1. PRINCIPAL ACCOUNTING POLICIES

(a) Statement of compliance

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

The HKICPA has issued a number of new revised HKFRSs that are effective or available for early adoption for accounting periods beginning on or after 1 January 2006. Information on the changes in accounting policies resulting from initial application of these new and revised HKFRSs for the current and prior accounting years reflected in these financial statements is provided in note 2.

The Group has not applied any new standards or interpretations that have been issued and are not yet effective for the current accounting year. The Group has already commenced an assessment of the impact of these new standards or interpretations but is not yet in a position to state whether they would have a significant impact on its results of operations and financial position.

(b) Basis of preparation

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

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

(c) Subsidiaries and minority interests

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

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

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

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

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

(d) Goodwill

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

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

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

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

(e) Property, plant and equipment

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

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

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

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

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

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

(f) Intangibles

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

Both the period and method of amortisation are reviewed annually.

(g) Impairment of assets

(i) Impairment of trade and other receivables

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

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

(ii) Impairment of other assets

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

– property, plant and equipment;

– prepaid premium on leasehold land held for own use;

– Intangibles;

– investments in subsidiaries;

– goodwill.

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

– *Calculation of recoverable amount*

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

– *Recognition of impairment losses*

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

– *Reversals of impairment losses*

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

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

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

(i) Inventories

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

(j) Trade and other receivables

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

(k) Trade and other payables

Trade and other payables are initially recognised at fair value and thereafter stated at amortised cost.

(l) Short term investments

Financial assets carried at fair value through profit and loss are classified as short term investments under current assets and are initially stated at fair value. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised in the income statement.

(m) Cash equivalents

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

(n) Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

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

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

(o) Financial guarantees issued, provisions and contingent liabilities

(i) Financial guarantees issued

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

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

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

(ii) Other provisions and contingent liabilities

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

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

(p) Taxation

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

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

(q) Foreign currencies

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

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

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

(r) Dividends

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

(s) Related parties

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

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

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

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

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

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

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

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

(t) Retirement benefit costs

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

(u) Share based payments

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

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

(v) Revenue recognition

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

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

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

(w) Segment reporting

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

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

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

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

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

(x) Discontinued operations

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

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

2. CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued certain new and revised HKFRSs that are effective for the current accounting period of the Group.

Note 1 summarises the accounting policies of the Group after the adoption of these new and revised HKFRSs to the extent that they are relevant to the Group. The following sets out the information on the significant changes in accounting policy for the current and prior accounting periods reflected in these financial statements.

(a) Financial guarantees issued (Amendments to HKAS 39, Financial instruments: Recognition and measurement: Financial guarantee contracts)

In prior years, financial guarantees issued by the Group were disclosed as contingent liabilities in accordance with HKFRS 4, Insurance contracts and HKAS 37, Provisions, contingent liabilities and contingent assets. No provisions were made in respect of these guarantees unless it was more likely than not that the guarantee would be called upon.

With effect from 1 January 2006, in order to comply with the amendments to HKAS 39 in respect of financial guarantee contracts, the Group has changed its accounting policy for financial guarantees issued. Under the new policy, financial guarantees issued are accounted for as financial liabilities under HKAS 39 and measured initially at fair value, where the fair value can be reliably measured. Subsequently, they are measured at the higher of the amount initially recognised, less accumulated amortisation, and the amount of the provision, if any, that should be recognised in accordance with HKAS 37. Further details of the new policy are set out in note 1(o)(i).

The new accounting policy has no significant effect for the opening balances at 1 January 2005 and 2006 and for the closing balances at 31 December 2005 and 2006 of the Company and the Group. Details of the financial guarantee currently issued by the Company are set out in note 39.

3. TURNOVER AND REVENUE

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

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

4. OTHER INCOME

	The Group	
	2006	2005
	HK$'000	HK$'000
Net gain from short term investments	**4,614**	5,474
Interest income	**1,928**	644
Sundry income	**812**	916
Write-back of sundry payables	**–**	3,709
Gain on disposal of property, plant and equipment	**–**	695
	7,354	11,438

5. BUSINESS AND GEOGRAPHICAL SEGMENTS

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

(a) Business segments

The Group comprises the following main business segments:

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

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

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

	Manufacturing		Trading (Continuing operation)		Trading (Discontinued operation)		Retail		Inter-segment elimination		Consolidation	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Turnover from external customers	**344,299**	263,138	**61,806**	57,376	**262,800**	235,937	**73,687**	30,266	**–**	–	**742,592**	586,717
Inter-segment turnover	**120,802**	105,866	**–**	–	**–**	–	**–**	–	**(120,802)**	(105,866)	**–**	–
	465,101	369,004	**61,806**	57,376	**262,800**	235,937	**73,687**	30,266	**(120,802)**	(105,866)	**742,592**	586,717
Other revenue	**6,555**	6,218	**25**	9	**520**	674	**254**	152	**–**	–	**7,354**	7,053
Total	**471,656**	375,222	**61,831**	57,385	**263,320**	236,611	**73,941**	30,418	**(120,802)**	(105,866)	**749,946**	593,770
Segment result and contribution from operations	**94,377**	94,698	**4,892**	6,228	**(1,160)**	(5,477)	**(13,261)**	(11,598)	**(204)**	–	**84,644**	83,851
Unallocated operating expenses											**(200)**	(1,996)
Profit from operations											**84,444**	81,855
Gain on disposal of assets and liabilities of a subsidiary	**–**	–	**–**	–	**8,047**	–	**–**	–	**–**	–	**8,047**	–
Finance costs											**(208)**	(30)
Taxation											**(8,761)**	(6,153)
Profit for the year											**83,522**	75,672
Depreciation and amortisation	**20,217**	18,507	**111**	46	**851**	1,367	**4,917**	1,605	**–**	–	**26,096**	21,525
Significant non-cash expenses (other than depreciation and amortisation)	**273**	(163)	**–**	1,164	**1,210**	2,079	**–**	–	**–**	–	**1,483**	3,080
Unallocated											**200**	1,996
											1,683	5,076

	Manufacturing		Trading (Continuing operation)		Trading (Discontinued operation)		Retail		Consolidation	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment assets	**450,672**	349,766	**82,039**	13,116	**–**	123,657	**68,491**	52,992	**601,202**	539,531
Unallocated assets									**16,740**	10,262
Total assets									**617,942**	549,793
Segment liabilities	**77,635**	51,998	**8,411**	10,067	**–**	14,537	**15,616**	7,219	**101,662**	83,821
Capital expenditure incurred during the year	**16,828**	6,894	**161**	304	**801**	661	**6,586**	7,270	**24,376**	15,129

(b) Geographical segments

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

(i) Segment turnover

	2006	2005
	HK$'000	HK$'000
USA	**558,996**	473,911
Europe	**93,257**	71,902
HK and the PRC	**80,301**	33,905
Others	**10,038**	6,999
Total	**742,592**	586,717

(ii) Segment assets and capital expenditure

	Hong Kong, Macau and PRC		USA and Europe		Unallocated		Consolidation	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment assets	**519,163**	402,758	**82,039**	134,673	**16,740**	10,262	**617,942**	547,693
Capital expenditure incurred during the year	**23,414**	14,164	**962**	965	**–**	–	**24,376**	15,129

6. DISCONTINUED OPERATION

On 31 December 2006, the Group disposed of the business and related assets and liabilities of DPM. The management considered the operation of DPM as a separate major line of business distinguished from the rest of the Group. Accordingly, the results of DPM for the year and the gain on disposal have been classified as discontinued operation.

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

	2006 **HK$'000**	2005 HK$'000
Loss on discontinued operation – Trading and distribution business in the US market	**(1,666)**	(1,258)
Gain on disposal of assets and liabilities of a subsidiary, net of tax (note 35)	**8,047**	–
	6,381	(1,258)

The results of discontinued operation from 1 January 2006 to 31 December 2006 and for the year 2005 which have been included in the consolidated income statement were as follows:

	2006	2005
	HK$'000	HK$'000
Turnover	**262,800**	235,937
Cost of sales	**(201,391)**	(179,286)
Gross profit	**61,409**	56,651
Other income	**520**	4,364
Administration expenses	**(63,089)**	(66,492)
Loss from operations	**(1,160)**	(5,477)
Finance costs	**(41)**	(25)
Loss before taxation	**(1,201)**	(5,502)
Taxation	**(465)**	4,244
Loss for the year	**(1,666)**	(1,258)

The net assets of the discontinued operation at date of disposal have been presented in note 35 to the financial statements.

The net cash flows of the discontinued operation from 1 January 2006 to 31 December 2006 and for the year 2005 were as follows:

	2006	2005
	HK$'000	HK$'000
Net operating cash inflow/(outflow)	**14,919**	(10,493)
Net investing cash outflow	**(770)**	(568)
Net financing cash inflow/(outflow)	**505**	(147)
Total net cash inflow/(outflow)	**14,654**	(11,208)

7. PROFIT/(LOSS) BEFORE TAXATION

This is stated after charging:

	The Group 2006 HK$'000	The Group 2005 HK$'000
(a) Finance costs		
Interest on bank loans, overdrafts and other borrowings wholly repayable within five years	**208**	28
Finance charges on obligations under finance leases	**–**	2
	208	30
(b) Other items		
Staff costs (including directors' emoluments and retirement benefit costs)	**157,827**	124,499
Cost of inventories	**485,534**	368,922
Auditors' remuneration	**2,088**	1,337
Depreciation	**26,034**	21,525
Amortisation on prepaid premium on leasehold land held for own use under an operating lease	**62**	–
Operating leases in respect of office premises, shops, factories and warehouses	**33,222**	22,362
Provisions for doubtful debts	**1,483**	3,080

8. DIRECTORS' EMOLUMENTS

	The Group 2006 HK$'000	The Group 2005 HK$'000
Fees	**359**	298
Salaries, allowances and benefits in kind	**4,637**	5,727
Discretionary bonuses	**1,000**	1,227
Contributions to retirement scheme	**84**	98
	6,080	7,350

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

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

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Discretionary bonuses HK$'000	Retirement scheme contributions HK$'000	2005 Total HK$'000
Mr. Ngan Hei Keung	–	1,040	–	48	1,088
Madam Ngan Po Ling, Pauline	–	1,602	–	24	1,626
Mr. Ho Hung Chu, Peter	–	2,000	1,000	12	3,012
Mr. David, Stephen Briskie	–	1,085	227	14	1,326
Mr. Leung Shu Yin, William	96	–	–	–	96
Mr. Tse Kam Fow	120	–	–	–	120
Mr. Lo Hang Fong	82	–	–	–	82
Total	298	5,727	1,227	98	7,350

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

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

Mr. David, Stephen Briskie remained as the chief executive officer of the Group's US operation after his resignation as an Executive Director of the Company on 8 July 2005. The remunerations to Mr. Briskie disclosed above represented the remunerations for the period to 8 July 2005.

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

Except as disclosed in note 9, during the year, no emoluments were paid by the Group to the directors or any of the five highest paid employees as an inducement to join or upon joining the Group or as compensation for loss of office.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid individuals included two (2005: three) directors, details of whose remuneration are set out in note 8. The details of the emoluments of the remaining three (2005: two) highest paid individuals are as follows:

	The Group	
	2006	2005
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	**4,720**	3,248
Discretionary bonuses	**2,413**	1,071
Join-in bonus	**1,750**	1,687
Compensation for the loss of office	**1,959**	–
Share-based payments	**–**	47
Contributions to retirement scheme	**–**	27
	10,842	6,080

The emoluments of these three (2005: two) employee are within the following bands:

	2006	2005
	HK$'000	HK$'000
HK$1,500,001 – HK$2,000,000	**–**	1
HK$2,000,001 – HK$2,500,000	**1**	–
HK$3,000,001 – HK$3,500,000	**1**	–
HK$4,500,001 – HK$5,000,000	**1**	1

10. TAXATION

	The Group	
	2006	2005
	HK$'000	HK$'000
Continuing operation:		
Hong Kong Profits Tax (note (i))	**7,100**	7,917
PRC Income Tax (note (ii))	**167**	2,207
Overseas tax (note (iii))	**312**	1,117
Deferred taxation (note 28)	**717**	(844)
	8,296	10,397
Discontinued operation:		
Overseas tax (note (iii))	**–**	–
Deferred taxation (note 28)	**465**	(4,244)
	465	(4,244)
	8,761	6,153

Notes:

(i) Hong Kong Profits Tax has been provided at the rate of 17.5% (2005: 17.5%) on the estimated assessable profits arising in Hong Kong for the year.

(ii) PRC Income Tax has been provided at the preferential income tax rate of 15% applicable to the Group's subsidiaries operating in the Shenzhen Special Economic Zone, the PRC.

(iii) Provisions for the taxation of profits of subsidiaries operating overseas have been calculated on the estimated assessable profits for the year at the rates applicable in the respective jurisdictions and based on prevailing legislation, interpretations and practices in respect thereof.

(iv) Reconciliation of tax expenses

	The Group	
	2006	2005
	HK$'000	HK$'000
Profit before tax	**92,283**	81,825
Calculated at a taxation rate of 17.5% (2005: 17.5%)	**16,150**	14,319
Effect of different taxation rates in other countries	**449**	(864)
Non-deductible expenses	**196**	1,697
Tax exempt revenue	**(11,041)**	(11,161)
Unrecognised tax losses	**2,389**	2,009
Overprovision in prior years	**(292)**	(242)
Others	**910**	395
Tax expenses for the year	**8,761**	6,153

11. PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS

The profit attributable to equity shareholders dealt with in the financial statements of the Company for the year amounted to HK$70,971,000 (2005: HK$68,006,000), including dividends from subsidiaries totaling HK$70,000,000 (2005: HK$70,000,000).

12. DIVIDENDS

	2006	2005
	HK$'000	HK$'000
Interim dividend of 3 HK cents (2005: 2 HK cents) per share	**8,587**	5,724
Proposed final dividend of 11 HK cents (2005: 11 HK cents) per share	**31,662**	31,487
Proposed special dividend of 5 HK cents (2005: nil) per share	**14,392**	–
Proposed bonus issue	**2,878**	–
	57,519	37,211

A final dividend in respect of 2006 of 11 HK cents (2005: 11 HK cents) per share amounting to approximately HK$31,662,000 (2005: HK$31,487,000) and a special dividend of 5 HK cents per share amounting to approximately HK$14,392,000 (2005: nil) have been proposed by the directors after the balance sheet date.

Proposed bonus issue will be made on the basis of one share of HK$0.1 each credited as fully paid for every ten existing shares.

The proposed dividends and bonus issue are not accounted for until it has been approved at the annual general meeting.

13. EARNINGS/(LOSS) PER SHARE

	2006 HK$'000	2005 HK$'000
Earnings for the purposes of basic and diluted earnings per share		
Profit for the year attributable to equity holders of the Company	**86,970**	77,772
Less: (profit)/loss for the year from discontinued operation	**(6,381)**	1,258
Profit for the year from continuing operation	**80,589**	79,030

The basic earnings per share is based on the weighted average number of shares of 286,245,531 (2005: 286,119,136) for the year. The diluted earnings per share is based on 287,417,437 (2005: 287,796,570) shares which is the weighted average number of shares during the year adjusted for the number of dilutive potential shares under the share option schemes.

14. RETIREMENT SCHEMES

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

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

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

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

The US subsidiaries of the Group operate a defined contribution plan (the "Plan") covering substantially all the US employees which is subject to the provisions of the Employee Retirement Income Security Act of 1974 of the US. The Plan custodian is an insurance company and the Plan trustees are two members of management. The eligible US employees may elect to allocate a certain percentage of their compensation to the Plan. The US subsidiaries have the option to contribute funds to the Plan. Upon termination of service, a US employee may elect to receive or defer a lump-sum amount equal to the value of his account.

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

	2006	2005
	HK$'000	HK$'000
Gross retirement schemes contributions	**1,911**	2,012
Less: Forfeited contributions for the year	**–**	–
Net retirement schemes contributions	**1,911**	2,012

As at 31 December 2006, the Group had no significant obligations for long service payments to its employees pursuant to the requirements under the Hong Kong Employment Ordinance, which are unprovided for.

15. PROPERTY, PLANT AND EQUIPMENT

	Furniture and equipment HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Construction in progress HK$'000	Motor vehicles HK$'000	Total HK$'000
The Group						
Cost						
At 1 January 2005	24,412	25,356	128,138	16,542	6,342	200,790
Additions	4,101	5,361	5,116	–	551	15,129
Acquisition of subsidiaries	186	352	–	–	–	538
Transfers	–	–	13,041	(13,041)	–	–
Cost adjustments	–	–	–	(3,501)	–	(3,501)
Exchange differences	190	154	242	–	35	621
Disposals	(33)	–	(6,684)	–	–	(6,717)
At 31 December 2005 and 1 January 2006	28,856	31,223	139,853	–	6,928	206,860
Additions	2,143	5,661	13,389	2,424	759	24,376
Acquisition of subsidiaries	2,336	–	47,898	191	811	51,236
Disposal of assets and liabilities of a subsidiary	(2,504)	(964)	(12,147)	–	–	(15,615)
Exchange differences	521	392	1,761	30	113	2,817
Disposals	(2,869)	(305)	(16)	–	(448)	(3,638)
At 31 December 2006	**28,483**	**36,007**	**190,738**	**2,645**	**8,163**	**266,036**
Accumulated depreciation						
At 1 January 2005	19,115	11,097	47,600	–	1,779	79,591
Charge for the year	2,854	3,429	14,003	–	1,239	21,525
Acquisition of subsidiaries	14	46	–	–	–	60
Exchange differences	150	58	119	–	20	347
Eliminated on disposals	(1)	–	(6,684)	–	–	(6,685)
At 31 December 2005 and 1 January 2006	22,132	14,630	55,038	–	3,038	94,838
Charge for the year	3,171	6,204	15,288	–	1,371	26,034
Acquisition of subsidiaries	1,334	–	22,752	–	628	24,714
Disposal of assets and liabilities of a subsidiary	(2,358)	(777)	(10,762)	–	–	(13,897)
Exchange differences	328	128	843	–	55	1,354
Eliminated on disposals	(2,848)	(305)	(1)	–	(209)	(3,363)
At 31 December 2006	**21,759**	**19,880**	**83,158**	**–**	**4,883**	**129,680**
Net book value						
At 31 December 2006	**6,724**	**16,127**	**107,580**	**2,645**	**3,280**	**136,356**
At 31 December 2005	6,724	16,593	84,815	–	3,890	112,022

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

	HK$'000
The Group	
Cost	
At 1 January and 31 December 2005	–
Acquisition of subsidiaries	2,449
Exchange difference	74
At 31 December 2006	**2,523**
Accumulated amortisation	
At 1 January and 31 December 2005	–
Acquisition of subsidiaries	1,237
Charge for the year	62
Exchange difference	26
At 31 December 2006	**1,325**
Net book value	
At 31 December 2006	**1,198**
At 31 December 2005	–

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

17. INTERESTS IN SUBSIDIARIES

	The Company	
	2006	2005
	HK$'000	HK$'000
Unlisted shares, at cost	**99,631**	99,631
Due from subsidiaries (note (i))	**288,877**	257,003
	388,508	356,634

Notes:

(i) The amounts due from subsidiaries, which included HK$70,000,000 (2005: HK$70,000,000) dividends from subsidiaries for the year, are unsecured, interest-free and have no fixed terms of repayments.

(ii) Particulars of the Company's subsidiaries are set out in note 41.

18. GOODWILL

	HK$'000
Carrying value	
At 1 January 2005	6,758
Acquisition of subsidiaries	3,504
At 31 December 2005 and 1 January 2006	10,262
Acquisition of subsidiaries	3,203
Disposal of assets and liabilities of a subsidiary	(6,758)
At 31 December 2006	**6,707**

In accordance with HKAS 36 "Impairment of Assets", the Group completed its annual impairment test for goodwill allocated to the Group's various cash generating unites ("CGUs") by comparing their recoverable amount to their carrying amount as at the balance sheet date. The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use cash flow projection based on three-year financial budgets. The present value of financial budgets is calculated by discounting with pre-tax rates of approximately 10%. The budgeted gross margin and net profit margin were determined by the management for each individual CGU based on past performance and its expectations for market development. Management believes that any reasonably foreseeable change in any of the above key assumptions would not cause the carrying amount of goodwill to exceed the recoverable amount.

19. INTANGIBLES

Intangibles represent the fair value of purchase orders committed by the vendor to the Group in respect of the acquisition of Bollman (Hong Kong) Limited and Kangol Headwear (Panyu) Limited ("Panyu Factory", together, "Bollman Subsidiaries") in 2006. Details of the acquisition are set out in note 34.

20. INVENTORIES

	The Group	
	2006	2005
	HK$'000	HK$'000
Raw materials	**48,148**	41,777
Work-in-progress	**15,746**	12,034
Finished goods	**29,232**	49,359
	93,126	103,170

The amount of inventories, included in above, carried at net realisable value is HK$35,104,000 (2005: HK$57,164,000).

21. TRADE AND OTHER RECEIVABLES

	The Group	
	2006	2005
	HK$'000	HK$'000
Trade and bills receivables	**144,593**	138,685
Deposits, prepayments and other debtors	**85,118**	26,303
	229,711	164,988

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

	The Group	
	2006	2005
	HK$'000	HK$'000
0 – 30 days	**49,400**	52,001
31 – 60 days	**28,614**	63,022
61 – 90 days	**13,602**	22,041
Over 90 days	**52,977**	1,621
	144,593	138,685

The Group's credit policy is set out in note 32(a).

Included in trade and bills receivables were receivables in the amount of HK$68,105,000 due from DPM, the subsidiary disposed of at year end. The balance due from DPM has been fully settled as of the date of this annual report.

Included in deposits, prepayments and other debtors was an amount of HK$62,240,000 for the consideration of the disposal of DPM, which was received in January 2007.

22. AMOUNTS DUE FROM/(TO) RELATED COMPANIES

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

23. SHORT TERM INVESTMENTS

Short term investments in 2005 represented investments in listed and unlisted equity and bond funds and was stated at fair value.

24. TRADE AND OTHER PAYABLES

	The Group	
	2006	2005
	HK$'000	HK$'000
Trade and bills payables	**36,607**	31,294
Accrued charges and other creditors	**35,998**	36,633
	72,605	67,927

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

	The Group	
	2006	2005
	HK$'000	HK$'000
0 – 30 days	**16,436**	20,618
31 – 60 days	**14,227**	8,242
61 – 90 days	**2,925**	–
Over 90 days	**3,019**	2,434
	36,607	31,294

25. SECURED SHORT TERM BANK LOAN

The short term bank loan, at a fixed interest rate of 6.1425% per annum, is secured by plants and prepaid premium on leasehold land with net book values amounting to HK$19,258,000 and HK$1,198,000 respectively as at 31 December 2006.

26. LONG TERM PAYABLES

Long term payables represent the fair value of US$2,475,000 minimum earnout payable from year 2009 to 2011 to the vendor in respect of the acquisition of the Bollman Subsidiaries during the year, net of the compensation of US$1,200,000 payable by the vendor for the expected operation loss of Bollman Subsidiaries for the year from 1 July 2006 to 30 June 2007. Details of the acquisition are set out in note 34.

27. POST-EMPLOYMENT BENEFITS

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

28. DEFERRED TAXATION

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

	Assets		Liabilities	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Depreciation allowances	**–**	–	**(4,965)**	(5,939)
Provisions	**3**	6,667	**–**	–
Others	**190**	4,064	**–**	–
Deferred tax assets/(liabilities)	**193**	10,731	**(4,965)**	(5,939)

In accordance with the accounting policy set out in note 1(p), the Group and the Company have not recognised deferred tax assets in respect of cumulative tax losses of HK$10,902,000 and HK$128,000 respectively (2005: HK$7,462,000 and HK$1,618,000 respectively) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. The tax losses do not expire under current tax legislation.

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

	2006	2005
	HK$'000	HK$'000
Net deferred tax assets/(liabilities) at 1 January	**4,792**	(271)
Disposal of assets and liabilities of a subsidiary	**(8,409)**	–
Exchange differences	**27**	(25)
(Charge)/credit for the year (note 10)	**(1,182)**	5,088
Net deferred tax assets/(liabilities) at 31 December	**(4,772)**	4,792

29. SHARE CAPITAL

	Note	Number of shares of HK$0.10 each	HK$'000
Authorised:			
At 31 December 2005 and 2006		1,000,000,000	100,000
Issued and fully paid:			
At 1 January 2005		285,881,531	28,588
Issue of shares pursuant to share option scheme	(a)	364,000	37
As at 31 December 2005 and 2006		**286,245,531**	28,625

The following is a summary of the movements in the issued share capital of the Company during the two years ended 31 December 2006:

(a) During the year ended 31 December 2005, options were exercised to subscribe for 184,000 shares at the exercise price of HK$2.3 per share and 180,000 shares at the exercise price of HK$2.7 per share under the share option schemes.

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

30. EQUITY SETTLED SHARE-BASED PAYMENT TRANSACTIONS

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

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

The total number of shares which may be issued upon exercise of all options to be granted under the New Scheme and any other share option schemes of the Group may not in aggregate exceed 27,760,053, being 10% of the shares in issue of the Company as at 23 May 2002, the date of adoption of the New Scheme.

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

(a) Movements in share options

	2006		2005	
	Number of share options	Weighted average exercise price HK$	Number of share options	Weighted average exercise price HK$
At 1 January	**24,830,000**	**2.48**	26,698,000	2.48
Exercised	**–**	**–**	(364,000)	2.50
Lapsed	**–**	**–**	(1,504,000)	2.37
At 31 December	**24,830,000**	**2.48**	24,830,000	2.48
Options vested at 31 December	**24,830,000**	**2.48**	20,282,000	2.52

At the balance sheet date, the weighted average remaining contractual life of the Company's share options was 4.8 years (2005: 5.8 years). Details of the range of exercise price for these options outstanding at the end of year are set out in the Report of the Directors on page 28.

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

Exercise price	2006 Number of share options	2005 Number of share options
HK$1.228	**–**	–
HK$2.3	**–**	184,000
HK$2.7	**–**	180,000
	–	364,000

No share option has been exercised during the year. The weighted average share price at the date of exercise for shares options exercised during 2005 was HK$2.974.

(c) Fair value of share options and assumptions

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

Weighted average share price	HK$2.68
Weighted average exercise price	HK$2.29
Expected volatility	25.2%
Expected life	6 years
Risk free rate	3.52%
Expected dividend yield	4%

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

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

31. RESERVES AND MINORITY INTERESTS

The Group	Share premium HK$'000	Contributed surplus HK$'000	Accumulated profits HK$'000	Capital reserve HK$'000	Exchange reserve HK$'000	Total reserves HK$'000	Minority interests HK$'000
	Attributable to equity shareholders of the Company						
At 1 January 2005	93,888	25,878	262,052	5,350	(173)	386,995	–
Issue of shares on exercise of share options	932	–	–	(59)	–	873	–
Share options lapsed	–	–	893	(893)	–	–	–
Equity settled share-base transactions	–	–	–	1,996	–	1,996	–
Exchange differences	–	–	–	–	(180)	(180)	–
Acquisition of subsidiaries	–	–	–	–	–	–	6,333
Profits for the year	–	–	77,772	–	–	77,772	(2,100)
2004 final dividend paid (note 12)	–	–	(28,618)	–	–	(28,618)	–
2005 interim dividend paid (note 12)	–	–	(5,724)	–	–	(5,724)	–
At 31 December 2005	94,820	25,878	306,375	6,394	(353)	433,114	4,233
Representing:							
2005 proposed final dividend (note 12)	–	–	31,487	–	–	31,487	
Reserves	94,820	25,878	274,888	6,394	(353)	401,627	
	94,820	25,878	306,375	6,394	(353)	433,114	
At 1 January 2006	94,820	25,878	306,375	6,394	(353)	433,114	4,233
Equity settled share-base transactions	–	–	–	200	–	200	–
Exchange differences	–	–	–	–	6,310	6,310	350
Profits for the year	–	–	86,970	–	–	86,970	(3,448)
2005 final dividend paid (note 12)	–	–	(31,487)	–	–	(31,487)	–
2006 interim dividend paid (note 12)	–	–	(8,587)	–	–	(8,587)	–
At 31 December 2006	**94,820**	**25,878**	**353,271**	**6,594**	**5,957**	**486,520**	**1,135**
Representing:							
2006 proposed final dividend (note 12)	–	–	31,662	–	–	31,662	
2006 proposed special dividend (note 12)	–	–	14,392	–	–	14,392	
2006 proposed bonus issue (note 12)	2,878	–	–	–	–	2,878	
Reserves	91,942	25,878	307,217	6,594	5,957	437,588	
	94,820	25,878	353,271	6,594	5,957	486,520	

The Company	Share premium HK$'000	Contributed surplus HK$'000	Accumulated profits HK$'000	Capital reserve HK$'000	Total HK$'000
At 1 January 2005	93,888	99,431	96,437	5,350	295,106
Issue of shares on exercise of share options	932	–	–	(59)	873
Share options lapsed	–	–	893	(893)	–
Equity settled share-base transactions	–	–	–	1,996	1,996
Profit for the year	–	–	68,006	–	68,006
2004 final dividend paid (note 12)	–	–	(28,618)	–	(28,618)
2005 interim dividend paid (note 12)	–	–	(5,724)	–	(5,724)
At 31 December 2005	94,820	99,431	130,994	6,394	331,639
Representing:					
2005 proposed final dividend (note 12)	–	–	31,487	–	31,487
Reserves	94,820	99,431	99,507	6,394	300,152
	94,820	99,431	130,994	6,394	331,639
At 1 January 2006	94,820	99,431	130,994	6,394	331,639
Equity settled share-base transactions	–	–	–	200	200
Profit for the year	–	–	70,971	–	70,971
2005 final dividend paid (note 12)	–	–	(31,487)	–	(31,487)
2006 interim dividend paid (note 12)	–	–	(8,587)	–	(8,587)
At 31 December 2006	**94,820**	**99,431**	**161,891**	**6,594**	**362,736**
Representing:					
2006 proposed final dividend (note 12)	–	–	31,662	–	31,662
2006 proposed special dividend (note 12)	–	–	14,392	–	14,392
2006 proposed bonus issue (note 12)	2,878	–	–	–	2,878
Reserves	91,942	99,431	115,837	6,594	313,804
	94,820	99,431	161,891	6,594	362,736

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

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

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

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:

(a) the company is, or would after the payment be, unable to pay its liabilities as they become due; or

(b) 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.

As at 31 December 2006, the Company's reserves available for cash distribution amounted to HK$261,322,000 (2005: HK$230,425,000) as computed in accordance with the Companies Act 1981 of Bermuda. In addition, the Company's share premium account of HK$94,820,000 (2005: HK$94,820,000) may be distributed in the form of fully paid bonus shares. Proposed bonus issue amounted to HK$2,878,000 will be made on the basis of one share of HK$0.1 each credited as fully paid for every ten existing shares.

32. FINANCIAL INSTRUMENTS

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. These risks are limited by the Group's financial management policies and practices described below.

(a) Credit risk

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

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

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

At the balance sheet date, the Group has a certain concentration of credit risk as 6% (2005: 22%) and 13% (2005: 52%) of the total trade receivables was due from the Group's largest customer and the five largest customers respectively.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

(b) Liquidity risk

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

(c) Interest rate risk

The Group has minimum exposure to interest rate risk.

(d) Foreign currency risk

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

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

(e) Fair values

All financial instruments are carried at amounts not materially different from their fair values as at 31 December 2006 and 2005.

(f) Estimation of fair value

Fair value of short term investments represents market values.

33. CASH GENERATED FROM OPERATIONS

	The Group	
	2006	2005
	HK$'000	HK$'000
Profit/(Loss) before taxation	**92,283**	81,825
Interest income	**(1,928)**	(644)
Interest expenses	**208**	30
Gain on disposal of assets and liabilities of a subsidiary	**(8,047)**	–
Gain on disposal of property, plant and equipment	**–**	(695)
Net gain from short term investments	**(4,614)**	(5,474)
Depreciation and amortisation	**26,096**	21,525
Write-back of post-employment benefits	**–**	(36)
Equity-settled share-based payment expenses	**200**	1,996
Provision for doubtful debts	**1,483**	3,080
Write-back of sundry payables	**–**	(3,709)
Changes in working capital:		
Inventories	**11,630**	(34,848)
Trade and other receivables	**(4,642)**	(30,951)
Trade and other payables	**(2,605)**	1,801
Cash generated from operations	**110,064**	33,900

34. ACQUISITION OF SUBSIDIARIES

On 30 June 2006, the Group acquired 100% of the issued share capital of Bollman (Hong Kong) Limited ("Bollman HK"). Bollman HK holds 100% of the issued share capital of Panyu Factory which manufactures and distributes headwear of top-tier fashion headwear brands, including Kangol. There are two parts of considerations: (i) adjusted cash consideration of US$5,720,000; and (ii) an earnout ranging from US$2,475,000 to US$4,800,000 to be calculated by reference to the operating profit of Bollman Subsidiaries for the three years ending 31 December 2010, payable from year 2009 to 2011. The amount of earnout is subject to adjustments of the compensations for (i) any loss incurred by Bollman Subsidiaries during 1st July 2006 to 30 June 2007 up to US$1,200,000; and (ii) any shortfall in commitment of purchase orders totaling US$20 million to be placed with Bollman Subsidiaries in the two years starting 1 July 2007.

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

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

	Bollman Subsidiaries' carrying value and fair value immediately before combination HK$'000
Assets and liabilities acquired:	
Property, plant and equipment	26,522
Prepaid premium on leasehold land held for own use under an operating lease	1,212
Inventories	26,362
Trade and other receivables	1,642
Bank balances and cash	3,107
Trade and other payables	(13,102)
Secured short term bank loan	(5,825)
	39,918
Intangible assets recognised at acquisition:	
Fair value of purchase orders commitment provided by the vendor	9,741
Total net assets acquired	49,659
Goodwill	3,203
Total consideration and direct costs payable by the Group	52,862
Total consideration and direct costs:	
Cash consideration	44,323
Long term payables:	
– Fair value of minimum earnout payables	15,793
– Compensation to be provided by the vendor for any operating loss incurred in the first year	(7,914)
Direct costs capitalised	660
	52,862
Net cash outflow arising on acquisition of subsidiaries:	
Cash consideration paid	(44,323)
Direct costs paid	(660)
Bank balances and cash acquired	3,107
	(41,876)

This acquisition will not only help the Group to further penetrate the US market, but also facilitate its planned expansion in to the Japanese and European markets, which are more fashion-focused and offer a better profit margin.

The subsidiaries acquired contributed a revenue of approximately HK$24,606,000 and a loss of approximately HK$7,391,000 to the equity shareholders of the Company for the year ended 31 December 2006.

If the acquisition had been completed on 1 January 2006, total of the Group's turnover would have been increased by HK$20,486,000 and profit attributable to equity shareholders for the year would have been decreased by HK$6,597,000. The proforma information is for illustrative purposes only and is not necessarily an indicative turnover and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2006 nor it is intended to be a projection of future results.

35. DISPOSAL OF ASSETS AND LIABILITIES OF A SUBSIDIARY

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

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

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

36. OPERATING LEASE COMMITMENTS

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

	2006		2005	
	Land and buildings HK$'000	**Others HK$'000**	Land and buildings HK$'000	Others HK$'000
Within one year	**19,403**	**–**	22,744	663
In the second to fifth years inclusive	**14,656**	**–**	20,169	918
Over five years	**16,150**	**–**	16,553	–
	50,209	**–**	59,466	1,581

In addition, the Group has operating lease commitments in respect of retail outlets with rentals determined in relation to sales. It is not possible to quantify accurately future rentals payable under such leases. Contingent rentals expensed in the income statement amounted to HK$7,030,000 (2005: HK$1,743,000).

37. CAPITAL COMMITMENTS

At 31 December 2006, the Group had capital expenditure commitments in respect of plant and equipment as follows:

	The Group	
	2006 HK$'000	2005 HK$'000
Contracted but not provided for		
– Manufacturing business	**5,648**	–
– Retail business	**–**	511
Authorised but not contracted for		
– Manufacturing business	**20,632**	21,825
– Trading business	**–**	3,046
– Retail business	**1,562**	6,568
	27,842	31,950

38. PLEDGED ASSETS

As at 31 December 2006, the Group had banking facilities of HK$73 million (2005: HK$95.3 million), of which HK$60.4 million (2005: HK$88.5 million) was not utilised. Save as disclosed in note 25 to financial statements, no banking facility granted and utilised is secured by the Group's assets as at 31 December 2006. As at 31 December 2005, banking facility of HK$27.1 million, of which HK$1.6 million was utilised, was secured by inventories and trade and other receivables of a subsidiary amounting to HK$36.8 million and HK$72 million respectively.

39. CONTINGENT LIABILITIES

The Group

(a) As disclosed in the Company's 2005 annual report, DPM has been subject to a tax investigation by the tax bureau of the United States. As at the date of the annual report, there has been no development of the case. Under the agreement for the disposal of DPM, the Group will indemnify the buyer in respect of unrecorded tax liabilities prior to the disposal.

(b) On 31 December 2006, the Group disposed of the business and related assets and liabilities of DPM at a cash consideration of US$8,000,000 which is subject to downward adjustment for any shortfall between the value of net assets disposed of, excluding the tax provision on the profit on disposal, and US$6,700,000. As of the date of this annual report, the value of net assets subject to the disposal has not been agreed between the Group and the buyer. The Group is in negotiation with the buyer on certain proposed downward adjustments to the net assets value of DPM relating to prepaid royalties, trade receivable reserve and inventory markdowns, and accordingly the consideration received may need to be adjusted. The result of the negotiation is unknown. However, the management has reviewed the proposed downward adjustments and believes that they are without merit. As a result, there would be no significant impact on the financial position of the Group.

The Company

At 31 December 2006, the Company had executed a corporate guarantee of HK$64,800,000 (2005: HK$63,300,000) to secure general banking facilities granted to subsidiaries. Facilities utilised by the subsidiaries amounted to HK$6,631,000 as at 31 December 2006 (2005: HK$3,734,000).

40. MATERIAL RELATED PARTY TRANSACTION

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

	The Group	
	2006	2005
	HK$'000	HK$'000
Rental paid in respect of office premises to a company controlled by a director (note)	**960**	960
Guarantee provided by a minority shareholder for bank facilities granted to a subsidiary	**1,500**	1,500

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

Key management personnel remuneration

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

	The Group	
	2006	2005
	HK$'000	HK$'000
Short term employee benefits	**18,579**	16,146
Share-based payments	**–**	142
Retirement scheme contributions	**108**	163
	18,687	16,451

Total remuneration is included in "staff costs" (note 7(b)).

41. PRINCIPAL SUBSIDIARIES

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

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

Name of company	Place of incorporation/ registration	Principal place of operation	Nominal value of issued ordinary share capital/ registered capital	Interest held	Principal activities
Big One Holdings Ltd.	The British Virgin Islands	Hong Kong	US$10,000	100%	Investment holding
Bollman (Hong Kong) Limited	Hong Kong	PRC	HK$29,352,260	100%	Trading of headwear
Dongguan Mainland Headwear Ltd.	The PRC (note ii)	PRC	HK$9,999,925	100%	Manufacture and sale of headwear
Drew Pearson International, Inc.	United States of America	The United Kingdom	US$833	100%	Trading of headwear
Drew Pearson Marketing, Inc. (note iii)	United States of America	United States of America	US$750	100%	Trading of headwear
Drew Pearson International (Europe) Ltd.	The United Kingdom	The United Kingdom	£10,000	90%	Trading of headwear
Futureview Investment Ltd.	The British Virgin Islands	Hong Kong	US$100	51%	Investment holding
Great Champion International Co., Ltd.	The British Virgin Islands	Hong Kong	US$10,000	100%	Investment holding
Hatworld (Hong Kong) Ltd.	Hong Kong	Hong Kong	HK$1	100%	Retailing
Hatworld (Shenzhen) Ltd.	The PRC (note ii)	PRC	HK$8,500,000	100%	Retailing
Kangol Headwear (Panyu) Limited	The PRC (note ii)	PRC	Rmb45,777,729	100%	Manufacture and sale of headwear
Jumbo Creation Investments Limited	The British Virgin Islands	Hong Kong	US$1	100%	Investment holding
Mainland Sewing Headwear Manufacturing Limited	Hong Kong	Hong Kong	HK$10,000	100%	Manufacture and sale of headwear
Mainland Sewing Mills (Shenzhen) Co., Ltd.	The PRC (note ii)	PRC	HK$26,000,000	100%	Manufacture and sale of headwear

Name of company	Place of incorporation/ registration	Principal place of operation	Nominal value of issued ordinary share capital/ registered capital	Interest held	Principal activities
Manga Investments Ltd.	Mauritius	Macau	US$1	100%	Investment holding
Million Excel Trading Limited	The British Virgin Islands	Hong Kong	US$1	100%	Investment holding
PPW Asia Ltd.	Hong Kong	Hong Kong	HK$2	51%	Investment holding
Rhys Trading Ltd.	The British Virgin Islands	Hong Kong	US$10,000	100%	Investment holding
Summerville Trading Ltd.	The British Virgin Islands	Hong Kong	US$10,000	100%	Trading of headwear
Top Super Investments Ltd.	The British Virgin Islands	Hong Kong	US$10,000	100%	Investment holding
Top Super Sportswear (Shenzhen) Co., Ltd.	The PRC (note ii)	PRC	HK$30,000,000	100%	Manufacture and sale of headwear
United Crown International Macao Commercial Offshore Ltd.	Macau	Macau	MOP$100,000	100%	Trading of headwear and provision of digitizing services
上海成顏豐實業有限公司	The PRC (note i)	PRC	RMB10,000,000	51%	Retailing
深圳市大同啟豐實業有限公司	The PRC (note i)	PRC	RMB1,000,000	51%	Retailing
北京大同啟豐商貿有限公司	The PRC (note i)	PRC	RMB1,000,000	51%	Retailing
廣州市天開貿易有限公司	The PRC (note i)	PRC	RMB1,000,000	51%	Trading and wholesales

Notes:

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

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

(iii) Assets and liabilities of the subsidiary were disposed of on 31 December 2006. It has become dormant since 1 January 2007.

42. ULTIMATE HOLDING COMPANY

As at 31 December 2006, the ultimate holding company of the Company was Successful Years International Company Limited, incorporated in the British Virgin Islands.