changes		**1,008**	(670)
Cash and cash equivalents at end of year		**185,667**	138,729

The notes on pages 50 to 109 are an integral part of these consolidated financial statements.

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 address of the registered office is Clarendon House, 2 Church Street, Hamilton HM11, Bermuda.

The principal activity of the Company is investment holding. The principal activities of the subsidiaries are set out in note 39 to the financial statements.

These financial statements are presented in Hong Kong dollars, unless otherwise stated. These financial statements were approved for issue by the board of directors on 29 March 2011.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 4.

Changes in accounting policy and disclosures

(i) *New and amended standards adopted by the Group*

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 January 2010.

- HKFRS 3 (revised), 'Business combinations', and consequential amendments to HKAS 27, 'Consolidated and separate financial statements', are effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009.

  The revised standard continues to apply the acquisition method to business combinations but with some significant changes compared with HKFRS 3. For example, all payments to purchase a business are recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the statement of comprehensive income. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs are expensed.

  HKAS 27 (revised) requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss. HKAS 27 (revised) has no significant impact on the Group's financial statements in the current period.

- HKAS 17 (amendment), 'Leases', deletes specific guidance regarding classification of leases of land, so as to eliminate inconsistency with the general guidance on lease classification. As a result, leases of land should be classified as either finance or operating lease using the general principles of HKAS 17, i.e. whether the lease transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee. Prior to the amendment, land interest which title is not expected to pass to the Group by the end of the lease term was classified as operating lease under "Leasehold land and land use rights", and amortised over the lease term. The revised standard has no significant impact on the Group's financial statements on the current period.

The following new and amended standards and interpretations of HKFRS are mandatory for accounting periods beginning on or after 1 January 2010 but they are not relevant to the Group's operations:

HKFRS 1 (Revised)	First-time Adoption of HKFRSs
HKFRS 1 Amendment	Additional Exemptions for First-time Adopters
HKFRS 2 Amendment	Group Cash-settled Share-based Payment Transactions
HKAS 39 Amendment	Eligible Hedged Items
HK(IFRIC)-Int 9 and HKAS 39 Amendments	Embedded Derivatives
HK(IFRIC)-Int 17	Distributions of Non-cash Assets to Owners
HK(IFRIC)-Int 18	Transfer of Assets from Customers
HK-Interpretation 5	Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause

First and second improvements to HKFRSs published by the Hong Kong Institute of Certified Public Accountants.

(ii) *New standards, amendments and interpretations have been issued but are not effective for the financial year beginning 1 January 2011 and have not been early adopted*

HKFRS 1 Amendment	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters
HKFRS 1 Amendment	Severe Hyperinflation and Removal of Fixed Dates for First-time adopters
HKFRS 7 Amendment	Disclosures - Transfers of Financial Assets
HKFRS 9	Financial Instruments
HKAS 12 Amendment	Deferred Tax: Recovery of Underlying Assets
HKAS 24 (Revised)	Related Party Disclosures
HKAS 32 Amendment	Classification of Rights Issues
HK(IFRIC)-Int 14 Amendment	Prepayments of a Minimum Funding Requirement
HK(IFRIC)-Int 19	Extinguishing Financial Liabilities with Equity Instruments
Annual Improvements Project to HKFRSs 2010	

The Group has not early adopted the above standards, amendments and interpretations and is not yet in a position to state whether substantial changes to the Group's accounting policies and presentation of accounts will result.

Certain prior year comparative figures in the consolidated income statement have been reclassified to conform with the current year's presentation:

- Certain other gains have been reclassified from Other income to Other losses – net;
- Certain other losses have been reclassified from Administrative expenses and Other operating expenses to Other losses – net;
- Interest income has been reclassified from Other income to Finance income – net.

Prior year balance sheet was not affected by this change in presentation.

(b) Consolidation

(i) *Subsidiaries*

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(i)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale). Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable at the balance sheet date. All dividends whether received out of the investee's pre or post-acquisition profits are recognised in the Company's profit or loss.

Subsidiaries are consolidated into the consolidated financial statements from the date that control commences until the date that control ceases.

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the consolidated income statement.

Intercompany balances and transactions and any unrealised gains arising from transactions between group companies are eliminated in preparing the consolidated financial statements. Unrealised losses resulting from intercompany transactions are eliminated.

(ii) Transactions with non-controlling interests

Prior to 31 December 2009, transactions with non-controlling interests were treated as transactions with parties external to the Group. Disposals therefore resulted in gains or losses in profit or loss and purchases resulted in the recognition of goodwill. On disposal or partial disposal, a proportionate interest in reserves attributable to the subsidiary was reclassified to profit or loss or directly to retained earnings.

From 1 January 2010 onwards, the Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

(c) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive directors that makes strategic decisions.

(d) Foreign currencies translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency'). The consolidated financial statements are presented in HK dollars (HK$), which is the Company's functional and the Group's presentation currency.

(ii) Transactions and balances

In the individual financial statements of the consolidated entities, transactions in foreign currencies are translated into the functional currency at the rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rates of exchange ruling as at the balance sheet 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 in other comprehensive income.

Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated into the functional currency at the rates prevailing on the date when the fair value was determined and are reported as part of the fair value gain or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

(iii) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(a) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(b) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

(c) all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to other comprehensive income. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

(e) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

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 proceeds and the carrying amount of the assets and is recognised in the income statement.

Depreciation is provided 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:

Building	5%
Furniture and equipment	20% to 33%
Leasehold improvements	10% to 50%
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.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount *(note 2(i))*.

(f) Land use right

Land use right 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.

(g) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's interest in the acquiree's identifiable assets, liabilities and contingent liabilities at the date of acquisition. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. On disposal of an entity any attributable amount of goodwill is included in the calculation of gains and losses on the disposal.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose identified according to operating segment.

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 an acquisition is recognised immediately in the income statement.

(h) Other intangible asset

Other intangible asset represents acquired customer relationship. The intangible asset is stated on the balance sheet at cost less accumulated amortisation and impairment losses (see note 2(i)). Amortisation of the intangible asset is over the expected pattern of consumption of expected future economic benefits from the intangible asset.

(i) Impairment of assets

(i) Impairment of financial assets

Trade and other receivables are reviewed at each balance sheet date to determine whether there is objective evidence of impairment.

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the group uses to determine that there is objective evidence of an impairment loss include:

– Significant financial difficulty of the debtor;

– A breach of contract, such as a default or delinquency in interest or principal payments;

– It becomes probable that the debtor will enter bankruptcy or other financial reorganisation;

– The disappearance of an active market for that financial asset because of financial difficulties; or

– Observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:

  (i) adverse changes in the payment status of borrowers in the portfolio;

  (ii) national or local economic conditions that correlate with defaults on the assets in the portfolio.

The Group first assesses whether objective evidence of impairment exists.

The impairment loss of trade and other receivables is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows (excluding future credit losses that have not been incurred), discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated income statement.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated income statement.

(ii) Impairment of investments in subsidiaries

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

(iii) Impairment of non-financial assets

Assets that have an indefinite useful life – for example, goodwill or intangible assets not ready to use – are not subject to amortisation and are tested annually for impairment. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(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 prior to 1 January 2010, and using the weighted-average costing method after 1 January 2010. The impact from the change in the calculation method does not have significant impact on the balances prior to 1 January 2010.

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 receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment (see note 2(i)).

(l) Financial assets at fair value through profit or loss

Financial assets held for trading carried at fair value through profit or loss are classified as financial assets at fair value through profit or loss under current assets. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current.

Regular way purchases and sales of financial assets are recognised on the trade-date – the date on which the group commits to purchase or sell the asset. Financial assets at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement. Financial assets at fair value through profit or loss 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. Financial assets at fair value through profit or loss are subsequently carried at fair value.

Gains or losses arising from changes in the fair value of the financial assets at fair value through profit or loss are presented in the consolidated income statement in the period in which they arise. Dividend income from the financial assets at fair value through profit or loss is recognised in the consolidated income statement when the Group's right to receive payments is established.

(m) Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand, demand deposits with banks and short-term highly liquid investments with original maturities of three months or less that are readily convertible into known amounts of cash and which are subject to an insignificant risk of change in value, net of bank overdrafts. In the consolidated balance sheet, bank overdrafts are shown within borrowings in current liabilities.

(n) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(o) Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade and other payables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method.

(p) Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

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 in the countries where the Company's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided, using the liability method, on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. The deferred income tax 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 laws) that have been enacted or substantively enacted by the balance sheet date. Deferred income 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 liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, 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.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

(q) Employee benefits

(i) Pension obligations

Group companies operate various defined contribution pension schemes. The schemes are generally funded through payments to insurance companies or trustee-administered funds, determined by periodic actuarial calculations. The Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(ii) Profit-sharing and bonus plans

The Group recognises a liability and an expense for bonuses and profit-sharing, based on a formula that takes into consideration the profit attributable to the Company's shareholders after certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

(r) Share-based payments

(i) Share options granted to employees

The Group operates a number of equity-settled, share-based compensation plans, under which the entity receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions (for example, an entity's share price);
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period);and
- including the impact of any non-vesting conditions (for example, the requirement for employees to save).

Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each reporting period, the entity revises its estimates of the number of options that are expected to vest based on the non-marketing vesting conditions. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

When the options are exercised, the company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

The grant by the company of options over its equity instruments to the employees of subsidiary undertakings in the group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity.

(ii) Share options granted to customers

For share options granted to customers of the Group, share options are measured at the fair values of the goods or services received, unless that fair value cannot be reliably measured, in which case the goods or services received are measured by reference to the fair value of the share options granted. The fair values of the goods or services received are recognised as expenses immediately, unless the goods or services qualify for recognition as asset.

(s) Provisions

Provisions for environmental restoration, restructuring costs and legal claims are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

(t) Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Group's activities as described below. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(i) Sales of goods – wholesale and trading

Sales of goods are recognised when the Group has delivered products to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured.

(ii) Sales of goods – retail

Sales of goods are recognised when a group entity sells a product to the customer. Retail sales are usually in cash or by credit card.

(iii) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method.

(u) Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term.

(v) Dividend distribution

Dividend distribution to the company's shareholders is recognised as a liability in the Group's and the Company's financial statements in the period in which the dividends are approved by the company's shareholders.

(w) Financial guarantees

A financial guarantee contract is a contract that requires the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the original or modified terms of a debt instrument.

Financial guarantee contracts are initially recognised at fair value on the date the guarantee was given. Subsequently, the liabilities under such guarantees are measured at the higher of the best estimate of the expenditure required to settle any financial obligation arising at the balance sheet date and the initial measurement, less amortisation calculated to recognise in the income statement the fee income earned on a straight line basis over the life of the guarantee. These estimates are determined based on experience of similar transactions and debtors' payment history, supplemented by the judgement of management of the Group.

3 FINANCIAL RISK MANAGEMENT

(a) Categories of financial instruments

	Group		Company	
	2010	2009	**2010**	2009
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Financial assets				
Loans and receivables (include cash and cash equivalents):				
– Trade and other receivables	**138,484**	141,802	**14,738**	22,713
– Amount due from a related company	**941**	923	**–**	–
– Bank balances and cash	**185,667**	138,729	**4,581**	4,350
	325,092	281,454	**19,319**	27,063
Financial assets at fair value through profit or loss	**1,423**	4,758	**–**	–
	326,515	286,212	**19,319**	27,063
Financial liabilities				
Amortised cost:				
– Trade and other payables	**106,448**	90,876	**3,324**	11,270
– Amounts due to related companies	**1,435**	1,170	**–**	–
	107,833	92,046	**3,324**	11,270

(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 or 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.

The Group estimates that any 1% appreciation of the Renminbi is expected to reduce the gross margin of the Manufacturing Business by about 1.5%. However, as the Retail business 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.

(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 2010, it is estimated that a general increase/decrease of 50 basis points (2009: 50 basis points) in bank deposits interest rates, with all other variables held constant, would increase/decrease the Group's post-tax profit for the year by approximately HK$928,000 (2009: decrease/increase the Group's post-tax loss for the year by approximately HK$694,000). 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 financial assets at fair value through profit or loss. If the market bid prices of the investments had been 10% higher, the Group's post-tax profit for the year would increase/decrease by approximately HK$142,000 for the year ended 31 December 2010 (2009: post-tax loss for the year would decrease/increase by approximately HK$476,000).

This is mainly attributable to the changes in fair values of the financial assets at fair value through profit or loss held for trading purpose. The same percentage of depreciation would have the same magnitude on the Group's post-tax profit for the year but of opposite effect.

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.

Management constantly reviews the portfolio of 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 and other receivables, amount due from related companies and bank balances. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

Majority of the Group's bank balances are placed in those banks and financial institutions with a sound rating. Management does not expect any losses from non-performance by these banks and financial institutions as they have no default history in the past.

Trade receivables are due within 30 to 90 days from the date of billing depending on the trading relationship. Debtors of the Group may be affected by the unfavorable economic conditions and the lower liquidity situation, which could in turn impact their ability to repay the amounts owed. Deteriorating operating conditions for debtors may also have an impact on management's cash flow forecasts and assessment of the impairment of receivables. To the extent that information is available, management has properly reflected revised estimate of expected future cash flows in their impairment assessments.

The credit quality of the customers is assessed based on its financial position, past experience and other factors.

At the balance sheet date, the Group has certain concentration of credit risk as 14% (2009: 13%) and 42% (2009: 41%) of the total trade and other receivables was due from the Group's largest customer and the five largest customers respectively.

Management considers the credit risk on amounts due from related companies and other receivables is minimal after considering the financial conditions of these entities. Management has performed assessment over the recoverability of these balances and management does not expect any losses from non-performance by these companies.

The carrying amount of these balances in the consolidated balance sheet represents the Group's maximum exposure to credit risk in relation to its financial assets.

(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 Company's and Group's financial liabilities at the balance sheet date will normally be settled within one year.

(c) 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 2010, the Group's strategy, which was unchanged from 2009, was to maintain its gearing ratio at zero.

(d) Fair value

The Group's financial assets and liabilities are carried at amounts not materially different from their fair values as at 31 December 2009 and 2010 because of the immediate or short term maturity of these financial assets and liabilities.

The following table presents financial assets and liabilities measured at fair value in the balance sheet in accordance with the fair value hierarchy. The hierarchy groups financial assets and liabilities into the following three levels based on the relative reliability of significant inputs used in measuring the fair value of these financial assets and liabilities.

– Level 1: quoted prices (unadjusted) in active markets for identical assets and liabilities;

– Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

– Level 3: inputs for the asset or liability that are not based on observable market data (observable inputs).

	2010 – Group			
	Level 1	**Level 2**	**Level 3**	**Total**
	HK$	***HK$***	***HK$***	***HK$***
Assets				
Listed equity investments in Hong Kong	**1,423**	**–**	**–**	**1,423**

	2009 – Group			
	Level 1	Level 2	Level 3	Total
	HK$	HK$	HK$	HK$
Assets				
Listed equity investments in Hong Kong	2,556	–	–	2,556
Unlisted managed funds	–	2,202	–	2,202
	2,556	2,202	–	4,758

The fair values of listed equity investments in Hong Kong and unlisted managed funds have been determined by reference to quoted market prices on the Stock Exchange and quoted prices provided by the financial institutions respectively.

There were no significant transfers of financial assets between level 1 and level 2 fair value hierarchy classifications.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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) Impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in Note 2(g). 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. Judgement is required to determine key assumptions adopted in the cash flow projections and changes to key assumptions could affect these cash flow projections and therefore the results of the impairment review.

(b) Provision for impairment of receivables

The Group's management determines the provision for impairment of trade and other receivables based on an assessment of the recoverability of the receivables. This assessment is based on the credit history of its customers and other debtors and the current market condition, and requires the use of judgements and estimates. Management reassesses the provision at each balance sheet date.

(c) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and variable selling expenses. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of similar nature. It could change significantly as a result of changes in customer taste and competitor actions in response to severe industry cycle. Management reassesses these estimates at each balance sheet date.

(d) Income taxes

The Group is subject to income taxes in various jurisdictions. Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be required. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

(e) Useful lives of property, plant and equipment and intangible assets (other than goodwill)

The Group's management determines the estimated useful lives, and related depreciation and amortisation charges for its property, plant and equipment and intangible assets (other than goodwill). This estimate is based on the historical experience of the actual useful lives of property, plant and equipment and intangible assets of similar nature and functions. Management will increase the depreciation and amortisation charges where useful lives are less than previously estimated lives. It will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives. Periodic review could result in a change in depreciable and amortisation lives and therefore depreciation and amortisation expense in future periods.

Property, plant and equipment, leasehold land and land use rights and intangible assets (other than goodwill) are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amounts have been determined based on fair value less cost to sell calculations or market valuations. These calculations require the use of judgements and estimates.

Management judgement is required in the area of asset impairment particularly in assessing: (i) whether an event has occurred that may indicate that the related asset values may not be recoverable; (ii) whether the carrying value of an asset can be supported by the recoverable amount, being the higher of fair value less costs to sell or net present value of future cash flows which are estimated based upon the continue use of the asset in the business; and (iii) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management in assessing impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could affect the net present value used in the impairment test and as a result affect the Group's financial position and results of operations.

(f) Employee benefits – share-based payments

The determination of the fair value of the share options granted requires estimates in determining, among others, the expected volatility of the share price, the expected dividend yield, the risk-free interest rate for the life of the option, and the number of options that are expected to become exercisable as stated in Note 29. Where the outcome of the number of options that are exercisable is different, such difference will impact the consolidated income statement in the subsequent remaining vested period of the relevant share options.

5 SEGMENT INFORMATION

The executive directors have been identified as the chief operating decision maker. The executive directors have determined the operating segments based on the reports reviewed by them that are used to make strategic decisions.

Management considers the business from a business perspective whereby management assesses the performance of business operations by segment as follows:

(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 and tourist souvenir shops in the PRC. The operation of tourist souvenir shops has been ceased during 2010.

Segment assets exclude financial assets at fair value through profit or loss, other intangibles assets, deferred tax assets and tax recoverable. In addition, corporate assets which are not directly attributable to the business activities of any operating segment are not allocated to a segment, which primarily applies to the Group's headquarters.

Segment liabilities exclude corporate liabilities which are not directly attributable to the business activities of any operating segment and are not allocated to a segment. These include deferred tax liabilities and income tax payable.

	Manufacturing		Trading		Retail		Total	
	2010	2009	**2010**	2009	**2010**	2009	**2010**	2009
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Revenue from external customers	**532,311**	388,080	**33,644**	31,248	**112,678**	96,506	**678,633**	515,834
Inter-segment revenue	**12,290**	13,600	**–**	–	**–**	–	**12,290**	13,600
Reportable segment revenue	**544,601**	401,680	**33,644**	31,248	**112,678**	96,506	**690,923**	529,434
Reportable segment profit/(loss)	**32,767**	(2,613)	**(1,386)**	(2,101)	**(4,227)**	(17,946)	**27,154**	(22,660)
Gain from disposal of financial assets at fair value through profit or loss							**874**	132
Fair value loss on financial assets at fair value through profit or loss							**(8)**	(89)
Share-based payment expenses							**(2,536)**	(1,975)
Unallocated corporate income							**474**	1,227
Unallocated corporate expenses							**(14,665)**	(29,330)
Profit/(loss) from operations							**11,293**	(52,695)
Share of results of a jointly controlled entity							**–**	209
Finance costs							**(62)**	(62)
Income tax expense							**(5,672)**	(140)
Profit/(loss) for the year							**5,559**	(52,688)
Depreciation of property, plant and equipment and amortisation of land use rights	**24,275**	27,631	**114**	157	**4,528**	4,483	**28,917**	32,271
Provision for impairment of property, plant and equipment	**–**	6,815	**–**	–	**–**	–	**–**	6,815
Loss on disposal of property, plant and equipment	**350**	3,079	**–**	–	**–**	–	**350**	3,079
Provision for impairment of inventories	**1,000**	6,319	**–**	**–**	**1,365**	3,270	**2,365**	9,589
Provision for impairment and write-off of trade and other receivables	**16,281**	3,606	**–**	–	**18**	–	**16,299**	3,606
Excess of the share of the fair value of net assets of a subsidiary acquired over acquisition cost	**–**	(1,033)	**–**	–	**–**	–	**–**	(1,033)
Reportable segment assets	**327,543**	327,285	**7,201**	8,456	**71,778**	70,577	**406,522**	406,318
Other Intangible asset							**2,041**	3,790
Deferred tax assets							**152**	67
Tax recoverable							**604**	604
Financial assets at fair value through profit or loss							**1,423**	4,758
Other corporate assets							**200,404**	138,729
Total assets							**611,146**	554,266
Reportable segment liabilities	**71,151**	48,654	**7,270**	9,434	**26,398**	22,761	**104,819**	80,849
Deferred tax liabilities							**629**	1,513
Income tax payable							**13,057**	2,595
Other corporate liabilities							**3,324**	11,270
Total liabilities							**121,829**	96,227
Capital expenditure incurred during the year	**15,350**	32,087	**2**	251	**5,178**	4,176	**20,530**	36,514

The geographical location of customers is based on the location at which the goods were delivered. The geographical location of the non-current assets is based on the location of operations and physical location of the asset.

The Group's revenue from external customers and its non-current assets are divided into the following geographical areas:

(i) Revenue from external customers

	2010	2009
	HK$'000	*HK$'000*
Hong Kong	**15,280**	14,526
USA	**431,393**	292,313
PRC	**101,927**	88,477
Europe	**92,635**	86,713
Others	**37,398**	33,805
Total	**678,633**	515,834

(ii) Non-current assets

	2010	2009
	HK$'000	*HK$'000*
Hong Kong	**10,420**	4,185
PRC	**113,755**	120,965
Europe	**342**	4,017
Vietnam	**–**	473
	124,517	129,640
Goodwill	**4,958**	4,958
Other intangible asset	**2,041**	3,790
Deferred tax assets	**152**	67
	131,668	138,455

During 2010, HK$142,790,000 or 21.0% and HK$68,633,000 or 10.1% of the Group's revenue was derived from two customers in the Manufacturing business (2009: HK$59,554,000 or 11.6% and HK$59,072,000 or 11.5%).

6 REVENUE

The principal activities of the Group are manufacturing, trading and retailing of headwear products, and retailing of licensed products and tourist souvenir products. The retailing of tourist souvenir products has been ceased during 2010.

7 OTHER INCOME

	2010	2009
	HK$'000	*HK$'000*
Sundry income	**1,077**	1,748
	1,077	1,748

8 OTHER LOSSES – NET

	2010	2009
	HK$'000	*HK$'000*
Gain from disposal of financial assets at fair value through profit or loss	**874**	132
Financial assets at fair value through profit or loss – fair value loss	**(8)**	(89)
Excess of the share of the fair value of net assets of a subsidiary acquired over acquisition costs *(note 34)*	**–**	1,033
Net foreign exchange gain/(loss)	**581**	(2,534)
Loss on disposal of property, plant and equipment	**(350)**	(3,079)
Loss on settlement of a litigation *(Note)*	**(13,517)**	–
Provision for impairment of property, plant and equipment	**–**	(6,815)
	(12,420)	(11,352)

Note:

As disclosed in the Company's 2009 annual report and 2010 interim report, the Company was engaged in litigation in the United States District Court for the Southern District of New York against Drew Pearson Marketing LLC and USPA Accessories LLC d/b/a Concept One (collectively, "Concept One"). On 17 November 2010, a Settlement Agreement was executed by the Company and Concept One which resolved the claims asserted in their entirety and terminated the litigation. A loss of HK$13,517,000 was recognised in the consolidated income statement as a result of the above settlement.

9 EXPENSES BY NATURE

	2010 HK$'000	2009 HK$'000
Employee remuneration (including directors' emoluments and retirement benefit costs)		
– Salaries and allowances	**157,009**	146,476
– Contribution to retirement scheme	**727**	734
– Share-based payments	**2,536**	1,975
	160,272	149,185
Cost of inventories	**286,377**	218,230
Auditors' remuneration	**1,433**	1,543
License fee expenses	**16,743**	17,336
Depreciation of property, plant and equipment *(note 18)*	**28,770**	32,127
Amortisation on land use rights *(note 19)*	**147**	144
Amortisation of other intangible assets *(note 22)*	**1,749**	138
Operating lease charges in respect of office premises, shops, factories and warehouses		
– Minimum lease payment	**27,459**	26,551
– Contingent lease payment	**13,489**	12,518
Provision for impairment and write-off of trade and other receivables	**16,299**	3,606
Provision for impairment of inventories	**2,365**	9,589
Provision for impairment of prepaid license fee	**5,635**	–
Claims expense	**7,597**	747
Others	**88,761**	89,968
Total cost of sales, selling and distribution costs, and administration expenses	**657,096**	561,682

10 FINANCIAL INCOME – NET

	2010 HK$'000	2009 HK$'000
Interest on overdrafts and other borrowings	**(23)**	(23)
Interest on amounts due to a related company	**(39)**	(39)
Interest income	**1,099**	2,757
Net finance income	**1,037**	2,695

11 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:

	2010	2009
	HK$'000	*HK$'000*
Gross retirement schemes contributions	**727**	734
Less: Forfeited contributions for the year	**–**	–
Net retirement schemes contributions	**727**	734

12 DIRECTORS' EMOLUMENTS

	2010 HK$'000	2009 HK$'000
Fees	432	432
Salaries, housing benefits, other allowances and benefits in kind	2,841	3,332
Share-based payments	1,171	835
Contributions to retirement scheme	48	48
	4,492	4,647

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

	Year ended 31 December 2010				
	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Share-based payments HK$'000	Retirement scheme contributions HK$'000	Total HK$'000
Mr. Ngan Hei Keung	–	1,040	439	24	1,503
Madam Ngan Po Ling, Pauline	–	1,603	439	24	2,066
Mr. James S. Patterson	–	198	293	–	491
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	2,841	1,171	48	4,492

	Year ended 31 December 2009				
	Fees	Salaries, allowances and benefits in kind	Share-based payments	Retirement scheme contributions	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Mr. Ngan Hei Keung	–	1,016	313	24	1,353
Madam Ngan Po Ling, Pauline	–	1,536	313	24	1,873
Mr. James S. Patterson	–	88	209	–	297
Mr. Luh Yih Ping	–	692	–	–	692
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	3,332	835	48	4,647

Mr. Luh Yih Ping resigned as director on 15 April 2009.

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. In 2009 and 2010, there was no discretionary bonus granted to Mr. Ngan and Madam Ngan.

No director waived emoluments in respect of the years ended 31 December 2009 and 2010.

13 FIVE HIGHEST PAID EMPLOYEES

The five highest paid individuals included two (2009: two) directors, details of whose remuneration are set out in note 12. The details of the emoluments of the remaining three (2009: three) highest paid individuals are as follows:

	2010 HK$'000	2009 HK$'000
Salaries and allowances	3,853	3,574
Discretionary bonuses	2,695	2,039
Share-based payments	545	555
Contributions to retirement scheme	24	23
	7,117	6,191

The emoluments of these three (2009: three) employee are within the following bands:

	2010 HK$'000	2009 HK$'000
Nil – HK$1,000,000	–	1
HK$1,000,001 – HK$2,000,000	2	1
HK$2,000,001 – HK$3,000,000	–	–
HK$3,000,001 – HK$4,000,000	1	1

14 INCOME TAX EXPENSE

	2010 *HK$'000*	2009 *HK$'000*
Hong Kong profits tax		
– Current year	–	(27)
– Under-provision in prior years	–	175
	–	148
Overseas tax	6,672	771
	6,672	919
Deferred taxation *(note 31)*		
– Current year	(1,000)	(779)
	5,672	140

Hong Kong profits tax has been provided at the rate of 16.5% (2009: 16.5%) on the estimated assessable profits for the year. Taxation on overseas profits has been calculated on the estimated assessable profits for the year at the rates of taxation prevailing in the countries in which the Group operates.

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the tax rate of the home country of the Company as follows:

	2010	2009
	HK$'000	*HK$'000*
Profit/(loss) before income tax	**11,231**	(52,548)
Calculated at a taxation rate of 16.5% (2009: 16.5%)	**1,853**	(8,670)
Effect of different taxation rates in other countries	**1,583**	(130)
Expenses not deductible for tax purposes	**3,460**	9,642
Income not subject to tax	**(517)**	(428)
Tax losses for which no deferred income tax assets was recognised	**–**	244
Under provision in prior years	**–**	175
Others	**(707)**	(693)
Income tax expenses	**5,672**	140

15 PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

The profit attributable to owners of the parent dealt with in the financial statements of the Company for the year amounted to HK$38,803,000 (2009: HK$14,296,000).

16 EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings/(loss) per share is based on the profit/(loss) attributable to owners of the parent of HK$5,670,000 (2009: loss of HK$45,133,000) and on the weighted average number of shares of 377,224,643 (2009: 335,710,859) in issue during the year.

Dilutive earnings/(loss) per share is the same as basic earnings/(loss) per share for the years ended 31 December 2009 and 2010 as there were no dilutive impact for both years.

17 DIVIDENDS

The dividends paid in 2010 and 2009 were HK$11,518,000 (3 HK cents per share) and HK$13,407,000 (3 HK cents per share) respectively. A dividend in respect of the year ended 31 December 2010 of 2 HK cents per share, amounting to a total dividend of HK$7,971,000, is to be proposed at the annual general meeting on 17 May 2011. These financial statements do not reflect this dividend payable.

	2010	2009
	HK$'000	*HK$'000*
Interim dividend of 1 HK cent (2009: 1 HK cent) per share	**3,980**	3,352
Proposed final dividend of 2 HK cents (2009: 2 HK cents) per share	**7,971**	7,038
	11,951	10,390

The aggregate amounts of the dividends paid and proposed during 2009 and 2010 have been disclosed in the consolidated income statement in accordance with the Hong Kong Companies Ordinance.

18 PROPERTY, PLANT AND EQUIPMENT – GROUP

	Buildings	Furniture and equipment	Leasehold improvement	Machinery	Construction in progress	Motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Year ended 31 December 2009							
Opening net book amount	21,556	5,971	9,896	78,545	18,946	3,782	138,696
Acquisition of a subsidiary	–	521	–	21,249	–	168	21,938
Transfers	–	–	–	20,203	(20,203)	–	–
Additions	–	1,728	4,560	6,115	1,433	740	14,576
Disposals	(1,043)	(710)	(50)	(6,842)	(286)	(204)	(9,135)
Charge for the year	(1,583)	(2,761)	(6,022)	(20,624)	–	(1,137)	(32,127)
Impairment loss	–	–	–	(6,815)	–	–	(6,815)
Exchange differences	763	8	156	477	110	56	1,570
Closing net book amount	19,693	4,757	8,540	92,308	–	3,405	128,703
At 31 December 2009							
Cost	34,994	35,657	49,924	225,703	–	12,336	358,614
Accumulated depreciation and impairment	(15,301)	(30,900)	(41,384)	(133,395)	–	(8,931)	(229,911)
Net book amount	19,693	4,757	8,540	92,308	–	3,405	128,703
Year ended 31 December 2010							
Opening net book amount	19,693	4,757	8,540	92,308	–	3,405	128,703
Additions	–	1,584	6,893	11,283	–	770	20,530
Disposals	–	–	–	(4,509)	–	(276)	(4,785)
Charge for the year	(1,644)	(2,373)	(5,256)	(18,497)	–	(1,000)	(28,770)
Exchange differences	561	368	365	1,637	–	69	3,000
Closing net book amount	18,610	4,336	10,542	82,222	–	2,968	118,678
At 31 December 2010							
Cost	36,023	38,090	57,883	228,840	–	12,403	373,239
Accumulated depreciation and impairment	(17,413)	(33,754)	(47,341)	(146,618)	–	(9,435)	(254,561)
Net book amount	18,610	4,336	10,542	82,222	–	2,968	118,678

Depreciation expense of HK$22,220,000 (2009: HK$25,696,000) has been charged in cost of sales, HK$3,571,000 (2009: HK$3,386,000) has been charged in selling and distribution costs and HK$2,979,000 (2009: HK$3,045,000) in administration expenses.

19 LAND USE RIGHTS – GROUP

	2010	2009
	HK$'000	HK$'000
Opening net book amount	937	1,075
Charge for the year	(147)	(144)
Exchange difference	26	6
Closing net book amount	816	937
Cost	2,968	2,883
Accumulated amortisation	(2,152)	(1,946)
Net book amount	816	937

The land is situated in the PRC under medium-term land use rights of 20 years. Amortisation of land use rights has been charged in administration expenses.

20 INTERESTS IN SUBSIDIARIES – COMPANY

	2010	2009
	HK$'000	HK$'000
Unlisted shares, at cost	99,631	99,631
Due from subsidiaries *(note (i))*	318,561	251,729
	418,192	351,360

Notes:

(i) The amounts due from subsidiaries represent equity funding by the Company to the respective subsidiaries and are measured in accordance with the Company's accounting policy for investment in subsidiaries.

(ii) Particulars of the Company's principal subsidiaries are set out in note 39.

21 GOODWILL – GROUP

	2010	2009
	HK$'000	*HK$'000*
Cost	**22,160**	22,160
Accumulated impairment	**(17,202)**	(17,202)
Net book amount	**4,958**	4,958

The carrying amount of goodwill net of impairment loss, is allocated to the cash generating unit ("CGU") of Retail Business.

The recoverable amount of the CGU is determined based on value-in-use calculations. These calculations use cash flow projection based on a five-year (2009: three-year) financial budget and pre-tax discount rate of 15% (2009: 8%). The cashflows for the periods beyond the budget period are extrapolated using a growth rate of 0%.

The budgeted sales and gross margin of the CGU were determined by the management based on past performance and their expectations for market development. Management believes that any reasonably foreseeable change in any of the above key assumptions would not cause the carrying amount of goodwill to exceed the recoverable amount significantly.

The Group does not have to recognise an impairment loss for the year ended 31 December 2010 based on the impairment assessment performed.

The accumulated impairment represents impairment of goodwill arising from the acquisition of 北京叠翠旅遊紀念品有限責任公司 in the Retail Business in 2008 and Bollman (Hong Kong) Limited in the Manufacturing Business in 2006.

22 OTHER INTANGIBLE ASSET – GROUP AND COMPANY

	2010	2009
	HK$'000	*HK$'000*
Opening net book amount	**3,790**	–
Addition	**–**	3,928
Amortisation	**(1,749)**	(138)
Closing net book amount	**2,041**	3,790
Cost	**3,928**	3,928
Accumulated amortisation	**(1,887)**	(138)
Net book amount	**2,041**	3,790

Other intangible asset represents acquired customer relationship attributable to the purchase orders committed by New Era Group for the three years ending 31 December 2011 pursuant to the Manufacturing Agreement dated 21 October 2008 (note 29).

23 INVENTORIES – GROUP

	2010	2009
	HK$'000	*HK$'000*
Raw materials	**62,395**	48,558
Work-in-progress	**24,721**	15,560
Finished goods	**43,402**	39,035
	130,518	103,153

The cost of inventories recognised as expense and included in cost of sales amounted to HK$286,377,000 (2009: HK$218,230,000).

Provision for impairment on inventory of HK$2,365,000 has been charged to cost of sales (2009: HK$9,589,000).

24 TRADE AND OTHER RECEIVABLES

	Group		Company	
	2010	2009	**2010**	2009
	HK$'000	*HK$'000*	**HK$'000**	*HK$'000*
Trade and bills receivables	**116,762**	108,713	**–**	–
Deposits, prepayments and other receivables	**67,758**	62,204	**18,783**	22,730
	184,520	170,917	**18,783**	22,730
Less: provision for impairment	**(19,172)**	(3,273)	**(4,045)**	–
	165,348	167,644	**14,738**	22,730
Less: non-current portion of other receivables	**(5,023)**	–	**–**	–
Current portion	**160,325**	167,644	**14,738**	22,730

The carrying amounts of the trade and other receivables approximate their fair values.

(a) The ageing analysis of trade and bills receivables at the balance sheet date is as follows:

	2010	2009
	HK$'000	*HK$'000*
0 – 30 days	**50,700**	52,479
31 – 60 days	**31,962**	18,101
61 – 90 days	**5,947**	4,180
Over 90 days	**28,153**	33,953
	116,762	108,713

(b) The ageing analysis of trade and bills receivables that were past due but not impaired is as follows:

	2010	2009
	HK$'000	*HK$'000*
1 – 30 days past due	**23,848**	5,984
31 – 60 days past due	**3,960**	3,522
Over 60 days past due	**24,057**	27,552
	51,865	37,058

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 not impaired.

(c) Included in other receivables are advances to certain customers of HK$14,004,000 (2009: HK$23,215,000). These advances are interest bearing at 6% per annum (2009: 6% per annum).

(d) As at 31 December 2010, the Group had an aggregate amount of HK$39,038,000 (2009: HK$21,982,000) due from a customer, of which HK$25,034,000 and HK$14,004,000 are included in trade receivables and deposits, prepayments and other receivables, respectively. On 24 March 2011, the Group received an unconditional guarantee from the shareholder of this customer ("Guarantor") in respect of the repayment of the customer's balance due to the Group. In the event that the customer fails to make payments on time, the Group may require the guarantor to make those payments under the guaranty agreement and the Group has the option to require the Guarantor to make such payments in the form of common stock of the customer of a value at least equal to the payment obligation. Based on the directors' assessment, the balances due from the customer are not impaired.

(e) Included in other receivables is a note receivable from a customer of HK$8,271,000 (2009: Nil) converted from trade receivables. The note receivable is interest bearing at 7% per annum and are repayable by 26 monthly instalments up to November 2012. The balance is secured by a second mortgage over a property.

(f) As of 31 December 2010, trade and other receivables of HK$19,172,000 (2009: HK$3,273,000) were fully impaired and provided for. All these receivables were overdue over 90 days.

The movement in provision for impairment of trade and other receivables during the year is as follows:

	2010	2009
	HK$'000	*HK$'000*
At 1 January	**3,273**	3,566
Acquisition of a subsidiary	**–**	556
Impairment loss recognised	**16,299**	67
Impairment loss written back	**–**	(461)
Uncollectible amounts written off	**(400)**	(455)
At 31 December	**19,172**	3,273

The Group does not hold any collateral over the impaired receivables.

25 AMOUNTS DUE FROM/(TO) RELATED COMPANIES

The amounts due from/(to) related companies are unsecured, interest-free and repayment on demand, except for an amount due to a related company of HK$564,000 (2009: HK$543,000) which is interest bearing at 5% (2009: 5%) per annum.

26 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS – GROUP

	2010	2009
	HK$'000	*HK$'000*
Listed equity investments in Hong Kong	**1,423**	2,556
Unlisted managed funds	**–**	2,202
	1,423	4,758

27 CASH AND CASH EQUIVALENTS

	Group		**Company**	
	2010	2009	**2010**	2009
	HK$'000	*HK$'000*	**HK$'000**	*HK$'000*
Cash at bank and on hand	**168,966**	122,129	**4,581**	4,350
Short-term bank deposits	**16,701**	16,600	**–**	–
Cash and cash equivalents	**185,667**	138,729	**4,581**	4,350

The effective interest rate on short-term bank deposits was 0.25% (2009: 0.17%) per annum; these deposits have an average maturity of 23 days as at 31 December 2010 (2009: 39 days).

28 SHARE CAPITAL

		Group and Company	
	Note	**Number of shares of HK$0.10 each**	***HK$'000***
Authorised:			
At 1 January 2009, 31 December 2009 and 31 December 2010		1,000,000,000	100,000
Issued and fully paid:			
At 1 January 2009		318,402,284	31,840
Issue of new shares	(a)	16,758,000	1,676
Issue of shares upon exercise of share options	(b)	16,750,000	1,675
At 31 December 2009		351,910,284	35,191
Issue of shares upon exercise of share options	(c)	46,093,000	4,609
At 31 December 2010		398,003,284	39,800

Note:

(a) Pursuant to a manufacturing agreement entered into by the Group with New Era Cap Asia Pacific Limited ("NE"), New Era Cap Co., Inc and its group companies on 21 October 2008, NE was granted a right to subscribe 16,758,000 shares of the Company at a subscription price of HK$0.844 per share. NE has fully subscribed 16,758,000 shares of the Company during the year ended 31 December 2009. The total proceeds received were HK$14,144,000.

(b) During the year ended 31 December 2009, NE has exercised the share options granted to subscribe for 16,750,000 shares at the exercise price of HK$0.7939 per share. The total proceeds were HK$13,298,000.

(c) During the year ended 31 December 2010, NE has exercised the share options granted to subscribe for 25,000,000 and 21,093,000 shares at the exercise price of HK$0.82425 per share and HK$0.70525 per share respectively. The total proceeds were HK$35,482,000.

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

29 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 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 exercisable within a period of three to ten years.

(a) Movements in share options

	2010		2009	
	Number of share options	Weighted average exercise price	Number of share options	Weighted average exercise price
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January	**19,745,000**	**1.12**	**18,644,200**	**1.94**
Granted	**2,000,000**	**0.92**	**16,600,000**	**0.95**
Cancelled	**–**	**–**	**(12,197,800)**	**2.22**
Lapsed	**(2,145,000)**	**2.455**	**(3,301,400)**	**0.83**
At 31 December	**19,600,000**	**0.956**	**19,745,000**	**1.12**
Option vested at 31 December	**5,580,000**	**0.972**	**2,445,000**	**2.29**

At the balance sheet date, the weighted average remaining contractual life of the Company's share options was 8.6 years (2009: 8.5 years).

Share options outstanding at the end of the year have the following expiry dates and exercise prices:

Expiry date	**Exercise price**	**Number of share options** 2010	2009
	HK$	*'000*	*'000*
2 July 2010	2.455	**–**	2,145
10 June 2018	1.190	**1,000**	1,000
23 June 2019	0.946	**16,600**	16,600
7 November 2020	0.920	**2,000**	–
		19,600	19,745

On 21 May 2009, a total of 12,197,800 share options granted under the 2002 Share Option Scheme were cancelled upon the request of the option holders as the exercise prices were significantly higher than the market prices of the shares and the holders did not have the intention to exercise the options.

(b) 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 model. The inputs into the model were as follows:

	2010	2009
Weighted average share price	**HK$0.90**	HK$0.95
Weighted average exercise price	**HK$0.92**	HK$0.95
Expected volatility	**82.8%**	76.1%
Expected life	**9.8 years**	9.5 years
Risk free rate	**0.5%**	0.5%
Expected dividend yield	**6.6%**	5.7%

The expected volatility is based on the historic volatility of share prices of the Company over 4 years. Expected dividends are based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

Under this share option scheme, HK$2,536,000 of share-based payment expense has been included in the consolidated income statement for 2010 (2009: HK$1,975,000) and the corresponding amount of which has been credited to share based compensation 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 for the three years ending 31 December 2011, the Company granted NE share options 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	1 April 2009 – 2 January 2010
2	25,000,000	1 February 2010 – 31 July 2010
3	21,093,000	1 August 2010 – 31 January 2011

(a) Movements in share options

	Number of share options
At 1 January 2009	62,843,000
Exercised during the year	(16,750,000)
At 31 December 2009 and 1 January 2010	46,093,000
Exercised during the year	(46,093,000)
At 31 December 2010	**–**
Options vested at 31 December 2009 and 2010	**–**

The share price for share options exercised during 2010 at the date of exercise was ranging from HK$0.70525 per share to HK$0.82425 per share.

(b) Fair value of share options and assumptions

The estimate of the fair value of share options granted to NE in prior year was measured based on a Binomial Option Pricing model. The inputs into the model were as follows:

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 fair value of the share options granted of HK$3,928,000 was recognised as intangible assets during the year ended 31 December 2009 *(note 22)* and the corresponding amount of which was credited to share based compensation reserve.

30 RESERVES – COMPANY

	Share premium HK$'000	Contributed surplus HK$'000	Share based compensation reserve HK$'000	Retained earnings HK$'000	Total HK$'000
At 1 January 2009	100,203	99,431	5,247	100,232	305,113
Profit for the year	–	–	–	14,296	14,296
2008 final dividend paid	–	–	–	(10,055)	(10,055)
2009 interim dividend paid	–	–	–	(3,352)	(3,352)
Issue of new shares	12,468	–	–	–	12,468
Exercise of share options	12,706	–	(1,083)	–	11,623
Share options cancelled	–	–	(4,534)	4,534	–
Share options lapsed	–	–	(95)	95	–
Equity settled share-based transactions	–	–	5,903	–	5,903
At 31 December 2009	125,377	99,431	5,438	105,750	335,996
Representing:					
2009 proposed final dividend				7,038	
Other retained earnings				98,712	
				105,750	
At 1 January 2010	125,377	99,431	5,438	105,750	335,996
Profit for the year	–	–	–	38,803	38,803
2009 final dividend paid	–	–	–	(7,538)	(7,538)
2010 interim dividend paid	–	–	–	(3,980)	(3,980)
Exercise of share options	34,162	–	(3,289)	–	30,873
Equity settled share-based transactions	–	–	2,536	–	2,536
At 31 December 2010	**159,539**	**99,431**	**4,685**	**133,035**	**396,690**
Representing:					
2010 proposed final dividend				7,971	
Other retained earnings				125,064	
				133,035	

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 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.

31 DEFERRED TAXATION – GROUP

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

	Assets		Liabilities	
	2010	2009	**2010**	2009
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Depreciation allowances	**–**	–	**(629)**	(1,513)
Others	**152**	67	**–**	–
Deferred tax assets/(liabilities)	**152**	67	**(629)**	(1,513)

The Group did not recognise deferred tax assets in respect of cumulative tax losses of HK$19,702,000 (2009: HK$20,019,000) 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 movement for the year in the Group's net deferred tax liabilities is as follows:

	2010	2009
	HK$'000	*HK$'000*
Net deferred tax liabilities at 1 January	**(1,446)**	(2,225)
Exchange differences	**(31)**	–
Credited to income statement *(note 14)*	**1,000**	779
Net deferred tax liabilities at 31 December	**(477)**	(1,446)

32 TRADE AND OTHER PAYABLES

	Group		Company	
	2010	2009	**2010**	2009
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Trade and bills payables	**44,857**	35,257	**–**	–
Accrued charges and other payables	**61,591**	55,619	**3,324**	11,270
	106,448	90,876	**3,324**	11,270

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

	2010	2009
	HK$'000	*HK$'000*
0 – 30 days	**24,941**	20,447
31 – 60 days	**13,768**	8,169
61 – 90 days	**2,380**	2,382
Over 90 days	**3,768**	4,259
	44,857	35,257

33 NOTES TO CONSOLIDATED CASH FLOW STATEMENT

	2010 *HK$'000*	2009 *HK$'000*
Profit/(loss) before income tax	**11,231**	(52,548)
Interest income	**(1,099)**	(2,757)
Interest expenses	**62**	62
Share of results of a jointly controlled entity	**–**	(209)
Excess of the share of the fair value of net assets of a subsidiary acquired over acquisition costs *(note 34)*	**–**	(1,033)
Provision for impairment of property, plant and equipment	**–**	6,815
Loss on disposal of property, plant and equipment	**350**	3,079
Net gain from financial assets at fair value through profit or loss	**(866)**	(43)
Depreciation and amortisation	**30,666**	32,409
Provision for impairment of inventories	**2,365**	9,589
Share-based payment expenses	**2,536**	1,975
Provision for impairment and write-off of trade and other receivables	**16,299**	3,606
Provision for post-employment benefits	**187**	–
Changes in working capital:		
Inventories	**(29,730)**	9,151
Trade and other receivables	**(14,003)**	(10,913)
Trade and other payables	**15,572**	(12,944)
Amounts due from/(to) related companies	**247**	(247)
Cash generated from/(used in) operations	**33,817**	(14,008)

34 ACQUISITION OF A SUBSIDIARY

At 31 December 2008, the Group had 36% equity interests in a jointly controlled entity, Keen Idea Group Limited. Keen Idea is a company engaged in headwear manufacturing business with its factory based in Vietnam.

On 27 February 2009, the Group further acquired 24% equity interests of Keen Idea for a cash consideration of HK$4,368,000. The Group had 60% equity interests in Keen Idea, which then became a non-wholly owned subsidiary of the Group.

Details of the net assets acquired by the Group were as follows:

	Fair value *HK$'000*
Net assets acquired:	
Property, plant and equipment	21,938
Inventories	7,369
Trade and other receivables	10,177
Bank balances and cash	2,916
Trade and other payables	(7,824)
	34,576
Share of net assets by the minority interests	(13,830)
Change in the Group's share of net assets from date of initial investment to date of acquisition	4,361
Excess of the share of the fair value of net assets of subsidiary acquired over acquisition costs	(1,033)
Total cash consideration	24,074

The analysis of the net cash outflow in respect of the acquisition transaction is as follows:

Total cash consideration	24,074
Cash consideration paid in previous period	(19,706)
Bank balances and cash acquired	(2,916)
Net cash outflow	1,452

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.

35 OPERATING LEASE COMMITMENTS

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

	The Group	
	2010	2009
	HK$'000	*HK$'000*
Within one year	**20,831**	21,260
In the second to fifth years inclusive	**17,826**	24,021
Over five years	**18,505**	18,639
	57,162	63,920

Payment obligations in respect of operating lease on properties with rentals vary with gross revenues apart from base rental are not included as future minimum lease payments.

36 CAPITAL COMMITMENTS

At the balance sheet date, the Group had capital expenditure commitments as follows:

	The Group	
	2010	2009
	HK$'000	*HK$'000*
Authorised but not contracted for		
– Manufacturing business	**10,000**	10,500
– Retail business	**1,620**	1,522
	11,620	12,022

37 FINANCIAL GUARANTEE

At 31 December 2010, the Company had executed a corporate guarantee of HK$135,300,000 (2009: HK$122,300,000) to secure the general banking facilities granted to subsidiaries. Facilities utilised by the subsidiaries for bills payable amounted to HK$9,974,000 as at 31 December 2010 (2009: HK$1,580,000).

38 SIGNIFICANT RELATED PARTY TRANSACTIONS

The ultimate holding company of the Company is Successful Years International Company Limited, a company incorporated in the British Virgin Islands. The ultimate controlling party of the Group is Mr. Ngan Hei Keung and Madam Ngan Po Ling, Pauline.

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

	2010	2009
	HK$'000	*HK$'000*
Sales of goods to an affiliated company of a shareholder	**142,790**	59,554
Rental paid in respect of office premises to a company controlled by a director	**960**	960

Key management personnel remuneration

Remuneration for the Group's key management personnel, including amounts paid to the Company's directors as disclosed in note 12 and certain of the highest paid employees as disclosed in note 13, is as follows:

	2010	2009
	HK$'000	*HK$'000*
Short-term employee benefits	**14,488**	12,570
Share-based payments	**1,907**	1,526
Retirement scheme contributions	**132**	123
	16,527	14,219

39 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
北京叠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
Guang Zhou Jian Hao Headwear Manufacturing Ltd.	PRC *(note ii)*	PRC	RMB45,777,729	100%	Manufacture and sale of headwear
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
Jumbo Creation Investments Limited	The British Virgin Islands	Hong Kong	US$1	100%	Investment holding
Keen Idea Group Limited *(note iii)*	The British Virgin Islands	Hong Kong	US$5,500,000	60%	Trading of headwear

Name of company	Place of incorporation/ registration	Principal place of operation	Nominal value of issued ordinary share capital/ registered capital	Interest held	Principal activities
Long Link Cap Company Limited *(note iii)*	Vietnam	Vietnam	US$1,500,000	60%	Manufacture and sale of headwear
Mainland Partners Holdings Limited	The British Virgin Islands	Hong Kong	US$1	100%	Investment holding
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 Macau 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.

(iii) These companies were dormant during 2010

Financial Summary

For the year ended 31 December 2010

Results

	Year ended 31 December				
	2006	2007	2008	2009	**2010**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
Turnover	742,592	539,041	610,959	515,834	**678,633**
Gross profit	257,058	173,084	170,373	113,992	**188,547**
Profit/(loss) before income tax	92,283	47,531	(26,963)	(52,548)	**11,231**
Profit/(loss) for the year attributable to:	83,522	41,591	(29,820)	(52,688)	**5,559**
Owners of the parent	86,970	41,702	(29,259)	(45,133)	**5,670**
Non-controlling interests	(3,448)	(111)	(561)	(7,555)	**(111)**
Basic earnings/(loss) per share (HK cents)	27.6	13.1	(9.2)	(13.4)	**1.5**
Dividends	57,792	25,472	16,423	10,390	**11,951**

Assets and liabilities

	As at 31 December				
	2006	2007	2008	2009	**2010**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
Non-current assets	154,487	166,061	159,893	138,455	**131,668**
Current assets	463,455	430,587	419,680	415,811	**479,478**
Current liabilities	(88,411)	(70,192)	(101,182)	(94,641)	**(120,940)**
Net current assets	375,044	360,395	318,498	321,170	**358,538**
Non-current liabilities	(13,251)	(12,268)	(2,326)	(1,586)	**(889)**
Net assets	516,280	514,188	476,065	458,039	**489,317**

Note: The information of the financial summary for two years ended 31 December 2009 and 2010 have been extracted from the audited consolidated income statement and consolidated balance sheet which are set out on page 42 to page 45 of the annual report.