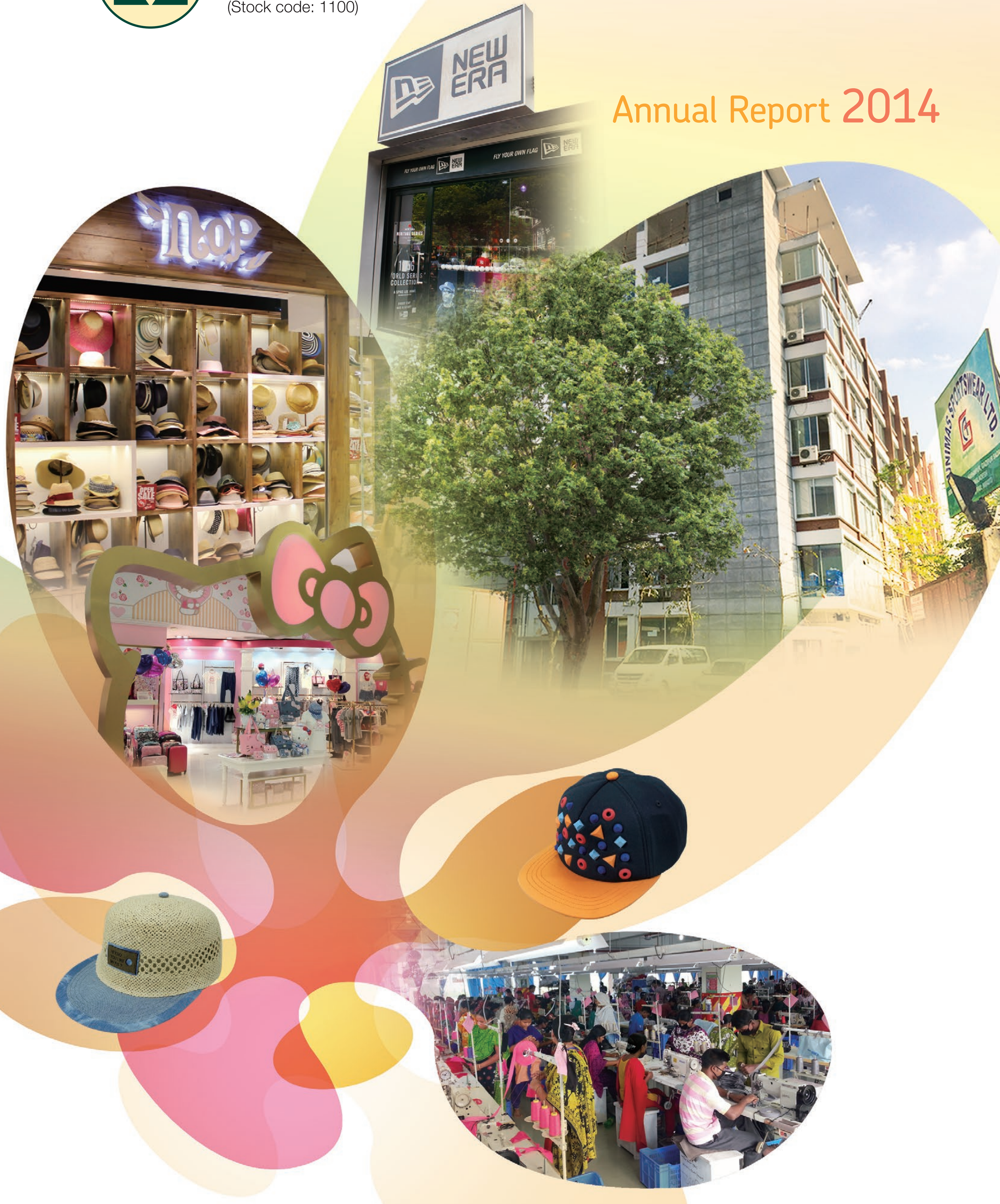
Mainland Headwear Holdings Limited

(Stock code: 1100)

Annual Report 2014



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Corporate Information

Directors

Executive Directors

Mr. Ngan Hei Keung *(Chairman)*
Madam Ngan Po Ling, Pauline
(Deputy Chairman and Managing Director)
Mr. James S. Patterson
Ms. Maggie Gu *(Chief Operating Officer)*

Non-executive Director

Mr. Andrew Ngan

Independent Non-executive Directors

Mr. Leung Shu Yin, William
Mr. Liu Tieh Ching, Brandon, *JP*
Mr. Gordon Ng

Company Secretary

Ms. Chan Hoi Ying

Auditors

PricewaterhouseCoopers
Certified Public Accountants

Principal Banker

Hang Seng Bank Limited
The Hongkong and Shanghai Banking Corporation 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

Codan Services Limited
Clarendon House,
2 Church Street,
Hamilton HM 11,
Bermuda.

Hong Kong Branch Share Registrar

Tricor Tengis Limited
Level 22,
Hopewell Centre,
183 Queen's Road East,
Hong Kong

Company Websites

http://www.mainland.com.hk
http://www.mainlandheadwear.com

Chairman's Statement

Mr. Ngan Hei Keung
Chairman

Madam Pauline Ngan
Deputy Chairman and
Managing Director

On behalf of the Board of Directors of Mainland Headwear Holdings Limited (the "Company"), I am pleased to present the annual results of the Company and its subsidiaries (collectively, "Mainland Headwear" or the "Group") for the year ended 31 December 2014.

Overview

In 2014, with the strong market demand for the Group's headwear products and continued growth in orders from customers, the Group has achieved satisfactory results during the year under review. The Manufacturing Business remained as the Group's main income source. However, the labour shortage in the PRC faced by the Group is more acute than expected. Although the production capacity of the Group's Bangladesh factory had been expanded rapidly, still it could not fill the stepped-up demand for orders. Therefore, the turnover has decreased slightly by 0.6% to HK$917,533,000 (2013: HK$922,625,000). Gross profit rose by 2% to HK$249,753,000 (2013: HK$243,810,000) and gross profit margin increased slightly by 0.8 percentage point to 27.2%. With continued implementation of cost control measures and reduction of the number of staff at the Shenzhen factory, the Group's overall operating expenses and staff cost have decreased. On top of this, there were no major one-off provisions made by the Group in 2014 (2013: a provision of HK$13,700,000 was made to reflect the scaling down of the factory at Panyu, Guangdong Province), the profit attributable to shareholders skyrocketed by 349% to HK$33,042,000 (2013: HK$7,366,000).

Chairman's Statement

The construction for Bangladesh dormitory was completed during the reported period, which provides stationed employees with better quality and comfortable living environment.

The production line in our Bangladesh plant.

As for the Manufacturing Business, leveraging the Group's brand reputation and stable foundation established over the years, the Group has maintained a solid relationship with its existing customers, including New Era, and has also succeeded in expanding its customer base. However, due to reduction in the number of staff at the Group's Shenzhen factory, its production capacity has decreased faster than expected. The Group has actively expanded its Bangladesh factory and has made satisfactory progress. To meet the increasing order volume from customers, the Group continues to accelerate development of its Bangladesh factory, which it believes will deliver a greater contribution in the future. The Shenzhen factory will continue to focus on product design and development and manufacture high value-added products to complement the development of the Group's Manufacturing Business.

The Trading Business has achieved a satisfactory performance during the year and has contributed greater income to the Group. This was mainly because the Group has continued to enhance its penetration in the Europe and US markets and has secured more distribution rights of headwear products. The Group's strategic planning has proven successful, with DPI particularly outperforming, and significant growth in turnover and higher gross margins from product distribution were recorded, proving the wisdom of the Group's strategy of enlarging its market share by further diversification of its licence portfolio three years ago. The Group believes that the Europe and US markets will present huge potential in the future, so it will continue to ride on its diversified product strategy and the synergies between its businesses to bolster its long-term business growth.

Chairman's Statement

Mr. Ngan Hei Keung, Chairman of Mainland Headwear (right) and Mr. James S. Patterson, Chief Operating Officer and Senior Vice President of New Era (left) signed a five-year Manufacturing Agreement at Mainland Headwear's factory in Bangladesh.

The NOP rebranding is scheduled to be completed by June 2015, to focus on the unisex market to meet the needs for both men and women customers.

The Retail Business has also made tremendous progress. Starting the implementation of its new business development strategy last year, the Group has adopted a prudent approach to open self-owned stores in the PRC and actively reinforced development of its franchise operations, thereby turning around the Sanrio business to generate a profit, underscoring the success of its franchise business strategy.

Financial Review

Due to insufficient production capacity to meet the demand of orders, the Group's turnover decreased slightly by 0.6% to HK$917,533,000 (2013: HK$922,625,000), despite the market demand for the Group's headwear remaining keen during the year. Gross profit increased by 2% to HK$249,753,000 (2013: HK$243,810,000). Overall gross profit margin rose slightly by 0.8 percentage points to 27.2%, attributable to the Group's continued implementation of stringent cost reduction measures.

On the other hand, during the year, there were no major one-off provisions made by the Group (2013: a provision of HK$13,700,000 was made to reflect the scaling down of its Panyu factory in Guangdong Province), thus the profit attributable to shareholders skyrocketed by 349% to HK$33,042,000 (2013: HK$7,366,000).

Chairman's Statement

Manufacturing Business

During the year under review, the Manufacturing Business remained as the Group's main income source, accounting for 65.2% of the Group's total turnover. Customers' demand for the Group's products continued to be keen during the review year, spurring a rapid growth in orders. However, staff turnover at its Shenzhen factory was higher than expected and the expanded production capacity of its Bangladesh factory was not able to fill the increase of order volume. Therefore, turnover of the Manufacturing Business decreased slightly by 3% to HK$649,696,000 when compared to the same period last year. The reduction in the number of staff at its Shenzhen factory has led to a decline in its production capacity. With the accelerated expansion of its Bangladesh factory, the number of staff there has grown from 1,000 in the same period last year to 2,500 as at the end of 2014. Its production capacity has also increased to 1 million pieces of headwear per month, still insufficient to fill the huge order volume. The freight charges incurred by air delivery to meet the schedule has also risen. The gross profit of this segment rose by 9% to HK$111,982,000. Moreover, there were no major one-off provisions made by the Group in 2014 (2013: a provision of HK$13,700,000 was made to reflect the scaling down of its Panyu factory in Guangdong Province), operating profit of this segment surged by 31% to a satisfactory level of HK$39,784,000 (2013: HK$30,294,000).

Mainland Headwear continued to maintain close collaboration with its strategic partner New Era. During the year, the Group received orders amounting to approximately US$38,000,000 from New Era. The Group has extended its strategic partnership with New Era by entering into a five-year manufacturing agreement which started from 1 January 2015 until 31 December 2019. Pursuant to the agreement, the Group will provide a planned total order value from US$45,000,000 in the first year and the minimum annual output value in the subsequent four years will be determined year by year.

Trading Business

The Group has actively developed its Trading Business. Consequently, turnover rose by 12% to HK$214,620,000, mainly attributable to the growth in turnover of H3 Sportgear, DPI and San Diego Hat Company ("SDHC") during the year.

H3 Sportgear has achieved a significant improvement in performance, while DPI outperformed and achieved strong growth with relatively high gross profit gained from headwear distribution. On the other hand, as the unsatisfactory economy in the US has affected the business of SDHC's retail customers, the Group has strategically wholesaled some of its headwear to national retailers to promote sales. As a result, the Trading Business has recorded profit attributable to shareholders of HK$185,000 (2013: loss attributable to shareholders of HK$4,159,000).

Chairman's Statement

On top of English Premier League soccer clubs, DPI has secured more cartoon character distribution rights of headwear during the year. Securing these distribution rights will not only significantly enhance the Group's brand recognition, but also enlarge its mass market share in Europe.

SDHC will continue to further diversify by enriching its product mix to include clothing and accessories such as handbags and scarves, with an aim to boost the Group's overall market competitiveness.

Retail Business

During the year under review, the Group has managed its self-owned stores more efficiently on the one hand, while on the other hand it has proactively strengthened the development of its franchise stores and flexibly adjusted its product sales strategy. Consequently, the Retail Business recorded a rise of 1.8% in turnover to HK$132,114,000, and achieved a turnaround with an operating profit of HK$2,389,000 (2013: operating loss of HK$5,778,000), underpinning the success of the Group's franchise business strategy.

Sanrio

During the year under review, the Group has enhanced the efficiency of Sanrio's self-owned stores, adopted a prudent strategy of opening self-owned stores and strived to develop franchise store operations, thus driving the turnover of this business unit to increase by 1.5% to HK$97,439,000 (2013: HK$96,031,000). To better manage and reduce administrative expenses, the Group has adopted a regional franchise strategy and has successfully achieved a turnover with an operating profit of HK$3,538,000 (2013: operating loss of HK$1,196,000), demonstrating the effectiveness of the franchise store business strategy.

As at 31 December 2014, the Group operated a total of 31 self-owned stores and 117 franchise stores (2013: 31 self-owned stores and 97 franchise stores).

Chairman's Statement

Headwear Sales

During the year, the Group has closed the self-owned stores in the PRC and decided to strengthen its franchise store operations. The business segment of Headwear Sales comprises "NOP" franchise stores in the PRC, and "NOP" and "New Era" self-owned stores in Hong Kong. Therefore, the performance of Headwear Sales business has improved and recorded a turnover of HK$34,675,000, representing an increase of 2.8% from HK$33,719,000 last year. The Group was able to narrow the operating loss of this segment to HK$1,149,000 (2013: HK$4,582,000), attributable to its close monitoring of sales performances of all retail stores and its flexible adjustment of operational strategies.

During the year, gross profit of the Group's Headwear Sales segment decreased, partly attributable to the one-off expenses incurred by closure of the self-owned stores in the PRC, but the one-off expenses will not appear in the new financial year again. Starting from the fourth quarter of the year, the retail market in Hong Kong has been affected by the special market environment, which dragged the business performance of the Group's self-owned stores in Mongkok, Tsim Sha Tsui and Central. Currently, the affected retail market has been recovering gradually and the performance of related business is expected to pick up in the future.

As at 31 December 2014, the Group operated a total of 8 self-owned "NOP" stores in Hong Kong, and 20 "NOP" franchise stores in the PRC encompassing Beijing, Chongqing, Suzhou and Dalian. Besides, the Group also operated 1 "New Era" retail store in Hong Kong (2013: 7 self-owned "LIDS" stores and 1 "LIDS" franchise store; 14 self-owned "NOP" stores, and 9 "NOP" franchise stores as well as 2 self-owned "New Era" retail stores). In the future, the Group intends to step up efforts to develop the franchise store segment through expansion to the third tier cities in the PRC, and plans to open new "NOP" image stores in strategic areas in 2015.

Prospects

Through successful implementation of specific measures formulated for different business segments in the past year, the Group has achieved progress in its three major business segments. As such, the Group is continuing to adjust its future business development strategies according to the market environment and business development needs in a bid to create more growth drivers.

As for the Manufacturing Business, continued development of its Bangladesh factory is one of the Group's core strategies, in view of the continued robust demand for the Group's products. To address the rising staff cost and the shortage of labour in the PRC in recent years, the Group has begun further expanding its Bangladesh factory in the fourth quarter of 2014 to enhance its production capacity to satisfy the increasing volume of orders from customers. To meet the strong market demand, the Group will strive to expedite capacity expansion of the Bangladesh factory. It is expected that the production capacity will increase to 1.5 million pieces of headwear each month in the second quarter of 2015, enabling it to fulfil the order needs of the customers. To date, customers have been satisfied with the quality of products manufactured by the Bangladesh factory. In view of this, the Group is confident to consign more orders to the factory for production.

Chairman's Statement

In addition, as the staff in the PRC has a more advanced skill set and the design team is closely attuned to the market needs, they are key pillars to product development. Therefore, its factory in the PRC has continued to play a major role in the Group's overall strategy. The Group is continuing to improve its internal management so as to reduce the staff turnover, and at the same time will optimise its supply chain management so as to complement its factory in Bangladesh, maximise synergies and boost business performance.

For the Trading Business, the Group has proactively captured opportunities in the market to explore new revenue sources, including securing distribution rights of popular cartoon characters in Europe to enrich its product mix during the year. As movies for these characters are planned to be released every year, the Group believes these initiatives will spur a craze for those cartoon characters and stimulate the demand of related headwear products, thus further enhancing the brand value and expanding the Group's customer base to realise the growth potential of the Trading Business.

With the improving economic conditions in the US, it is believed that the retail market will continue to improve. The Group believes that the growth potential of the Europe and US markets remains strong. SDHC is also continuing to enrich its product mix and launch an accessory collection such as handbags and scarves to meet the needs of different customers, enlarge its market share and broaden its customer base, while developing other emerging Asian markets to pursue long-term business growth.

Regarding the Retail Business, the Group has successfully boosted the performance of this segment by adopting a business strategy of expanding on franchise operations. Therefore, the Group intends to follow this strategy in the future, and collaborate with potential franchisees in a regional franchise business model and also explore other markets such as the third-tier cities in the PRC. As for the Sanrio Business, the Group is continuing to increase the proportion of products imported directly from Japan as it believes that the niche of high quality products will attract customers. In the Headwear Sales Business, the Group intends to open "NOP" image stores in strategic areas.

Acknowledgement

With clearly defined and long-term development directions set for different business segments in place, the Group believes this will help drive its sustainable business growth. Looking ahead, the management will continue to strive for better business performance and to deliver greater value for shareholders. On behalf of Mainland Headwear, I would like to express my sincere gratitude to our shareholders, staff, customers and suppliers for their unwavering support to the Group.

Ngan Hei Keung
Chairman

Hong Kong
16 March 2015

Management Discussion and Analysis

Liquidity and Financial Resources

As at 31 December 2014, the Group had cash, bank balances and a portfolio of liquid investments totaling HK$126.4 million (2013: HK$148.9 million). About 46% and 25% of these liquid funds were denominated in Renminbi and US dollars respectively and the remainder mainly in HK dollars and Pound Sterling.

As at 31 December 2014, the Group had banking facilities of HK$243.1million (2013: HK$241.1 million), of which HK$205.2 million (2013: HK$210.3 million) was not utilised.

The gearing ratio (being the Group's net borrowings over total equity) of the Group is at 6.4% (2013: 5.5%). In view of the strong financial and liquidity position, the Group will have sufficient financial resources to meet its commitments and working capital requirements.

Management Discussion and Analysis

Capital Expenditure

During the year, the Group spent approximately HK$41.2 million (2013: HK$21.5 million) on additions to plant and equipment to upgrade its manufacturing capability and expansion in the Bangladesh factory. The Group had also spent HK$3.4 million (2013: HK$3.7 million) on the retail systems and opening of new retail stores in 2014, and HK$0.7 million (2013: HK$2.3 million) on equipments and systems of trading business.

For the year 2014, the Group has budgeted HK$12 million for capital expenditure. Under Manufacturing business, HK$9 million is for the expansion in the Bangladesh factory and equipment upgrade in the Shenzhen factory. The remaining HK$3 million is for opening of new shops under Retail business and acquisition of equipment under Trading business.

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

Management Discussion and Analysis

Exchange Risk

Most assets and liabilities of the Group are denominated either in HK dollars, US dollars, Renminbi or Bangladesh Taka. The Group estimates that any 1% appreciation of the Renminbi is expected to reduce the gross margin of the Manufacturing Business by about 0.5%. 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. The Group estimated that any 1% appreciation of the Bangladesh Taka is not expected to have material impact on the gross margin.

Employees and Remuneration Policies

At 31 December 2014, the Group employed 108 (2013: 113) employees in Hong Kong and Macau, 1,829 (2013: 2,740) employees in the PRC and 2,452 (2013: 959) employees in Bangladesh and a total of 45 (2013: 48) employees in the US and UK. The expenditures for employees during the year were approximately HK$230.0 million (2013: HK$251.5 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 59, 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 and the Honorary Adviser and Fellowship of the Asian College of Knowledge Management. 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 55, 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, and the president of Hong Kong Young Industrialists Council. She is also the Hong Kong Deputy to the 12th National People's Congress, People's Republic of China, the standing committee member of The Chinese General Chamber of Commerce, the standing director of Hong Kong Federation of Overseas Chinese Association, the Vice President of All-China Women's Federation Hong Kong Delegates Association, the executive committee member of All-China Women's Federation, the standing committee member of All-China Federation of Returned Overseas Chinese, the vice chairman of the Youth Committee of the All-China Federation of Returned Overseas Chinese and the vice chairman of Hubei Province Federation of Returned Overseas Chinese. Madam Ngan is the winner of Young Industrialist Awards of Hongkong 2001 and also won 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 Bauhinia Star in the Hong Kong Special Administrative Region 2009 Honours List and JP (Justice of the Peace) Title in 2013.

Mr. James S. Patterson

aged 44, was appointed as Executive Director of the Company in April 2009. 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 is holding the position of chief operating officer and senior vice president of New Era.

Biographical Details of Directors and Senior Management

Ms. Maggie Gu

aged 37, first joined the Company during May 2003 to May 2008 and rejoined as Sales and Marketing Director in February 2009. Ms. Gu was appointed as the Executive Director of the Company in February 2012 and as the Chief Operating Officer of the Company in September 2012. She studied in United States of America, and graduated from the California State University Fullerton, with the degree of Bachelor of Arts in Communications. She managed the global marketing department with a reputable media company in US before she returned to Hong Kong. She is now responsible for the strategy formulation and direction of global marketing and business development of the Group and oversees the Company's daily operations.

Non-Executive Director

Mr. Andrew Ngan

aged 27, was appointed as a Non-Executive Director of the Company in July 2011. Mr. Ngan graduated from the Carnegie Mellon University, Pittsburgh, USA. He completed a Bachelor of Science Degree in Information Systems in 2010. He is the son of Mr. Ngan Hei Keung and Madam Ngan Po Ling, Pauline.

Independent Non-Executive Directors

Mr. Leung Shu Yin, William

aged 65, 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 and Investment 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, Lai Sun Development Company Limited and Crocodile Garments Limited, which are listed on the main board of the Stock Exchange.

Biographical Details of Directors and Senior Management

Mr. Liu Tieh Ching, Brandon, *JP*

aged 69, was appointed as an Independent Non-executive Director of the Company in August 2006. Mr. Liu is a merchant. He is an Advisory Member of the Business Forum of China National Committee for Pacific Economic Corporation of Pacific Economic Cooperation Council, the honorary President of Hong Kong Commerce and Industry Associations, the Standing Committee Member of The Chinese General Chamber of Commerce and the Chairman, Energy & Power of Federation of Hong Kong Industries. He is an Advisory Member of Pacific Economic Cooperation Council, China National Committee of Pacific Economic Cooperation Business Forum, the Honorary President of the Hong Kong Commerce and Industry Association, the Standing Committee Member of The Chinese General Chamber of Commerce and Chairman of YRD Committee, the Chairman, Energy & Power of Federation of Hong Kong Industries, Honorary Member of the Court of the Hong Kong Baptist University, Member and Board of Governors of Hong Kong Baptist University Foundation.

Mr. Gordon Ng

aged 49, obtained his Bachelor's degree in Microbiology and Biochemistry and Master's degree in Intellectual Property from University of London. He was qualified as a solicitor in England and Wales in 1993 and Hong Kong in 1994. He has been the Head of Corporate Finance/Capital Market, Asia of the Hong Kong Office of an international law firm since July 2013. Prior to that, he had been a partner of a number of international law firms. Mr. Ng is presently an independent non-executive director of China Energine International (Holdings) Limited which is listed on the main board of the Stock Exchange.

Senior Management

Mr. Lai Man Sing, Thomas

aged 47, 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.

Mr. Raj Kapoor

aged 54, 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 20 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.

Biographical Details of Directors and Senior Management

Mr. John Astleford

aged 45, is the Managing Director of San Diego Hat Company. He has more than 20 years of experience in the apparel and accessory industry. He has served on the Executive Committee and/or Board of 5 different companies. Mr. Astleford has previously held Business Unit Leadership positions in sales, marketing, merchandising, and licensing in both private and public companies. He has a BBA in Marketing from Texas Christian University.

Mr. Scott Hines

aged 51, is the president and CEO of H3 Sportgear. Mr. Hines has served as president and CEO at H3 since founding the company in 1995. He has more than 20 years experience in the headwear and licensed apparel business in the United States. Mr. Hines graduated with a Bachelors Degree in Business Marketing from Ball State University in the US prior to starting his career.

Mr. Michael Ball

aged 46, joined the Company in 2010. He is the sales director of the Group's Europe operations. He has more than 20 years experience in the sales and marketing of headwear products.

Mr. Lau Ka Fai, Edward

aged 48, 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 20 years and is now responsible for design and product development in the US and Asia.

Ms. Leung Ka Pik, Ada

aged 53, 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.

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 shareholders' meetings and board meetings in 2014 are as follows:

		Shareholders' Meeting	Board Meeting
Number of meetings		2	4
Executive Directors			
Mr. Ngan Hei Keung	*(Chairman)*	2/2	4/4
Madam Ngan Po Ling, Pauline	*(Deputy Chairman and Managing Director)*	1/2	3/4
Mr. James S. Patterson		1/2	2/4
Mr. Maggie Gu	*(Chief Operating Officer)*	2/2	4/4
Non-executive Director			
Mr. Andrew Ngan		2/2	4/4
Independent Non-executive Directors			
Mr. Leung Shu Yin, William		2/2	4/4
Mr. Lo Hang Fong	*(resigned on 1 September 2014)*	0/1	0/3
Mr. Liu Tieh Ching, Brandon, *JP*		0/2	3/4
Mr. Gordon Ng	*(appointed on 1 September 2014)*	0/1	1/1

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

Corporate Governance Report

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

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

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

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

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

A.2. Chairman and Chief Executive Officer

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

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

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

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

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

A.3. Board Composition

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

The Board comprises four Executive Directors, namely Mr. Ngan Hei Keung, Madam Ngan Po Ling, Pauline, Mr. James S. Patterson and Ms. Maggie Gu; one Non-executive Director, Mr. Andrew Ngan, and three Independent Non-executive Directors, namely Mr. Leung Shu Yin, William, Mr. Liu Tieh Ching, Brandon, JP and Mr. Gordon Ng. 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.

According to Appendix 14 to the Listing Rules, it is recommended that serving more than nine years could be relevant to the determination of a non-executive director's independence. If an independent non-executive director serves more than nine years, any further appointment of such independent non-executive director should be subject to a separate resolution to be approved by shareholders.

Mr. Leung Shu Yin, William has been appointed as independent non-executive director for more than nine years. The Company has received from Mr. Leung confirmation of independence according to Rule 3.13 of the Listing Rules. Mr. Leung has not engaged in any executive management of the Group. Taking into consideration of his independent scope of work in the past years, the Directors consider Mr. Leung to be independent under the Listing Rules despite the fact that he has served the Company for more than nine year. The Board believes that Mr. Leung's continued tenure brings considerable stability to the Board and the Board has benefited greatly from the contribution of Mr. Leung in relation to their extensive experience in accounting and finance fields.

Biographies which include relationships of Directors are set out in pages 13 to 16 of the annual report, which demonstrate a diversity of skills, expertise, experience and qualifications among members of the Board.

Corporate Governance Report

All Directors attended Corporate Governance training course organised by the Company's legal advisers, or read the materials provided by the Company's legal advisers or auditors during the year under review.

The Chairman has held one meeting with all the Independent Non-executive Directors without the presence of other executive Directors to discuss of the Company's business during the year under review.

A.4. Appointments, Re-election and Removal of Directors – Nomination Committee

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.

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 three or a multiple of three, then the number nearest to but not greater than one-third) shall retire from office by rotation provided that every Director (including those appointed for a specific term, the Chairman of the Board and Managing Director of the Company) shall be subject to retirement by rotation or at least once every three years.

All Directors of the Company have a specific term of appointment and 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.

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 nomination committee was formed in March 2012 with specific written terms of reference in compliance with the Code. This Committee is chaired by Mr. Liu Tieh Ching, Brandon *JP*. The other members are Mr. Ngan Hei Keung, Mr. Leung Shu Yin, William and Mr. Gordon Ng (appointed on 1 September 2014). During the year of 2014, one nomination committee meeting was held, which was attended by all members of the Committee, except for Mr. Lo Hang Fong who was resigned on 1 September 2014.

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 2014.

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.

Corporate Governance Report

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 was chaired by Mr. Gordon Ng who was appointed on 1 September 2014. The other members were Madam Ngan Po Ling, Pauline and Mr. Leung Shu Yin, William 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 2014, which was attended by all members of the Committee, except Mr. Lo Hang Fong who was resigned on 1 September 2014. 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.

Corporate Governance Report

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 2014 are set out in note 11 to the financial statements. Details of the share option schemes of the Company are set out in the Report of the Director and note 30 to the financial statements.

The remuneration of senior management whose names appear in the "Biographical Details of Directors and Senior Management" section are within the following bands:

	2014	2013
HK$500,001 – HK$1,000,000	**2**	4
HK$1,000,001 – HK$1,500,000	**–**	1
HK$1,500,001 – HK$2,000,000	**3**	2
HK$2,000,001 – HK$3,000,000	**1**	–
HK$3,000,001 – HK$3,500,000	**–**	–
HK$3,500,001 – HK$4,000,000	**–**	1
HK$4,000,001 – HK$4,500,000	**1**	–

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 2014, the Directors have made judgements and estimates that are prudent and reasonable and prepared the financial statements on a going concern basis.

Corporate Governance Report

A statement by the auditor about his reporting responsibilities is included in the Independent Auditor's Report on pages 40 to 41 of the annual report for the year ended 31 December 2014.

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 auditor. 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 one 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 2014 which were attended by all members of the Committee except for Mr. Lo Hang Fong who has not attended any meeting, and was resigned on 1 September 2014. All meetings have been attended by the external auditor.

Corporate Governance Report

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

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

2. Reviewed and recommended to the Board approval of the audit fee proposal for 2014;

3. Considered and recommended to the Board that the shareholders be asked to re-appoint the existing auditor as the Company's external auditor for 2015;

4. Reviewed and approved the Group's internal audit plan for 2015;

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 2013; and

7. Reviewed the Interim Report and the interim results announcement for the six months ended 30 June 2014.

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 auditor as the Company's external auditor for 2015.

The remuneration of the Group's external auditor is HK$2,236,000 for audit fees.

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 auditor, to discharge its duties.

Corporate Governance Report

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.

Corporate Governance Report

Apart from Audit Committee (particulars are disclosed under C.3), Remuneration Committee (particulars are disclosed under B.1) and Nomination Committee (particulars are disclosed under A.4), 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. Company Secretary

Ms. Chan Hoi Ying, the Company Secretary of the Company, confirmed that she has taken no less than 15 hours relevant professional training during the financial year.

F. Communication with shareholders

F.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 2013 Annual General Meeting, a separate resolution was proposed by the Chairman in respect of each separate issue, including the re-election of Directors.

The Chairman of the Board and the chairmen of the Audit and Remuneration Committees shall attend the 2014 Annual General Meeting to answer questions of shareholders.

F.2. Procedures for putting forward proposals at general meetings

Any shareholder who wish to put forward proposals at general meetings of the Company shall submit such proposals to the Board in writing for the boards consideration not less than 7 days prior to the date of a general meeting through the Company Secretary.

The Company also published all corporate correspondence on the Company website, www.mainland.com.hk.

F.3. Voting by Poll

The right to demand a poll was set out in the circular to shareholders of the Company dispatched together with the Annual Report. The results of the voting by poll would be published on the websites of the Stock Exchange and the Company respectively.

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 2014.

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 41 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 (2013: 1 HK cent) per share, totaling HK$3,986,000 was paid on 19 September 2014. The Directors now recommend the payment of a final dividend of 2 HK cents (2013: 1 HK cent) per share in respect of the year ended 31 December 2014. Subject to the approval at the forthcoming annual general meeting, the final dividend will be payable on or after 11 June 2015 to the shareholders whose names appear on the register of members at the close of the business on 21 May 2015.

To determine the identity of members who are entitled to attend and vote at the forthcoming Annual General Meeting which will be held on 13 May 2015, the register of members of the Company will be closed from 11 May 2015 to 13 May 2015 (both dates inclusive). In order to qualify to attend the Annual General Meeting, all transfers, accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong Branch Share Registrar, Tricor Tengis Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on 8 May 2015.

To determine the identity of members who are entitled to the final dividend of the Company for the year ended 31 December 2014, the register of members of the Company will be closed from 19 May 2015 to 21 May 2015 (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 Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on 18 May 2015.

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 112.

Report of the Directors

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	–	32.2%
Five largest customers in aggregate	–	56.8%
The largest supplier	14.8%	–
Five largest suppliers in aggregate	49.7%	–

As at 31 December 2014, New Era Cap Co., Inc., New Era Cap Company Ltd and New Era Japan GK, major customers of the Group, were affiliated companies of New Era Cap Hong Kong LLC ("NEHK"). NEHK holds 19.97% equity interest in the Company. Mr. Christopher Koch owns 75% of the issued share capital of NEHK.

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$45,322,000 (2013: HK$27,542,000) 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 17 to the financial statements.

Share Capital

Details of movements in the share capital of the Company during the year are set out in note 29 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 31 to the financial statements.

As at 31 December 2014, the Company's reserves available for cash distribution amounted to HK$263,703,000 (2013: HK$240,705,000) as computed in accordance with the Companies Act 1981 of Bermuda. In addition, the Company's share premium account of HK$160,230,000 (2013: HK$160,230,000) as at 31 December 2014 may be distributed in the form of fully paid bonus shares.

Donations

No charitable and other donations made by the Group during the year (2013: Nil).

Directors

The Directors during the year and up to the date of this report were:

Executive directors

Mr. Ngan Hei Keung *(Chairman)*
Madam Ngan Po Ling, Pauline *(Deputy Chairman and Managing Director)*
Mr. James S. Patterson
Ms. Maggie Gu *(Chief Operating Officer)*

Non-executive director

Mr. Andrew Ngan

Independent non-executive directors

Mr. Leung Shu Yin, William
Mr. Lo Hang Fong (resigned on 1 September 2014)
Mr. Liu Tieh Ching, Brandon, *JP*
Mr. Gordon Ng (appointed on 1 September 2014)

Report of the Directors

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 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. Ngan Hei Keung, Ms. Maggie Gu, and Mr. Andrew Ngan shall retire by rotation at the forthcoming annual general meeting. Mr. Gordon Ng, being Director appointed by the Board after the Company's annual general meeting held on 15 May 2014, 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, Madam Ngan Po Ling, Pauline and Ms. Maggie Gu has entered into a service contract with the Company which may be terminated by not less than six months' notice in writing served by either party.

Each of Mr. James S. Patterson, Mr. Andrew Ngan, Mr. Leung Shu Yin, William, Mr. Liu Tieh Ching, Brandon, JP and Mr. Gordon Ng 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.

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 40 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, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Connected Transactions

(i) During the year, the Group paid rental totaling HK$1,320,000 and HK$108,000 under operating lease in respect of office premises to a company beneficially owned by Mr. Ngan Hei Keung, and in respect of office premises jointly owned by Mr. Ngan Hei Keung and Madam Po Ling, Pauline respectively.

Report of the Directors

(ii) On 22 November 2011, the Company entered into a manufacturing agreement (the "Manufacturing Agreement") with New Era Cap Hong Kong LLC ("NEHK"), pursuant to which NEHK agreed to purchase products from the Company with minimum purchase commitments for the three financial years ended 31 December 2014. Under the Contingent Purchase Deed, NEHK 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 NEHK over a six months period after a notice is served by NEHK, if NEHK have agreed to give purchase commitment under the Manufacturing Agreement on the occurrence of several events.

On 29 December 2011, independent shareholders of the Company approved the Manufacturing Agreement and the maximum aggregate annual value of supply transactions for the three years ended 31 December 2014 are HK$409,500,000, HK$468,000,000 and HK$526,500,000 respectively.

During 2014, affiliated companies of NE purchased goods totalling HK$295,072,000 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 aforesaid continuing connected transactions have been reviewed by independent non-executive directors of the Company. The independent non-executive directors confirmed that the aforesaid connection transactions were entered into (a) in the ordinary and usual course of business of the Group; (b) either on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; (c) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

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 an unqualified letter containing his findings and conclusions in respect of the continuing connected transactions disclosed by the Group as above in accordance with paragraph 14A.56 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

Report of the Directors

Directors' Interests in Shares and Underlying Shares

As at 31 December 2014, 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	–	217,250,000 *(notes 1, 2)*	45,800,000 *(notes 3, 4)*	263,050,000	66.00%
Madam Ngan Po Ling, Pauline	33,550,000 *(note 2)*	183,700,000 *(note 1)*	45,800,000 *(notes 3, 4)*	263,050,000	66.00%
Mr. James S. Patterson	–	–	2,000,000 *(note 5)*	2,000,000	0.50%
Ms. Maggie Gu	–	–	500,000 *(note 5)*	500,000	0.13%

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 33,550,000 shares are beneficially owned by Madam Ngan, Pauline, the spouse of Mr. Ngan.

(3) Pursuant to the contingent purchase deed dated 22 November 2011 (renewed on 30 September 2014) between Mr. Ngan, Madam Ngan and NEHK, NEHK 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 and Ms. Gu have been granted share options under the Company's share option scheme to subscribe for 2,000,000 shares and 500,000 shares of the Company on 23 June 2009 respectively.

Report of the Directors

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

On 23 May 2002, a share option scheme (the "Old 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.

The total number of shares which may be issued upon exercise of all options to be granted under the Old 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 Old 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.

On 29 December 2011, 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 interested entity, and any customers of the Group or any invested entity to subscribe for shares in the Company.

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 39,858,328, being 10% of the shares in issue of the Company as at 29 December 2011, the date of adoption of the New Scheme.

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.

Report of the Directors

The Old and New Schemes 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 35,858,328 shares, which represented 9% of the issued share capital of the Company.

At 31 December 2014, 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$1.30 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:

Report of the Directors

	Date of grant	Period during which options exercisable	Exercise *HK$*	Outstanding at 1.1.2014 and 31.12.2014	Market value per share at date of grant *HK$*
Director	23.06.2009	23.06.2010 –22.06.2019	0.946	8,500,000	0.93
Employees	11.06.2008	11.06.2009 – 10.06.2018	1.190	1,000,000	1.16
	23.06.2009	23.06.2010 – 22.06.2019	0.946	6,270,000	0.93
	08.11.2010	08.11.2011 – 07.11.2020	0.92	900,000	0.92
	30.12.2011	30.12.2012 – 29.12.2021	0.80	4,000,000	0.80
				12,170,000	

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.

Report of the Directors

Substantial shareholders

So far as is known to the Directors or chief executives of the Company, as at 31 December 2014, shareholders (other than Directors or chief executives of the Company) who had interests or short positions in the shares or underlying shares of the Company which were required to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Long positions in the shares and underlying shares:

		Number of shares			
Name	**Capacity**	**Personal interest**	**Other interest**	**Total**	**Percentage of interest**
Successful Years International Co., Ltd. *(note 1)*	Beneficial owner	183,700,000	–	183,700,000	46.09%
Mr. Christopher Koch *(note 2)*	Interest of a controlled corporation	–	79,601,000	79,601,000	19.97%
NEHK *(note 2)*	Interest of a controlled corporation	79,601,000	–	79,601,000	19.97%

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. Mr. Christopher Koch owns 75% of the issued share capital of NEHK. As such, Mr. Christopher Koch is deemed to be interested in the 79,601,000 shares.

Short positions in the underlying shares:

Name	**Number of underlying shares**	**Percentage of interest**
Mr. Christopher Koch	39,800,000 *(note)*	9.99%
New Era Cap Hong Kong LLC (“NEHK”)	39,800,000 *(note)*	9.99%

Report of the Directors

Note:

Pursuant to the contingent purchase deed dated 22 November 2011 between Mr. Ngan, Madam Ngan and NEHK, NEHK 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 NEHK, Mr. Koch is also taken to have interest in short position of 39,800,000 underlying shares.

Save as disclosed above, as at 31 December 2014, 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 10 to the financial statements.

Pre-Emptive Rights

There are no provisions for pre-emptive rights under the Company's bye-laws and there was no restriction against such rights under 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 2014, 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 16 March 2015, being the date of this report.

Report of the Directors

Auditors

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, 16 March 2015

Independent Auditor's Report

羅兵咸永道

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 111, which comprise the consolidated and company balance sheets as at 31 December 2014, 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.

PricewaterhouseCoopers, 22/F Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

Independent Auditor's 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.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the 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 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 2014, 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, 16 March 2015

Consolidated Income Statement

For the year ended 31 December 2014

	Note	2014 HK$'000	2013 HK$'000
Revenue	5	**917,533**	922,625
Cost of sales	8	**(667,780)**	(678,815)
Gross profit		**249,753**	243,810
Other income	6	**9,010**	3,858
Other (losses)/gains – net	7	**(578)**	1,130
Selling and distribution costs	8	**(95,216)**	(110,592)
Administration expenses	8	**(127,720)**	(126,794)
Profit from operations		**35,249**	11,412
Finance income	9	**1,959**	1,976
Finance costs	9	**(1,256)**	(3,177)
Profit before income tax		**35,952**	10,211
Income tax expense	13	**(5,532)**	(3,993)
Profit for the year		**30,420**	6,218
Attributable to:			
Owners of the Company		**33,042**	7,366
Non-controlling interests		**(2,622)**	(1,148)
		30,420	6,218
Earnings per share attributable to owners of the Company	15		
Basic		**8.3 HK cents**	1.8 HK cents
Diluted		**8.3 HK cents**	1.8 HK cents
Dividends	16	**11,958**	7,972

The notes on pages 42 to 111 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2014

	2014 HK$'000	2013 HK$'000
Profit for the year	**30,420**	6,218
Other comprehensive income		
– Item that may be reclassified to profit or loss:		
Exchange differences on translation of financial statements of foreign operations	**(5,914)**	3,611
– Items that will not be reclassified to profit or loss:		
Revaluation surplus upon transfer of land use rights and buildings to investment properties	**10,723**	–
Deferred tax arising from revaluation surplus upon transfer of land use rights and buildings to investment properties (Note 24)	**(2,681)**	–
Total comprehensive income for the year, net of tax	**32,548**	9,829
Attributable to:		
Owners of the Company	**35,167**	11,194
Non-controlling interests	**(2,619)**	(1,365)
Total comprehensive income for the year	**32,548**	9,829

The notes on pages 42 to 111 are an integral part of these consolidated financial statements.

Consolidated Balance Sheet

As at 31 December 2014

	Note	2014 HK$'000	2013 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment	17	**129,785**	126,040
Investment properties	18	**38,764**	12,889
Land use rights	19	**–**	402
Goodwill	21	**33,798**	33,798
Other intangible assets	22	**21,593**	28,775
Available-for-sale financial assets	23	**218**	222
Deferred income tax assets	24	**3,385**	3,023
Other non-current receivables	26	**14,654**	21,157
Pledged bank deposits	28	**–**	1,750
		242,197	228,056
Current assets			
Inventories	25	**201,453**	163,711
Trade and other receivables	26	**176,705**	179,591
Financial assets at fair value through profit or loss	27	**2,563**	2,657
Derivative financial instruments		**–**	42
Pledged bank deposits	28	**1,750**	–
Cash and cash equivalents	28	**123,862**	146,209
		506,333	492,210
Total assets		**748,530**	720,266
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company			
Share capital	29	**39,858**	39,858
Other reserves		**230,458**	228,297
Retained earnings			
– Proposed final dividend		**7,972**	3,986
– Others		**239,636**	218,552
		517,924	490,693
Non-controlling interests		**(4,003)**	(734)
Total equity		**513,921**	489,959
LIABILITIES			
Non-current liabilities			
Other non-current payables	32	**1,112**	4,695
Long service payment payable		**457**	440
Deferred income tax liabilities	24	**2,681**	–
		4,250	5,135

Consolidated Balance Sheet

As at 31 December 2014

	Note	2014 HK$'000	2013 HK$'000
Current liabilities			
Trade and other payables	32	**168,712**	171,019
Amounts due to related parties	33	**943**	1,885
Current income tax liabilities		**27,814**	25,268
Borrowings	34	**32,890**	27,000
		230,359	225,172
Total liabilities		**234,609**	230,307
Total equity and liabilities		**748,530**	720,266
Net current assets		**275,974**	267,038
Total assets less current liabilities		**518,171**	495,094

Ngan Hei Keung
Director

Ngan Po Ling, Pauline
Director

The notes on pages 42 to 111 are an integral part of these consolidated financial statements.

Balance Sheet

As at 31 December 2014

	Note	2014 HK$'000	2013 HK$'000
ASSETS			
Non-current assets			
Interests in subsidiaries	20	**472,412**	449,790
		472,412	449,790
Current assets			
Other receivables	26	**199**	262
Cash and cash equivalents	28	**1,848**	1,140
		2,047	1,402
Total assets		**474,459**	451,192
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company			
Share capital	29	**39,858**	39,858
Other reserves	31	**266,183**	266,147
Retained earnings			
– Proposed final dividend		**7,972**	3,986
– Others		**156,300**	137,288
		470,313	447,279
LIABILITIES			
Current liabilities			
Accrued charges and other payables	32	**4,146**	3,913
		4,146	3,913
Total equity and liabilities		**474,459**	451,192

Ngan Hei Keung
Director

Ngan Po Ling, Pauline
Director

The notes on pages 42 to 111 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2014

	Attributable to owners of the Company									
	Share capital HK$'000	Share premium HK$'000	Capital reserve HK$'000	Share based compensation reserve HK$'000	Revaluation reserve HK$'000	Exchange reserve HK$'000	Retained earnings HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
Balance at 1 January 2013	39,858	160,230	25,878	6,358	–	32,117	227,130	491,571	(361)	491,210
Profit for the year	–	–	–	–	–	–	7,366	7,366	(1,148)	6,218
Other comprehensive income:										
– Exchange differences on translation of financial statements of foreign operations	–	–	–	–	–	3,586	–	3,586	25	3,611
Total comprehensive income for the year net of tax	–	–	–	–	–	3,586	7,366	10,952	(1,123)	9,829
Liquidation of a subsidiary	–	–	–	–	–	–	–	–	(475)	(475)
Disposal of a subsidiary	–	–	–	–	–	–	–	–	(55)	(55)
Acquisition of a subsidiary	–	–	–	–	–	–	–	–	1,280	1,280
2012 final dividend paid	–	–	–	–	–	–	(7,972)	(7,972)	–	(7,972)
2013 interim dividend paid	–	–	–	–	–	–	(3,986)	(3,986)	–	(3,986)
Equity settled share-based transactions	–	–	–	128	–	–	–	128	–	128
Total contribution by and distribution to owners of the Company	–	–	–	128	–	–	(11,958)	(11,830)	750	(11,080)
Balance at 31 December 2013	39,858	160,230	25,878	6,486	–	35,703	222,538	490,693	(734)	489,959
Representing:										
2013 proposed final dividend							3,986			
Other retained earnings							218,552			
							222,538			

The notes on pages 42 to 111 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2014

	Attributable to owners of the Company									
	Share capital HK$'000	**Share premium** HK$'000	**Capital reserve** HK$'000	**Share based compensation reserve** HK$'000	**Revaluation reserve** HK$'000	**Exchange reserve** HK$'000	**Retained earnings** HK$'000	**Total** HK$'000	**Non-controlling interests** HK$'000	**Total equity** HK$'000
Balance at 1 January 2014	39,858	160,230	25,878	6,486	–	35,703	222,538	490,693	(734)	489,959
Profit for the year	–	–	–	–	–	–	33,042	33,042	(2,622)	30,420
Other comprehensive income:										
– Exchange differences on translation of financial statements of foreign operations	–	–	–	–	–	(5,917)	–	(5,917)	3	(5,914)
– Revaluation surplus upon transfer of land use rights and buildings to investment properties, net	–	–	–	–	8,042	–	–	8,042	–	8,042
Total comprehensive income for the year net of tax	–	–	–	–	8,042	(5,917)	33,042	35,167	(2,619)	32,548
Dividend paid by a subsidiary	–	–	–	–	–	–	–	–	(650)	(650)
2013 final dividend paid	–	–	–	–	–	–	(3,986)	(3,986)	–	(3,986)
2014 interim dividend paid	–	–	–	–	–	–	(3,986)	(3,986)	–	(3,986)
Equity settled share-based transactions	–	–	–	36	–	–	–	36	–	36
Total contribution by and distribution to owners of the Company	–	–	–	36	–	–	(7,972)	(7,936)	(650)	(8,586)
Balance at 31 December 2014	39,858	160,230	25,878	6,522	8,042	29,786	247,608	517,924	(4,003)	513,921
Representing:										
2014 proposed final dividend							7,972			
Other retained earnings							239,636			
							247,608			

The capital reserve 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.

Consolidated Cash Flow Statement

For the year ended 31 December 2014

	Note	2014 HK$'000	2013 HK$'000
Cash flows from operating activities			
Cash generated from operations	35	**32,894**	72,893
Income tax paid		**(3,568)**	(413)
Income tax refund		**226**	288
Interest paid		**(1,256)**	(3,177)
Net cash generated from operating activities		**28,296**	69,591
Cash flows from investing activities			
Interest received		**1,959**	1,976
Acquisition of a subsidiary, net of cash acquired	36	**–**	(5,099)
Distribution upon liquidation of a subsidiary		**–**	(475)
Disposal of a subsidiary		**–**	(1,234)
Purchase of investment properties		**–**	(12,889)
Purchase of property, plant and equipment		**(45,322)**	(27,542)
Net cash used in investing activities		**(43,363)**	(45,263)
Cash flows from financing activities			
Dividend paid to non-controlling interests		**(650)**	–
Dividends paid		**(7,972)**	(11,958)
Repayment of bank borrowings		**(20,780)**	(13,000)
Proceeds from bank borrowings		**26,670**	–
Net cash used in financing activities		**(2,732)**	(24,958)
Net decrease in cash and cash equivalents		**(17,799)**	(630)
Cash and cash equivalents at beginning of year		**146,209**	146,382
Effect of foreign exchange rate changes		**(4,548)**	457
Cash and cash equivalents at end of year	28	**123,862**	146,209

The notes on pages 42 to 111 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

1. GENERAL INFORMATION

The Company is a public limited liability company incorporated in Bermuda and its shares are listed on The Stock Exchange of Hong Kong Limited ("Stock Exchange"). The address of its 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 41 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 16 March 2015.

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, derivative financial instruments and investment properties which are carried at fair value.

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

Changes in accounting policy and disclosures

(i) New and amended standards adopted by the Group

The following amendments to standards and interpretations are mandatory for accounting periods beginning on or after 1 January 2014. The adoption of these new and amendments to standards and interpretations does not have any significant impact to the results and financial position of the Group.

HKFRS 10, HKFRS 12 and HKAS 27 (2011) (Amendment)	Investment entities
HKAS 32 (Amendment)	Offsetting financial assets and financial liabilities
HKAS 36 (Amendment)	Impairment of assets
HKAS 39 (Amendment)	Novation of derivatives
HK(IFRIC) 21	Levies

(ii) New and amended standards have been issued but are not effective for the financial year beginning 1 January 2014 and have not been early adopted

The following new and amended standards have been issued but are not effective for the financial year beginning 1 January 2014 and have not been early adopted by the Group:

HKFRS 9	Financial instruments[(4)]
HKFRS 11 (Amendment)	Accounting for acquisitions of interests in joint operations[(2)]
HKFRS 14	Regular deferral accounts[(2)]
HKFRS 15	Revenue from contracts with customers[(3)]
HKAS 16 and HKAS 38 (Amendment)	Classification of acceptable methods of depreciation and amortisation[(2)]
HKAS 19 (2011) (Amendment)	Defined benefit plans: employee contributions[(1)]
Annual improvements project	Annual improvements 2010-2012 cycle[(1)]
Annual improvements project	Annual improvements 2011-2013 cycle[(1)]
Annual improvements project	Annual improvements 2012-2014 cycle[(2)]

(1) Effective for the Group for annual period beginning on 1 July 2014.
(2) Effective for the Group for annual period beginning on 1 January 2016.
(3) Effective for the Group for annual period beginning on 1 January 2017.
(4) Effective for the Group for annual period beginning on 1 January 2018.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

The expected impacts from the adoption of the above standards and amendments are still being assessed in details by management and is not yet in a position to state whether they would have a significant impact on the Group's results of operations and financial position.

(b) Subsidiaries

(i) Consolidation

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

(ii) Business combinations

The Group applies the acquisition method 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 to the former owners of the acquiree 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. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with HKAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

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 the total of consideration transferred, non-controlling interest recognised and previously held interest measured 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 income statement (note 2(i)).

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

(iii) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of 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.

(iv) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

(c) Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend and receivable.

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.

(d) 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.

(e) 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

(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.

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. Exchange differences arising are recognised in other comprehensive income.

(iv) Disposal of foreign operation and partial disposal

On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the equity holders of the Company are reclassified to profit or loss.

In the case of a partial disposal that does not result in the Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss.

(f) 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

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% to 10%
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(n)).

(g) Investment property

Investment property, principally comprising land and buildings, is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the Group. Land held under operating leases are accounted for as investment properties when the rest of the definition of an investment property is met. In such cases, the operating leases concerned are accounted for as if they were finance leases. Investment property is initially measured at cost, including related transaction costs and where applicable borrowing costs. After initial recognition, investment properties are carried at fair value, representing open market value determined at each reporting date by external valuers. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If the information is not available, the Group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. Changes in fair values are recorded in the income statement as part of a valuation gain or loss in 'other gains – net'.

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(h) 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.

(i) Intangible assets

(i) Goodwill

Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred over the Group's interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the fair value of the non-controlling interest in the acquiree.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

(ii) Contractual customer relationships

Contractual customer relationships acquired in a business combination are recognised at fair value at the acquisition date. The contractual customer relations have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is over the expected pattern of consumption of expected future economic benefits from the intangible assets or over 10 years.

(iii) Trademarks and licensing rights

Separately acquired trademarks and licensing rights are shown at historical cost. Trademarks and licensing rights acquired in a business combination are recognised at fair value at the acquisition date. Trademarks and licensing rights have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is based on the expected pattern of consumption of the trademarks and licenses, which are either on a straight line basis or based on the units of production.

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For the year ended 31 December 2014

(j) Financial assets

(i) Classification

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

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

Financial assets at fair value through profit or loss are financial assets held for trading. 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.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise 'trade and other receivables' and 'cash and cash equivalents' in the balance sheet (Notes 2(l) and 2(m)).

(c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

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(ii) Recognition and measurement

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. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement. Financial assets 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. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at cost and fair value respectively. Loans and receivables are subsequently carried at amortised cost using the effective interest method. Available-for-sale financial assets are subsequently carried at cost.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the income statement within 'Other gains – net' in the period in which they arise. Dividend income from financial assets at fair value through profit or loss and available-for-sale financial assets are recognised in the income statement as part of other income when the Group's right to receive payments is established.

Unlisted equity as included in available-for-sale financial assets are stated at cost less impairment (which is charged to the profit or loss as the fair value of these unlisted financial assets cannot be reliably measured).

(iii) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Group or the counterparty.

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For the year ended 31 December 2014

(k) 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 weighted-average costing method.

Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

(l) 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.

(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) Impairment of assets

(i) Assets carried at amortised cost

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.

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For the year ended 31 December 2014

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) Assets classified as available-for-sale

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. For equity investments classified as available-for-sale carried at cost, the impairment loss is measured at the difference between the carrying amount of the equity investment and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses recognised in the consolidated income statement are not reversed.

(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.

(o) 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

(p) 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.

(q) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

(r) 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.

(i) Current income tax

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.

Notes to the Consolidated Financial Statements

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(ii) Deferred income tax

Inside basis differences

Deferred income tax is recognised, 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 only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Outside basis differences

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.

(iii) Offsetting

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.

(s) 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.

(t) Share-based payments

The Group operates an 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.

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(u) 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.

(v) 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) Services fees

Income from consultancy services are recognised in the income statement on a straight-line basis over the term of contract.

(iv) Rental income

Rental income from investment property is recognised in the income statement on a straight-line basis over the term of the lease.

(v) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method. When a loan and receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loan and receivables are recognised using the original effective interest rate.

(w) 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.

(x) 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.

(y) 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.

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For the year ended 31 December 2014

3. FINANCIAL RISK MANAGEMENT

(a) Categories of financial instruments

	Group		Company	
	2014	2013	**2014**	2013
	HK$'000	HK$'000	**HK$'000**	HK$'000
Financial assets				
Loans and receivables (include cash and cash equivalents):				
– Trade and other receivables	**170,166**	179,634	**199**	262
– Bank balances and cash	**125,612**	147,959	**1,848**	1,140
	295,778	327,593	**2,047**	1,402
Financial assets at fair value through profit or loss	**2,563**	2,657	**–**	–
Available-for-sale financial assets	**218**	222	**–**	–
Derivative financial instruments	**–**	42	**–**	–
	298,559	330,514	**2,047**	1,402
Financial liabilities				
Amortised cost:				
– Borrowings	**32,890**	27,000	**–**	–
– Trade and other payables	**129,949**	133,403	**–**	–
– Amounts due to related companies	**943**	1,885	**–**	–
	163,782	162,288	**–**	–

Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

(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 objectives focus on the unpredictability of financial markets and seek to minimise potential adverse effects on the Group's financial performance.

In light of the simplicity of the structure, 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, Chinese Renminbi and Bangladesh Taka.

The Group does not hedge its foreign currency risks with United States dollars as Hong Kong dollars is pegged to the United States dollars.

The Group estimates that any 1% appreciation of the Renminbi is expected to reduce the gross margin of the Manufacturing Business by about 0.5%. 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.

The Group estimated that any 1% appreciation of the Bangladesh Taka is not expected to have material impact on the gross margin.

(b) Interest rate risk

The Group's interest rate risk primarily arises from bank deposits and bank borrowings. The Group has not used any derivative contracts to hedge its exposure to interest rate risk.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

At 31 December 2014, it is estimated that a general increase/decrease of 50 basis points (2013: 50 basis points) in bank deposits and bank borrowings interest rates, with all other variables held constant, would increase/decrease the Group's post-tax profit for the year by approximately HK$382,000 (2013: HK$504,000). The 50 basis points 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, with all other variables held constants, the Group's post-tax profit for the year would increase by approximately HK$214,000 (2013: HK$222,000). A 10% change is used when reporting the price risk internally to the management.

The same percentage of depreciation would have the same magnitude on the Group's post-tax profit for the year but of opposite effect.

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 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 credit 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.

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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 47% (2013: 38%) and 65% (2013: 55%) of the total trade and other receivables was due from the Group's largest customer and the five largest customers respectively.

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's gearing ratio (being the Group's net borrowings over total equity) is at 6.4% (2013: 5.5%) and the Group will have sufficient financial resources and banking facilities to meet its commitments and working capital requirements.

The table below analyses the Group's financial liabilities based on the remaining period at the balance sheet date to the contractual expiry date. The amounts disclosed in the table are the contractual undiscounted cash flows.

31 December 2014

	Group	
	Within one year	**In the second to fifth years inclusive**
Trade and other payables	125,106	–
Minimum license fee payables	3,731	1,112
Bank borrowings	33,409	–
Amounts due to related companies	943	–
Total	163,189	1,112

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31 December 2013

	Group	
	Within one year	**In the second to fifth years inclusive**
Trade and other payables	123,158	–
Minimum license fee payables	6,369	3,876
Bank borrowings	27,625	–
Amounts due to a related company	1,885	–
Total	159,037	3,876

(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. The Group's strategy, which was unchanged from 2012, was to maintain its gearing ratio at a low level.

(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 2013 and 2014 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;

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– 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).

	2014 – Group			
	Level 1	**Level 2**	**Level 3**	**Total**
	HK$'000	**HK$'000**	**HK$'000**	**HK$'000**
Assets				
Financial assets at fair value through profit or loss	**2,563**	**–**	**–**	**2,563**
Total financial assets	**2,563**	**–**	**–**	**2,563**

	2013 – Group			
	Level 1	Level 2	Level 3	Total
	HK$'000	HK$'000	HK$'000	HK$'000
Assets				
Derivatives financial instruments	–	42	–	42
Financial assets at fair value through profit or loss	2,657	–	–	2,657
Total financial assets	2,657	42	–	2,699

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For the year ended 31 December 2014

There were no transfers between levels 1 and 2 or into or out of level 3 during the year.

There were no other changes in valuation techniques during the year.

(i) Financial instruments in level 1

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for the equity investments held by the Group and included in this level was determined by reference to the quoted market prices on the relevant stock exchanges where the equity investments are listed.

(ii) Financial instruments in level 2

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Level 2 derivative financial instruments comprised forward foreign exchange contracts. These forward foreign exchange contracts have been fair valued using forward exchange rates that were quoted in an active market. The effects of discounting were generally insignificant for Level 2 derivatives.

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For the year ended 31 December 2014

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(i). 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.

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(d) Income taxes

The Group is subject to income taxes in several 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 and impairment 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 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.

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(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 30. 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 principal manufacturing facilities are located in Shenzhen, the PRC and Bangladesh. Customers are mainly located in the USA and Europe.

(ii) Trading Business: The trading and distribution of headwear and other products of the Group is operating through Drew Pearson International (Europe) Ltd., ("DPI Europe") which focuses on the Europe market, and H3 Sportgear LLC ("H3") and San Diego Hat Company ("SDHC"), which focus on the US market.

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

Segment assets exclude investment properties, available-for-sale financial assets, deferred income tax assets, financial assets at fair value through profit or loss, derivative financial instruments and cash and cash equivalents. 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 current and deferred income tax liabilities, bank borrowings and corporate liabilities which are not directly attributable to the business activities of any operating segment.

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	Manufacturing		Trading		Retail		Total	
	2014 HK$'000	2013 HK$'000	**2014 HK$'000**	2013 HK$'000	**2014 HK$'000**	2013 HK$'000	**2014 HK$'000**	2013 HK$'000
Revenue from external customers	**571,276**	602,144	**214,143**	190,731	**132,114**	129,750	**917,533**	922,625
Inter-segment revenue	**78,420**	67,936	**477**	801	**–**	–	**78,897**	68,737
Reportable segment revenue	**649,696**	670,080	**214,620**	191,532	**132,114**	129,750	**996,430**	991,362
Reportable segment profit/(loss)	**39,784**	30,294	**185**	(4,159)	**2,389**	(5,778)	**42,358**	20,357
Financial assets at fair value through profit or loss and derivative financial instruments – fair value loss							**(136)**	(850)
Gain on settlement of derivative financial instruments							**42**	1,146
Share-based payment expense							**(36)**	(128)
Unallocated corporate income							**5,593**	–
Unallocated corporate expenses							**(12,572)**	(9,113)
Profit from operations							**35,249**	11,412
Finance income							**1,959**	1,976
Finance costs							**(1,256)**	(3,177)
Income tax expense							**(5,532)**	(3,993)
Profit for the year							**30,420**	6,218
Depreciation of property, plant and equipment and amortisation of land use rights	**19,765**	19,727	**982**	927	**4,587**	4,721	**25,334**	25,375
Amortisation of other intangible assets	**–**	–	**8,531**	8,117	**–**	7,113	**8,531**	15,230
Loss on disposal of property, plant and equipment	**–**	–	**–**	166	**125**	281	**125**	447
Gain on disposal of a subsidiary	**–**	–	**–**	–	**–**	(1,626)	**–**	(1,626)
Net provision for slow-moving and obsolete inventories	**(1,652)**	15,257	**28**	(123)	**1,974**	(2,194)	**350**	12,940
Net provision for impairment of trade and other receivables	**273**	(16)	**(70)**	1	**–**	–	**203**	(15)
Provision for impairment of property, plant and equipment	**–**	1,873	**–**	–	**–**	487	**–**	2,360
Reportable segment assets	**369,153**	349,933	**138,026**	137,726	**72,360**	63,480	**579,539**	551,139
Investment properties							**38,764**	12,889
Available-for-sale financial assets							**218**	222
Deferred income tax assets							**3,385**	3,023
Financial assets at fair value through profit or loss							**2,563**	2,657
Derivative financial instruments							**–**	42
Cash and cash equivalents							**123,862**	146,209
Other corporate assets							**199**	4,085
Total assets							**748,530**	720,266
Reportable segment liabilities	**109,463**	117,105	**21,231**	22,342	**36,384**	35,242	**167,078**	174,689
Current income tax liabilities							**27,814**	25,268
Deferred income tax liabilities							**2,681**	–
Bank borrowings							**32,890**	27,000
Other corporate liabilities							**4,146**	3,350
Total liabilities							**234,609**	230,307
Capital expenditure incurred during the year	**41,256**	51,171	**686**	2,328	**3,380**	3,730	**45,322**	57,229

Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

(i) Revenue from external customers

The Group's revenue from external customers is divided into the following geographical areas based on the location at which the goods were delivered:

	2014 HK$'000	2013 HK$'000
Hong Kong	**29,888**	25,622
USA	**537,957**	561,355
PRC	**116,125**	118,299
Europe	**167,192**	141,348
Others	**66,371**	76,001
Total	**917,533**	922,625

During 2014, revenue derived from the Group's largest customer (who are affiliated companies of a shareholder) amounted to HK$295,072,000 or 32.2% of the Group's revenue (2013: HK$305,140,000 or 33.1%). Revenue derived from the second largest customer amounted to HK$88,559,000 or 9.7% (2013: HK$93,780,000 or 10.2%).

(ii) Non-current assets

The geographical location of the non-current assets is based on the location of operations and physical location of the asset:

	2014 HK$'000	2013 HK$'000
Hong Kong	**18,706**	25,708
PRC	**76,348**	71,676
Bangladesh	**72,291**	46,953
Europe	**109**	1,868
USA	**49,765**	50,053
	217,219	196,258
Other intangible assets	**21,593**	28,775
Deferred income tax assets	**3,385**	3,023
	242,197	228,056

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For the year ended 31 December 2014

6. OTHER INCOME

	2014 HK$'000	2013 HK$'000
Rental and service fee income	**5,593**	–
Freight income	**1,533**	1,581
Sundry income	**1,884**	2,277
	9,010	3,858

7. OTHER (LOSSES)/GAINS – NET

	2014 HK$'000	2013 HK$'000
Financial assets at fair value through profit or loss and derivative financial instruments – fair value loss	**(136)**	(850)
Gain on settlement of derivative financial instruments	**42**	1,146
Net foreign exchange loss	**(359)**	(345)
Loss on disposal of property, plant and equipment	**(125)**	(447)
Gain on disposal of a subsidiary *(Note)*	**–**	1,626
	(578)	1,130

Note:

In 2013, the Group disposed of its 70% equity interest in 杭州成顏豐商貿有限公司 for a consideration of RMB874,000 (HK$1,113,000). The Group's equity interest in 杭州成顏豐商貿有限公司 was reduced from 80% to 10% after the disposal. The Group's remaining 10% equity interest in 杭州成顏豐商貿有限公司 is recognised as available-for-sale financial assets carried at cost.

	HK$'000
Proceeds	1,113
Share of net liabilities of the disposed subsidiary	291
Recognition of remaining equity interest as available-for-sale financial assets	222
Gain on disposal of subsidiary	1,626

Notes to the Consolidated Financial Statements

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The net cash flow in respect of the disposal of the subsidiary is as follows:

	HK$'000
Proceeds	1,113
Less: Cash retained in the disposed subsidiary	(2,347)
Net cash outflow on disposal of subsidiary	(1,234)

8. EXPENSES BY NATURE

	2014 HK$'000	2013 HK$'000
Employee remuneration (including directors' emoluments and retirement benefit costs)		
– Salaries and allowances	**224,677**	245,335
– Contribution to retirement scheme	**5,249**	6,068
– Share-based payments	**36**	128
	229,962	251,531
Cost of inventories	**425,549**	400,135
Auditors' remuneration	**3,035**	3,320
License fees	**3,307**	4,132
Acquisition-related costs *(note 36)*	**–**	208
Depreciation of property, plant and equipment *(note 17)*	**25,303**	25,215
Amortisation on land use rights *(note 19)*	**31**	160
Amortisation of other intangible assets *(note 22)*	**8,531**	15,230
Operating lease charges in respect of office premises, shops, factories and warehouses		
– Minimum lease payment	**33,288**	41,188
– Contingent lease payment	**10,268**	11,498
Net provision for impairment of trade and other receivables	**203**	(15)
Net provision for slow-moving and obsolete inventories	**350**	12,940
Provision for impairment of property, plant and equipment	**–**	2,360
Claims expense	**14,919**	2,786
Others	**135,970**	145,513
Total cost of sales, selling and distribution costs, and administration expenses	**890,716**	916,201

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9. FINANCIAL INCOME/(COSTS) – NET

	2014 HK$'000	2013 HK$'000
Interest on overdrafts and other borrowings	**(670)**	(1,588)
Interest on amounts due to a related company	**(25)**	(25)
Interest on other non-current payables	**(561)**	(1,564)
Interest costs	**(1,256)**	(3,177)
Interest income	**1,959**	1,976
Net finance income/(costs)	**703**	(1,201)

10. 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$30,000 (from June 2014) and contributions to the MPF Scheme are vested immediately. The cap of monthly relevant income was HK$25,000 from June 2012 to May 2014.

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

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:

	2014 HK$'000	2013 HK$'000
Gross retirement schemes contributions	5,249	6,068
Less: Forfeited contributions for the year	–	–
Net retirement schemes contributions	5,249	6,068

11. DIRECTORS' EMOLUMENTS

	2014 HK$'000	2013 HK$'000
Fees	408	442
Salaries, housing benefits, other allowances and benefits in kind	6,452	6,305
Contributions to retirement scheme	89	78
	6,949	6,825

Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

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

	Year ended 31 December 2014			
	Fees HK$'000	**Salaries, allowances and benefits in kind HK$'000**	**Retirement scheme contributions HK$'000**	**Total HK$'000**
Mr. Ngan Hei Keung	**–**	**1,540**	**24**	**1,564**
Madam Ngan Po Ling, Pauline	**–**	**2,205**	**24**	**2,229**
Mr. James S. Patterson	**–**	**276**	**–**	**276**
Ms. Maggie Gu	**–**	**2,191**	**17**	**2,208**
Mr. Andrew Ngan	**80**	**240**	**24**	**344**
Mr. Leung Shu Yin, William	**104**	**–**	**–**	**104**
Mr. Lo Hang Fong (resigned on 1 September 2014)	**64**	**–**	**–**	**64**
Mr. Liu Tieh Ching, Brandon, *JP*	**120**	**–**	**–**	**120**
Mr. Gordon Ng (appointed on 1 September 2014)	**40**	**–**	**–**	**40**
Total	**408**	**6,452**	**89**	**6,949**

	Year ended 31 December 2013			
	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Retirement scheme contributions HK$'000	Total HK$'000
Mr. Ngan Hei Keung	–	1,540	24	1,564
Madam Ngan Po Ling, Pauline	–	2,106	24	2,130
Mr. James S. Patterson	–	276	–	276
Ms. Maggie Gu	–	1,995	15	2,010
Mr. Tse Kam Fow (resigned on 22 May 2013)	50	–	–	50
Mr. Andrew Ngan	80	388	15	483
Mr. Leung Shu Yin, William	96	–	–	96
Mr. Lo Hang Fong	96	–	–	96
Mr. Liu Tieh Ching, Brandon, *JP*	120	–	–	120
Total	442	6,305	78	6,825

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For the year ended 31 December 2014

Madam Ngan Po Ling, Pauline, is also the chief executive of the Group and her remunerations disclosed above include those for services rendered by her as the chief executive.

No director waived any emoluments in respect of the years ended 31 December 2013 and 2014.

12. FIVE HIGHEST PAID EMPLOYEES

The five highest paid individuals included two (2013: two) directors, details of whose remuneration are set out in note 11. The details of the emoluments of the remaining three (2013: three) highest paid individuals are as follows:

	2014 **HK$'000**	2013 HK$'000
Salaries and allowances	**7,477**	7,046
Discretionary bonuses	**490**	250
Share-based payments	**–**	40
Contributions to retirement scheme	**17**	15
	7,984	7,351

The emoluments of these three (2013: three) employee are within the following bands:

	2014	2013
Nil – HK$1,000,000	**–**	–
HK$1,000,001 – HK$1,500,000	**–**	–
HK$1,500,001 – HK$2,000,000	**1**	2
HK$2,000,001 – HK$2,500,000	**1**	–
HK$2,500,001 – HK$3,000,000	**–**	–
HK$3,000,001 – HK$3,500,000	**–**	–
HK$3,500,001 – HK$4,000,000	**–**	1
HK$4,000,001 – HK$4,500,000	**1**	–

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13. INCOME TAX EXPENSE

	2014	2013
	HK$'000	HK$'000
Hong Kong profits tax		
– Current year	**2,614**	1,030
– Over-provision in prior years	**(998)**	(319)
	1,616	711
Overseas tax		
– Current year	**3,581**	4,887
– Under-provision in prior years	**697**	–
	5,894	5,598
Deferred income tax *(note 24)*	**(362)**	(1,605)
	5,532	3,993

Hong Kong profits tax has been provided at the rate of 16.5% (2013: 16.5%) on the estimated assessable profits for the year ended 31 December 2014.

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:

	2014	2013
	HK$'000	HK$'000
Profit before income tax	**35,952**	10,211
Calculated at a taxation rate of 16.5% (2013: 16.5%)	**5,932**	1,685
Effect of different taxation rates in other countries	**745**	748
Expenses not deductible for tax purposes	**719**	4,046
Income not subject to tax	**(5,440)**	(5,627)
Tax losses for which no deferred income tax assets was recognised	**5,038**	5,455
Recognition of previously unrecognised tax losses	**(974)**	(833)
Net over-provision in prior years	**(301)**	(319)
Temporary differences for which no deferred income tax asset was recognised	**(346)**	(1,498)
Others	**159**	336
Income tax expense	**5,532**	3,993

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14. PROFIT/(LOSS) ATTRIBUTABLE TO OWNERS OF THE COMPANY

The profit attributable to owners of the Company dealt with in the financial statements of the Company for the year amounted to HK$30,970,000 (2013: loss of HK$18,136,000).

15. EARNINGS PER SHARE

(a) Basic

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the year.

	2014	2013
Profit attributable to owners of the Company (HK$'000)	**33,042**	7,366
Weighted average number of ordinary shares in issue	**398,583,284**	398,583,284

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all outstanding share options. A calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming exercise of the share options.

	2014	2013
Profit attributable to owners of the Company (HK$'000)	**33,042**	7,366
Weighted average number of ordinary shares in issue	**398,583,284**	398,583,284
Adjustment for share options	**244,417**	152,747
Weighted average number of ordinary shares for diluted earnings per share	**398,827,701**	398,736,031
Diluted earnings per share (HK cent)	**8.3**	1.8

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16. DIVIDENDS

A final dividend in respect of the year ended 31 December 2014 of 2 HK cents per share, amounting to a total dividend of HK$7,972,000, is to be proposed at the upcoming annual general meeting. These financial statements do not reflect this dividend payable. The amount of proposed final dividend for 2014 was based on 398,583,284 (2013: 398,583,284) shares in issue as at 31 December 2014.

	2014	2013
	HK$'000	HK$'000
Interim dividend of 1 HK cent (2013: 1 HK cent) per share	**3,986**	3,986
Proposed final dividend of 2 HK cents (2013: 1 HK cent) per share	**7,972**	3,986
	11,958	7,972

The aggregate amounts of the dividends paid and proposed during 2013 and 2014 have been disclosed in the consolidated income statement in accordance with the Hong Kong Companies Ordinance.

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17. PROPERTY, PLANT AND EQUIPMENT – GROUP

	Construction in progress HK$'000	Land and buildings HK$'000	Furniture and equipment HK$'000	Leasehold improvements HK$'000	Machinery HK$'000	Motor vehicles HK$'000	Total HK$'000
Year ended 31 December 2013							
Opening net book amount	–	17,391	5,281	10,376	58,039	2,715	93,802
Acquisition of a subsidiary	9,009	14,369	1,551	–	4,234	524	29,687
Additions	10,930	7,982	3,849	2,880	1,121	780	27,542
Disposals	–	–	(149)	(132)	–	(166)	(447)
Impairment	–	(606)	(339)	(810)	(204)	(401)	(2,360)
Depreciation	–	(2,887)	(2,278)	(5,017)	(14,066)	(967)	(25,215)
Exchange differences	351	559	15	194	1,846	66	3,031
Closing net book amount	20,290	36,808	7,930	7,491	50,970	2,551	126,040
At 31 December 2013							
Cost	20,290	62,363	47,446	40,104	215,695	13,237	399,135
Accumulated depreciation and impairment	–	(25,555)	(39,516)	(32,613)	(164,725)	(10,686)	(273,095)
Net book amount	20,290	36,808	7,930	7,491	50,970	2,551	126,040
Year ended 31 December 2014							
Opening net book amount	20,290	36,808	7,930	7,491	50,970	2,551	126,040
Transfer to investment properties	–	(15,120)	–	–	–	–	(15,120)
Transfer upon completion	(18,774)	18,774	–	–	–	–	–
Additions	–	5,563	12,278	3,145	24,260	76	45,322
Disposals	–	–	(96)	–	–	(29)	(125)
Depreciation	–	(1,900)	(3,513)	(5,112)	(14,048)	(730)	(25,303)
Exchange differences	–	–	(27)	(78)	(919)	(5)	(1,029)
Closing net book amount	1,516	44,125	16,572	5,446	60,263	1,863	129,785
At 31 December 2014							
Cost	1,516	47,582	59,149	42,677	235,222	13,028	399,174
Accumulated depreciation and impairment	–	(3,457)	(42,577)	(37,231)	(174,959)	(11,165)	(269,389)
Net book amount	1,516	44,125	16,572	5,446	60,263	1,863	129,785

Depreciation expense of HK$17,309,000 (2013: HK$16,941,000) has been charged in cost of sales, HK$4,165,000 (2013: HK$4,285,000) in selling and distribution costs and HK$3,829,000 (2013: HK$3,989,000) in administration expenses.

The Group's land is freehold and located outside Hong Kong.

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18. INVESTMENT PROPERTIES – Group

	2014 HK$'000	2013 HK$'000
At fair value		
Opening balance at 1 January	12,889	–
Additions	–	12,889
Transfer from property, plant and equipment and land use rights	15,435	–
Revaluation surplus upon transfer of buildings and land use rights to investment properties	10,723	–
Exchange differences	(283)	–
Closing balance at 31 December	38,764	12,889

The valuation of the investment properties is based on the valuation results carried out by independent professionally qualified valuer, Stirling Appraisals Limited, who holds a recognised relevant professional qualification and has recent experience in the locations and segments of the investment properties valued.

The Group's investment properties of residential units in USA and PRC and the production facilities in the PRC are classified as level 3 fair value measurements as at 31 December 2013 and as at 31 December 2014 which included significant unobservable inputs in the fair value measurement.

The Group's policy is to recognise transfers into and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer. There were no transfers among levels 1, 2 and 3 during the year.

For all investment properties, their current use equates to the highest and best use.

The Group's finance department reviews the valuations performed by the independent valuers for financial reporting purposes. This team reports directly to the chief financial officer and group senior management for discussions in relation to the valuation processes and the reasonableness of the valuation results.

The valuation of the residential units in USA and in the PRC was determined using the sale comparison approach. Sales prices of comparable properties in close proximity are adjusted for differences in key attributes such as rental value, time, location, size and other relevant factors. The most significant input into this valuation approach is the rental value.

The valuation of the production facilities in the PRC was determined using the income approach. The potential rent of the property (with reference to current market rent) of which the Group is entitled to receive for the residual term of the lease of property is capitalised. The most significant impact into this valuation approach is the rental value.

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Key unobservable inputs used in the level 3 valuation of the investment properties is the prevailing market rent. Prevailing market rents are based on lettings of the properties within the subject properties and other comparable properties. The lower the rents, the lower the fair value.

19. LAND USE RIGHTS – GROUP

	2014 HK$'000	2013 HK$'000
Opening net book amount	**402**	545
Transfer to investment properties	**(315)**	–
Amortisation	**(31)**	(160)
Exchange difference	**(56)**	17
Closing net book amount	**–**	402
Cost	**–**	3,235
Accumulated amortisation	**–**	(2,833)
Net book amount	**–**	402

The land is situated in the PRC under medium-term land use rights of 20 years up to 2016. Amortisation of land use rights has been charged in administration expenses.

20. INTERESTS IN SUBSIDIARIES – COMPANY

	2014 HK$'000	2013 HK$'000
Unlisted shares, at cost	**99,631**	99,631
Due from subsidiaries *(note (i))*	**372,781**	350,159
	472,412	449,790

Notes:

(i) The amounts due from subsidiaries represent advances by the Company to the respective subsidiaries which are equity in nature 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 41.

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21. GOODWILL – GROUP

	2014 HK$'000	2013 HK$'000
Opening net book amount	**33,798**	31,342
Adjustment on provisional goodwill	**–**	2,456
Closing net book amount	**33,798**	33,798
Cost	**38,756**	38,756
Accumulated impairment	**(4,958)**	(4,958)
Net book amount	**33,798**	33,798

The carrying amount of goodwill, net of impairment loss, is allocated to the following cash generating units ("CGU"):

	2014 HK$'000	2013 HK$'000
Trading Business – H3	**22,488**	22,488
Trading Business – SDHC	**11,310**	11,310
	33,798	33,798

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below.

The key assumptions used in value-in-use calculations are as follows:

	2014 Trading Business	2013 Trading Business
Growth rate	**2%**	2%
Discount rate	**16%**	16%

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The budgeted sales and gross margin of the CGU's, 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 result in impairment of goodwill.

There is no impairment of goodwill on the trading business for the year ended 31 December 2014 based on the impairment assessment performed.

22. OTHER INTANGIBLE ASSETS – GROUP

	Trademark	Licensing rights	Acquired customer relationship	Total
	HK$'000	HK$'000	HK$'000	HK$'000
Year ended 31 December 2013				
Opening net book amount	6,495	19,306	14,500	40,301
Additions	–	5,263	–	5,263
Write off	–	(1,778)	–	(1,778)
Amortisation	(1,083)	(12,696)	(1,451)	(15,230)
Exchange difference	–	219	–	219
Closing net book amount	5,412	10,314	13,049	28,775
At 31 December 2013				
Cost	6,495	18,285	15,083	39,863
Accumulated amortisation	(1,083)	(7,971)	(2,034)	(11,088)
Net book amount	5,412	10,314	13,049	28,775
Year ended 31 December 2014				
Opening net book amount	5,412	10,314	13,049	28,775
Additions	–	1,349	–	1,349
Amortisation	(1,019)	(5,946)	(1,566)	(8,531)
Closing net book amount	4,393	5,717	11,483	21,593
At 31 December 2014				
Cost	6,495	19,153	15,083	40,731
Accumulated amortisation	(2,102)	(13,436)	(3,600)	(19,138)
Net book amount	4,393	5,717	11,483	21,593

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23. AVAILABLE-FOR-SALE FINANCIAL ASSETS – GROUP

	2014 **HK$'000**	2013 HK$'000
Opening balance at 1 January	**222**	–
Additions	**–**	222
Exchange differences	**(4)**	–
Closing balance at 31 December	**218**	222

Available-for-sale financial assets represent unlisted equity investment in an entity incorporated in the PRC and are denominated in Renminbi.

24. DEFERRED INCOME TAXATION – GROUP

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

	Assets		**Liabilities**	
	2014 **HK$'000**	2013 HK$'000	**2014** **HK$'000**	2013 HK$'000
Tax losses	**1,307**	833	**–**	–
Depreciation allowances	**(357)**	(303)	**–**	–
Provisions for inventories and trade receivables	**1,049**	1,600	**–**	–
Revaluation surplus upon transfer of land use rights and buildings to investment properties	**–**	–	**(2,681)**	–
Others	**1,386**	893	**–**	–
Deferred income tax assets	**3,385**	3,023	**(2,681)**	–

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The movement for the year in the Group's net deferred income tax assets is as follows:

	2014	2013
	HK$'000	HK$'000
Net deferred income tax assets at 1 January	**3,023**	1,416
Exchange differences	**–**	2
Credited to income statement *(note 13)*	**362**	1,605
Tax charge debited to other comprehensive income	**(2,681)**	–
Net deferred income tax assets at 31 December	**704**	3,023

The movement in deferred income tax assets and liabilities during the year is as follows:

Deferred income tax assets/(liabilities)	**Tax losses**	**Depreciation allowances**	**Provisions for inventories and trade receivables**	**Revaluation surplus on investment properties**	**Others**	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2013	–	(204)	1,335	–	285	1,416
Credited/(charged) to the income statement	833	(99)	265	–	606	1,605
Exchange differences	–	–	–	–	2	2
At 31 December 2013	833	(303)	1,600	–	893	3,023
Credited/(charged) to the income statement	474	(54)	(551)	–	493	362
Tax charge debited to other comprehensive income	–	–	–	(2,681)	–	(2,681)
At 31 December 2014	1,307	(357)	1,049	(2,681)	1,386	704

The Group did not recognise deferred income tax assets in respect of cumulative tax losses of HK$41,594,000 (2013: HK$54,330,000) 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. Included in unused tax losses are losses of approximately HK$23,069,000 (2013: HK$24,970,000) that will expire in 1 year to 6 years.

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25. INVENTORIES – GROUP

	2014 HK$'000	2013 HK$'000
Raw materials	**89,241**	57,086
Work-in-progress	**22,618**	30,142
Finished goods	**89,594**	76,483
	201,453	163,711

The cost of inventories recognised as expense and included in cost of sales amounted to HK$425,549,000 (2013: HK$400,135,000).

Provision for impairment on inventories of HK$350,000 has been charged to cost of sales (2013: HK$12,940,000).

26. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2014 HK$'000	2013 HK$'000	**2014 HK$'000**	2013 HK$'000
Trade and bills receivables	**144,735**	142,214	**–**	–
Deposits, prepayments and other receivables	**56,588**	68,302	**199**	262
	201,323	210,516	**199**	262
Less: provision for impairment	**(7,671)**	(7,475)	**–**	–
Less: provision for sales return	**(2,293)**	(2,293)	**–**	–
	191,359	200,748	**199**	262
Less: non-current portion of other receivables	**(14,654)**	(21,157)	**–**	–
Current portion	**176,705**	179,591	**199**	262

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

(a) The majority of the Group's sales are with credit terms of 30-60 days. The ageing analysis of trade and bills receivables at the balance sheet date is as follows:

	2014	2013
	HK$'000	HK$'000
0 – 30 days	**67,105**	86,431
31 – 60 days	**34,992**	31,545
61 – 90 days	**11,521**	8,259
Over 90 days	**31,117**	15,979
	144,735	142,214

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

	2014	2013
	HK$'000	HK$'000
1 – 30 days past due	**15,856**	16,217
31 – 60 days past due	**3,799**	4,496
Over 60 days past due	**22,522**	9,812
	42,177	30,525

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.

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(c) Included in other receivables are notes receivable from two customers totalling HK$16,834,000 (2013: HK$18,996,000).

A note receivable of HK$1,274,000 (2013: HK$3,436,000) is interest bearing at 7% per annum and is repayable by 26 monthly instalments up to July 2015. The note is secured by a second mortgage over a property. As at 31 December 2014, provision was made against the note receivable to the extent of HK$1,274,000 (2013: HK$3,436,000).

Another note receivable of HK$15,560,000 (2013: HK$15,560,000) is interest bearing at 5% per annum and is repayable by 12 quarterly instalments from January 2015 to October 2017. The note is secured by all the assets of the customer but the Group's interest in the collaterals is subordinated to the customer's major lender. The customer has also committed to place purchase orders with the Group with a minimum amount no less than US$16 million each year for three years or the duration of the loan, whichever is shorter.

(d) As of 31 December 2014, trade and other receivables of HK$7,671,000 (2013: HK$7,475,000) 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:

	2014	2013
	HK$'000	HK$'000
At 1 January	**7,475**	8,178
Impairment loss recognised	**1,043**	90
Impairment loss written back	**(840)**	(105)
Uncollectible amounts written off	**–**	(698)
Exchange difference	**(7)**	10
At 31 December	**7,671**	7,475

The Group does not hold any collateral over the impaired receivables other than the balance as described in note (c) above.

Notes to the Consolidated Financial Statements

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27. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS – GROUP

	2014	2013
	HK$'000	HK$'000
Listed equity investments in Hong Kong	**2,563**	2,657
	2,563	2,657

The fair value of all equity investments is based on their convertible prices in an active market.

28. CASH AND CASH EQUIVALENTS

	Group		**Company**	
	2014	2013	**2014**	2013
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash at bank and on hand	**107,110**	129,583	**1,848**	1,140
Short-term bank deposits	**16,752**	16,626	**–**	–
Cash and cash equivalents	**123,862**	146,209	**1,848**	1,140
Pledged bank deposits	**1,750**	1,750	**–**	–

The effective interest rate on short-term bank deposits was 0.61% (2013: 2.55%) per annum; these deposits have an average maturity of 90 days as at 31 December 2014 (2013: 90 days).

Bank deposits bear interest at floating rate and are pledged as guarantee for a licensing right contract.

Notes to the Consolidated Financial Statements

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29. SHARE CAPITAL

	Group and Company	
	Number of shares of HK$0.10 each	HK$'000
Authorised:		
At 1 January 2013, 31 December 2013 and 31 December 2014	1,000,000,000	100,000
Issued and fully paid:		
At 31 December 2013 and 2014	398,583,284	39,858

30. EQUITY SETTLED SHARE-BASED PAYMENT TRANSACTIONS

(1) On 23 May 2002, a share option scheme (the "Old Scheme") was adopted whereby the Board of Directors may, at their absolute discretion, grant options to any eligible employee including directors of the Company or any of its subsidiaries or any investee entity, any suppliers of goods or services to any member of the Group or any investee entity, or any customer of the Group or any invested entity to subscribe for shares in the Company. The total number of shares which may be issued upon exercise of all options to be granted under the Old 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 Old 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.

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On 29 December 2011, 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 employee, including directors of the Company or any of its subsidiaries or any investee entity, any suppliers of goods or services to any member of the Group or any investee entity, or any customer of the Group or any investee entity to subscribe for shares in the Company.

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 39,858,328, being 10% of the shares in issue of the Company as at 29 December 2011, the date of adoption of the New Scheme.

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 options granted were vested one year from the date of grant and generally exercisable within a period of two to ten years.

(a) Movements in share options

	2014		2013	
	Number of share options	**Weighted average exercise price HK$**	Number of share options	Weighted average exercise price HK$
At 1 January and 31 December	**20,670,000**	**0.928**	20,670,000	0.928
Option vested at 31 December	**20,130,000**	**0.929**	20,040,000	0.929

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At the balance sheet date, the weighted average remaining contractual life of the Company's share options was 5 years (2013: 6 years).

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

		Number of share options	
Expiry date	**Exercise price**	**2014**	2013
	HK$	**'000**	'000
10 June 2018	1.190	**1,000**	1,000
22 June 2019	0.946	**14,770**	14,770
7 November 2020	0.920	**900**	900
29 December 2021	0.800	**4,000**	4,000
		20,670	20,670

(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 in 2011 was measured based on a Black-Scholes pricing model. The inputs into the model were as follows:

Weighted average share price	**HK$0.80**
Weighted average exercise price	**HK$0.80**
Expected volatility	**21.3%**
Expected life	**10 years**
Risk free rate	**0.5%**
Expected dividend yield	**3.5%**

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$36,000 of share-based payment expense has been included in the consolidated income statement for 2014 (2013: HK$128,000) and a corresponding amount has been credited to share based compensation reserve.

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31. 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 2013	160,230	99,431	6,358	171,368	437,387
Loss for the year	–	–	–	(18,136)	(18,136)
2012 final dividend paid	–	–	–	(7,972)	(7,972)
2013 interim dividend paid	–	–	–	(3,986)	(3,986)
Equity settled share-based transactions	–	–	128	–	128
At 31 December 2013	160,230	99,431	6,486	141,274	407,421
Representing:					
2013 proposed final dividend				3,986	
Other retained earnings				137,288	
				141,274	
At 1 January 2014	160,230	99,431	6,486	141,274	407,421
Profit for the year	–	–	–	30,970	30,970
2013 final dividend paid	–	–	–	(3,986)	(3,986)
2014 interim dividend paid	–	–	–	(3,986)	(3,986)
Equity settled share-based transactions	–	–	36	–	36
At 31 December 2014	160,230	99,431	6,522	164,272	430,455
Representing:					
2014 proposed final dividend				7,972	
Other retained earnings				156,300	
				164,272	

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The contributed surplus of the Company represents the difference between the combined net asset value of the subsidiaries acquired over the nominal value of the share capital of the Company issued in exchange therefor pursuant to a Group reorganisation in 2000.

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.

32. TRADE AND OTHER PAYABLES

	Group		Company	
	2014	2013	**2014**	2013
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade and bills payables	**76,782**	79,171	**–**	–
Accrued charges and other payables	**93,042**	96,543	**4,146**	3,913
	169,824	175,714	**4,146**	3,913
Less: other non-current payables	**(1,112)**	(4,695)	**–**	–
Current portion	**168,712**	171,019	**4,146**	3,913

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

	2014	2013
	HK$'000	HK$'000
0 – 30 days	**40,229**	41,587
31 – 60 days	**21,382**	27,057
61 – 90 days	**7,420**	4,656
Over 90 days	**7,751**	5,871
	76,782	79,171

33. AMOUNTS DUE TO RELATED PARTIES – GROUP

The amounts due to related parties are due to non-controlling shareholders of certain subsidiaries. The amounts are unsecured and repayable on demand. Of the total balance, HK$548,000 (2013: HK$518,000) is interest bearing at 5% (2013: 5%) per annum; the remaining balance is non-interest bearing.

34. BORROWINGS – GROUP

	2014 **HK$'000**	2013 HK$'000
Current:		
Bank borrowings	**32,890**	27,000
Total borrowings	**32,890**	27,000

The weighted average effective interest rate per annum for bank borrowings was 2.21% (2013: 2.30%).

The bank borrowings as at 31 December 2013 and 2014 are unsecured.

The carrying amounts of the bank borrowings approximate their fair value.

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35. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

	2014 HK$'000	2013 HK$'000
Profit before income tax	**35,952**	10,211
Interest income	**(1,959)**	(1,976)
Interest expenses	**1,256**	3,177
Loss on disposal of property, plant and equipment	**125**	447
Net loss from financial assets at fair value through profit or loss and derivative financial instruments	**136**	850
Gain on disposal of a subsidiary	**–**	(1,626)
Depreciation and amortisation	**33,865**	40,605
Provision for impairment of inventories	**350**	12,940
Provision for impairment of property, plant and equipment	**–**	2,360
Share-based payment expenses	**36**	128
Net provision for impairment of trade and other receivables	**203**	(15)
Provision for post-employment benefits	**17**	73
Changes in working capital:		
Inventories	**(38,092)**	(9,755)
Trade and other receivables	**9,187**	25,950
Trade and other payables	**(7,240)**	(13,165)
Amounts due (to)/from related parties	**(942)**	2,689
Cash generated from operations	**32,894**	72,893

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36. ACQUISITION OF A SUBSIDIARY

Acquisition of Unimas Sportswear Ltd.

On 13 March 2013, the Group acquired 80% equity interest in Unimas Sportswear Ltd. ("Unimas"). Unimas principally operates a factory in Bangladesh for the production of headwear products.

According to the original sales and purchase agreement signed, the aggregate consideration for the acquisition amounted to US$1,720,000 which was to be settled in the following manner: i) US$1,290,000 in form of cash, and ii) US$430,000 by way of issuance and allotment of the Company's ordinary shares at the price of HK$1.03 per share, for a total of 3,247,960 shares. A supplemental sales and purchase agreement was signed with the vendor on 20 December 2013 that the consideration is to be wholly settled in the form of cash. Furthermore, the consideration has been adjusted to US$658,000 (HK$5,122,000) based on certain adjustments as provided in the original and supplemental sales and purchase agreements.

The following table summarises the consideration paid or payable for Unimas, and the fair value of assets acquired and liabilities assumed at the acquisition date:

	HK$'000
Consideration:	
– Cash	5,122
Total consideration	5,122
Recognised amounts of identifiable assets acquired and liabilities assumed	
Property, plant and equipment	29,687
Inventories	7,795
Trade and other receivables	220
Bank balances and cash	23
Trade and other payables	(6,762)
Advances from a fellow subsidiary	(24,561)
Total identifiable net assets	6,402
Share of identifiable net assets by the non-controlling interest	(1,280)
	5,122

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

	HK$'000
Consideration paid in cash	(5,122)
Bank balances and cash acquired	23
Net cash outflow	(5,099)

Acquisition-related costs of HK$208,000 have been changed to administrative expenses in the consolidated income statement for the year ended 31 December 2013.

The acquired business contributed revenue of HK$21,908,000 and net loss of HK$6,687,000 to the Group for the period from 13 March 2013 to 31 December 2013. If the acquisition had occurred on 1 January 2013, consolidated revenue and consolidated profit for the year ended 31 December 2013 would have been HK$923,324,000 and HK$1,275,000, respectively.

37. OPERATING LEASE COMMITMENTS

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

	The Group	
	2014	2013
	HK$'000	HK$'000
Within one year	**25,300**	21,831
In the second to fifth years inclusive	**11,791**	14,641
Over five year	**–**	18,161
	37,091	54,633

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.

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38. CAPITAL COMMITMENTS

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

	The Group	
	2014	2013
	HK$'000	HK$'000
Authorised but not contracted for		
– Manufacturing business	**9,000**	23,340
– Trading business	**1,000**	1,000
– Retail business	**2,000**	2,000
	12,000	26,340

39. FINANCIAL GUARANTEE

At 31 December 2014, the Company had executed corporate guarantees of HK$235,300,000 (2013: HK$232,300,000) to secure the general banking facilities granted to subsidiaries. Facilities utilised by the subsidiaries covered by these guarantees amounted to HK$37,919,000 as at 31 December 2014 (2013: HK$30,771,000).

40. 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.

(a) Sale and purchase of goods and services

	2014	2013
	HK$'000	HK$'000
Sales of goods to affiliated companies of a shareholder	**295,072**	305,140
Rental paid in respect of office premises to directors and a company controlled by a director	**1,428**	960
Royalty income from a related company	**900**	354
Claim charges paid to affiliated companies of a shareholder	**10,370**	1,256
License fee paid to an affiliated company of a shareholder	**796**	876

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(b) Year-end balances arising from sale of goods and services

	2014	2013
	HK$'000	HK$'000
Trade receivables from affiliated companies of a shareholder	**63,861**	51,546

(c) Key management personnel remuneration

Remuneration for the Group's key management personnel, including amounts paid to the Company's directors as disclosed in note 11 and certain of the highest paid employees as disclosed in note 12, is as follows:

	2014	2013
	HK$'000	HK$'000
Short-term employee benefits	**24,526**	22,185
Share-based payments	**–**	81
Retirement scheme contributions	**167**	153
	24,693	22,419

41. 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%	Investment holding
Dongguan Mainland Headwear Co., Ltd.	PRC *(note)*	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
Guang Zhou Jian Hao Headwear Manufacturing Ltd.	PRC *(note)*	PRC	RMB45,777,729	100%	Investment holding

Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

Name of company	Place of incorporation/ registration	Principal place of operation	Nominal value of issued ordinary share capital/ registered capital	Interest held	Principal activities
H3 Sportgear LLC	USA	USA	US$3,649,700	85%	Trading of headwear and apparel
Hatworld (Hong Kong) Ltd.	Hong Kong	Hong Kong	HK$1	100%	Retailing
Hatworld (Shenzhen) Ltd.	PRC *(note)*	PRC	HK$8,500,000	100%	Retailing
Mainland Sewing Headwear Manufacturing Limited	Hong Kong	Hong Kong	HK$10,000	100%	Manufacture and sale of headwear
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
San Diego Hat Company	USA	USA	US$10,000	100%	Trading of headwear and accessories
Top Super Sportswear (Shenzhen) Co., Ltd./Top Super Sports (Shenzhen) Ltd.	PRC *(note)*	PRC	HK$52,000,000	100%	Manufacture and sale of headwear
United Crown International Macao Commercial Offshore Ltd.	Macau	Macau	MOP$100,000	100%	Trading of headwear and provision of digitizing services
Unimas Sportswear Ltd.	Bangladesh	Bangladesh	BDT84,109,700	80%	Manufacture and sale of headwear
Wintax Caps (Shenzhen) Co., Ltd.	PRC *(note)*	PRC	HK$20,000,000	100%	Manufacture and sale of headwear
上海成顏豐商貿有限公司	PRC *(note)*	PRC	RMB10,000,000	75%	Retailing

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

Note:

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

Financial Summary

Results	Year ended 31 December				
	2010 HK$'000	2011 HK$'000	2012 HK$'000	2013 HK$'000	**2014** **HK$'000**
Turnover	678,633	751,017	767,152	922,625	**917,533**
Gross profit	188,547	196,425	201,784	243,810	**249,753**
Profit/(loss) before income tax	11,231	25,252	12,474	10,211	**35,952**
Profit/(loss) for the year attributable to:	5,559	20,888	7,633	6,218	**30,420**
Owners of the Company	5,670	21,202	8,659	7,366	**33,042**
Non-controlling interests	(111)	(314)	(1,026)	(1,148)	**(2,622)**
Basic earnings/(loss) per share (HK cents)	1.5	5.3	2.2	1.8	**8.3**
Dividends	11,951	15,943	15,944	7,972	**11,958**

Assets and liabilities	As at 31 December				
	2010 HK$'000	2011 HK$'000	2012 HK$'000	2013 HK$'000	**2014** **HK$'000**
Non-current assets	131,668	176,495	194,424	228,056	**242,197**
Current assets	479,478	485,417	517,487	492,210	**506,333**
Current liabilities	(120,940)	(140,323)	(212,487)	(225,172)	**(230,359)**
Net current assets	358,538	345,094	305,000	267,038	**275,974**
Non-current liabilities	(889)	(22,552)	(8,214)	(5,135)	**(4,250)**
Net assets	489,317	499,037	491,210	489,959	**513,921**

Notes: The information of the financial summary for two years ended 31 December 2013 and 2014 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.