Mainland Headwear Holdings Limited

(Stock code: 1100)

Annual Report 2009

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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

Non-executive Director

Mr. Tse Kam Fow

Independent Non-executive Directors

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

Company Secretary

Ms. Chan Hoi Ying

Auditors

Grant Thornton
Certified Public Accountants
6th Floor, Nexxus Building,
41 Connaught Road Central,
Hong Kong.

Principal Banker

Hang Seng Bank Limited

Registered Office

Clarendon House,
2 Church Street,
Hamilton HM 11,
Bermuda.

Head Office and Principal Place of Business in Hong Kong

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

Bermuda Share Registrar

The Bank of Bermuda Limited
Bank of Bermuda Building,
6 Front Street,
Hamilton HM 11,
Bermuda.

Hong Kong Branch Share Registrar

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

Company Websites

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

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 2009.

Business Review and Prospects

Overview

2009 was a challenging year for Mainland Headwear. The financial tsunami affected the global economy and the US market continued to be weak. In the PRC market, exports have slowed down but raw material costs and wages have risen substantially. Consumers in the PRC's first-tier cities have also become more conservative in spending. These factors combined have created a difficult operating environment for the Group during the period.

To cope with these challenging times, the Group continued to strengthen product design and R&D capabilities of its Manufacturing Business to encourage expansion of its customer base. Amid the adverse operating conditions, Mainland Headwear secured new orders from one of Japan's leading casual wear retail chains. In addition, the strategic cooperation with New Era Cap Co., Inc. ("New Era"), the world's largest headwear company, was finalised in October 2008 providing a steady income stream for the Group's Manufacturing Business.

However, as consumers in the first-tier cities in the PRC have been more cautious with their spending, the Group's Retail Business has declined. Nevertheless, the Group was able to narrow the operating loss of the LIDS business during the year by increasing the sales proportion of its own brand products and introducing several accessory brands which were well received by the market.

Financial Review

For the year ended 31 December 2009, the Group's turnover was HK$515,834,000 (2008: HK$610,959,000). Gross profit and loss attributable to shareholders were HK$113,992,000 (2008: HK$170,373,000) and HK$45,133,000 (2008: HK$29,259,000) respectively.

The loss incurred by the Group was mainly due to the increases in raw material costs and wages, a decline of the Retail Business and the occurrence of one-off expenses. These expenses included: the legal costs and legal fee provisions of HK$21,000,000 generated from the litigation in relation to Concept One's breaching the manufacturing agreement signed with the Group; provision for inventory of Olympic products of HK$5,898,000; and the loss of approximately HK$11,853,000 arising from the closure of the Vietnam factory.

Manufacturing Business

For the year ended 31 December 2009, the Manufacturing Business continued to be the Group's major revenue contributor. Turnover from the Manufacturing Business was HK$401,680,000, a level comparable to that of last year (2008: HK$399,368,000), accounting for 76% of the Group's total turnover.

Various unfavourable external factors have inhibited the Manufacturing Business including a high RMB exchange rate, the rising costs of raw material and wages and arbitrary one-off expenses. These expenses comprised provision for the unsold Olympic headwear products amounted to HK$4,128,000 and the loss of approximately HK$11,853,000 from the closing of the Vietnam factory. These charges collectively contributed to an operating loss of HK$2,613,000 (2008: profit of HK$364,000) for this segment.

Chief Executive of the HKSAR, The Hon. Donald Tsang, presenting the Bronze Bauhinia Star to Mrs. Pauline Ngan.

The Group's efforts to strengthen product design and R&D of its Manufacturing Business is starting to show results. The improved product design has helped secure orders from several internationally renowned brands which are expected to bring a stable and significant revenue stream to the Group in the coming year. Furthermore, New Era agreed in October 2008 to purchase headwear products manufactured and supplied by the Group for a seven year period between 1 January 2009 and 31 December 2015. The purchase value of New Era's orders in the review year exceeded the minimum purchase amount of US$5,000,000 in the first year as stated in the contract.

The Group's factories in Shenzhen, Panyu and Dongguan provide sufficient capacity and facilities to cater for current orders.

Retail Business

The Group's Retail Business recorded a turnover of HK$96,506,000 (2008: HK$185,916,000), representing about 18% of the total turnover of the Group, with an operating loss of HK$17,946,000 (2008: HK$22,838,000) during the year under review.

Decrease in turnover was mainly due to sharp decline in the Diecui Business, with a weaker demand for high-end goods in first-tier cities. However, the Group has increased the sales proportion of its own brand products which carry higher margins. The LIDS business also underwent significant improvement in the second half of 2009.

SANRIO

During the year, turnover from the Sanrio operations amounted to HK$72,636,000 (2008: HK$85,806,000), with an operating loss of HK$8,641,000 (2008: HK$3,680,000).

This year, the Group continued its strategy of opening self-owned flagship stores across first-tier cities in the PRC to optimise its brand image so as to attract more franchisees in second- and third-tier cities. In the uncertain economic climate, the Group has acted prudently in shop expansions over the last year. As of 31 December 2009, the Group operated 48 Sanrio self-owned stores, 1 store less than the previous year. The number of franchise stores decreased to 51 from 60 last year. In addition, the Group's self-developed products increased from 40% to 45% in the first half of 2009, and this percentage is expected to grow steadily in the future.

LIDS

Impacted by the decline in consumer spending in first-tier cities, LIDS operations made a turnover of HK$22,391,000 (2008: HK$27,923,000). To address this shortcoming and boost operational efficiency, the Group increased the sales proportion of its own brand products, introduced higher margin accessories, tightened store management controls and gradually reallocated underperforming stores. As a result, gross margin increased from around 68% to 70%. Operating loss was also reduced significantly in the second half, making the total operating loss for the year HK$3,236,000 (2008: HK$3,732,000). As of 31 December 2009, the Group operated 28 self-owned LIDS stores: 22 in the PRC and 6 in Hong Kong. It also has 18 franchise stores in the PRC.

Diecui

During the year under review, the Diecui operations recorded a turnover of HK$1,479,000 (2008: HK$72,187,000), with an operating loss of HK$6,069,000 (2008: HK$15,426,000). The Group scaled down the Diecui operation after the 2008 Beijing Olympic Games by reducing the number of shops from four self-owned stores and 36 franchise stores last year-end to three self-owned stores.

Trading Business

Influenced by the weak British pound during the past year, the Trading Business generated a turnover of HK$31,248,000 (2008: HK$45,622,000) with an operating loss of HK$2,101,000 (2008: profit of HK$4,987,000). The segment continued to expand its customer base for the Manufacturing Business, leveraging its established relationship with major retailers in the US and Europe.

Prospects

Looking ahead, in the face of anticipated rises in staff costs, the Group will actively enhance its product design and R&D capability to attract a larger customer base while continuing to closely control production costs. Therefore, the Group remains confident about its prospects for the year ahead.

Manufacturing Business

With the high RMB exchange rate and rising wages expected to continue, the operating environment for the Manufacturing Business in 2010 will remain challenging.

To combat these unfavourable conditions, the Group will not only step up cost control efforts, but also further boost its product design and R&D capabilities of the Manufacturing Business in a bid to broaden its customer base. Its outstanding product design has helped the Group secure orders from several globally renowned brands in recent months, creating new revenue streams for the Group.

In addition, the minimum purchase amount for 2010 agreed by New Era within the sales agreement will rise substantially to US$15,000,000, an increase of 200% over the total order amount in the first year. This together with the satisfactory growth in the orders from a leading Japanese casual wear retail chain secured last year is expected to generate stable revenue for the Group.

Retail Business

In its Retail Business, the Group will focus on development of the LIDS and SANRIO operations.

LIDS

The Group plans to open 2 additional self-owned stores in Hong Kong in high pedestrian traffic areas or tourist spots with total 8 stores. In the PRC, the Group will continue to expand its business in the first- and second-tier cities and will increase 8 self-owned stores and 5 franchise stores in order generate more revenue and expand its market share with total 30 and 23 stores respectively.

Additionally, the Group will continue to increase the sales proportion of its higher profit margin own brand products to 76% in 2010. The Group also plans to identify additional accessory brands to offer a more diverse product portfolio and boost the attraction of its brand to consumers as well as its competitive position. The Group is confident that the LIDS business would achieve breakeven in the coming year.

SANRIO

With the ongoing challenges in the operating environment, the Group will take a prudent approach towards implementing its development strategy for its Sanrio business.

The Group intends to continue to open flagship stores across first-tier cities in the PRC to optimise its brand image with a view to attracting more franchisees in the second- and third-tier cities and thereby further extending the Sanrio sales network in the PRC. In the coming year, the Group plans to open around 5 self-owned stores in cities such as Beijing, Guangzhou, Shenzhen, Chongqing, Shenyang and Tianjin with total 53 self-owned stores and add around 25 franchise stores in other regions with total 76 franchise stores. Through these measures, the Group intends to attain breakeven for the Sanrio business in 2010.

Trading Business

The Group's Trading Division will continue to leverage its strong business relationships with major European retailers to expand the customer base for the Manufacturing Business creating synergies within the Group.

Acknowledgement

The management remains steadfastly dedicated to creating and implementing the Group's strategy in the future to maximise the opportunities presented as the recovery of the global economy gathers momentum and to strive to deliver the best return to shareholders. On behalf of Mainland Headwear, I would like to express my sincere gratitude to all shareholders, staff members, customers and suppliers for their tireless support.

Ngai Hei Keung
Chairman

Hong Kong
12 April 2010

Liquidity and Financial Resources

As at 31 December 2009, the Group had cash, bank balances and a portfolio of liquid investments totaling HK$143.5 million (2008: HK$153.5 million). About 55% and 22% of these liquid funds were denominated in US dollars and Renminbi respectively and the remainder mainly in HK dollars and Pound Sterling.

The decrease in liquid funds was mainly attributable to the decrease in trade and other payables. The Group settled a significant amount of trade payables for Olympic products in early 2009.

As at 31 December 2009, the Group had banking facilities of HK$104.0 million (2008: HK$105.0 million), of which HK$101.5 million (2008: HK$103.3 million) was not utilised.

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

Acquisition of additional interests in Keen Idea Group Limited ("Keen Idea") and closure of the Vietnam factory

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

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

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

Negative goodwill of HK$1,033,000 has arisen on the acquisition of Keen Idea as a result of a bargain purchase.

The recent global weakening economy has affected the performance of Keen Idea. Therefore the board of directors of Keen Idea decided to close down the operations of the Vietnam factory in the third quarter of 2009.

Capital Expenditure

During the year, the Group spent approximately HK$10.1 million (2008: HK$10.3 million) on the construction of an additional factory building, which was completed in 2009, and additions to plant and equipment to upgrade its manufacturing capability. The Group had also spent HK$4.5 million (2008: HK$4.4 million) on the retail systems and opening of new retail stores in 2009.

For the year 2010, the Group has budgeted HK$10.5 million for capital expenditure to enhance its production capacity and efficiency, and HK$1.5 million for opening of new shops.

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

Subsequent event

On 2 April 2010, New Era Cap Asia Pacific Limited ("New Era"), pursuant to the Manufacturing Agreement signed by the Group and New Era on 21 October 2008, issued a letter to the Company requesting to exercise the share option for 25,000,000 ordinary shares at the exercise price of HK$0.82425 per share. The request was approved by the board of directors on 12 April 2010. Upon the receipt of the share proceeds from New Era, share certificates are expected to be issued by late April 2010.

Exchange Risk

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

Employees and Remuneration Policies

At 31 December 2009, the Group employed 101 (2008: 109) employees in Hong Kong and Macau, and 3,318 (2008: 3,249) employees in the PRC and a total of 6 (2008: 6) employees in the UK. The expenditures for employees during the year were approximately HK$149.2 million (2008: HK$152.3 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 54, is the Chairman of the Company and co-founder of the Group. Mr. Ngan is responsible for the production activities of the Group. Mr. Ngan obtained a bachelor degree from 福建農業學院 (Fujian Agricultural College) (now known as 福建農林大學 (Fujian Agricultural University, the "FA University")) in 1982 and currently is a guest professor of the FA University. Mr. Ngan has over 20 years of experience in the headwear industry. He is presently a member of Fujian Committee of The Chinese People's Political Consultative Conference, a member of Fujian Quanzhou Committee of The Chinese People's Political Consultative Conference and the Honorary Adviser (2007-2009) of the Asian Knowledge Management Association. Mr. Ngan was a director of Yan Oi Tong in 2007. Mr. Ngan is the husband of Madam Ngan Po Ling, Pauline.

Madam Ngan Po Ling, Pauline

aged 50, is the Deputy Chairman and Managing Director of the Company and co-founder of the Group. She is responsible for the marketing activities of the Manufacturing Business. She has over 20 years of experience in the headwear industry. Madam Ngan is the wife of Mr. Ngan Hei Keung. She was the chairman of Po Leung Kuk and Yan Oi Tong. She is also a standing committee member of The Chinese General Chamber of Commerce, the vice president of Hong Kong Young Industrialists Council, the vice chairman of the Youth Committee of the All-China Federation of Returned Overseas Chinese, the vice president of the China Federation of Overseas Chinese Entrepreneurs, the committee member of All-China Women's Federation, a senior consultant and director of China Charity Federation, the vice chairman of the Hong Kong General Chamber of Textiles Limited, the standing director of Hong Kong Federation of Overseas Chinese Association and a member of Chongqing Committee of The Chinese People's Political Consultative Conference. Madam Ngan is the winner of Young Industrialist Awards of Hongkong 2001 and also earned an Executive Director Award in the "Directors of the Year Awards 2004" organised by the Hong Kong Institute of Directors, and the Owner-Operator Award in the DHL/SCMP Hong Kong Business Awards 2004. She was awarded the Bronze Bauhinie Star in the Hong Kong Special Administrative Region 2009 Hohours List.

Mr. James S. Patterson

aged 39, is the Executive Director of the Company. Mr. Patterson graduated from the State University of New York at Buffalo, Buffalo, NY, USA and completed a Bachelor Degree in Economics. Mr. Patterson has been employed for the past 15 years with New Era Cap Co., Inc. ("New Era"), a US based company which is engaged in the global marketing, sale, and manufacturing of headwear and apparel. Mr. Patterson has held the position of VP Global Operations of New Era for the past 5 years.

Non-executive Director

Mr. Tse Kam Fow

aged 50, had been appointed as an Independent Non-executive Director of the Company since August 2004 and is re-designated as a Non-executive Director of the Company. Mr. Tse is a certified public accountant practising in Hong Kong with wide experience in most areas of accounting, taxation, audit, corporate consulting and investment advisory. He is also presently independent non-executive director of Jia Sheng Holdings Limited, which is listed in the main board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

Independent Non-executive Directors

Mr. Leung Shu Yin, William

aged 60, was appointed as an Independent Non-executive Director of the Company in March 2000. Mr. Leung graduated from the Department of Accountancy of Hong Kong Polytechnic (now known as the Hong Kong Polytechnic University). He is a fellow member of the Hong Kong Institute of Certified Public Accountants, the Association of Chartered Certified Accountants and the Taxation Institute of Hong Kong. He is also a member of the Hong Kong Securities Institute and the Society of Chinese Accountants and Auditors. Mr. Leung is currently a practising director of two certified public accountants firms in Hong Kong. He is also presently independent non-executive directors of Lai Sun Garment (International) Limited and Lai Sun Development Company Limited, which are listed in the main board of the Stock Exchange.

Mr. Lo Hang Fong

aged 46, was appointed as an Independent Non-executive Director of the Company in February 2005. Mr. Lo is a solicitor and is practising as a partner of Stevenson, Wong & Co. He is also presently independent non-executive director of Bonjour Holdings Limited ("Bonjour") and Z-Obee Holdings Limited ("Z-Obee"). Bonjour is listed in the main board of the Stock Exchange and Z-Obee is dual listed in the main board of the Stock Exchange and the main board of the Singapore Exchange.

Mr. Liu Tieh Ching, Brandon, JP

aged 64, was appointed as an Independent Non-executive Director of the Company in August 2006. Mr. Liu is a merchant. He is also currently a Standing Committee Member of the Shanghai Committee of Chinese People's Political Consultative Conference, an Advisory Board Member of the Business Forum of China National Committee for Pacific Economic Corporation of Pacific Economic Cooperation Council, the honorary President of the Hong Kong Commerce and Industry Association, the Standing Committee Member of The Chinese General Chamber of Commerce and the Vice Chairman, Energy & Power of Federation of Hong Kong Industries.

Senior Management

Mr. Raj Kapoor

aged 49, is the managing director of the Group's Europe operations. Mr. Kapoor obtained a bachelor degree from the University of Newcastle Upon Tyne in the United Kingdom ("UK") and has over 15 years of experience in the headwear industry in Europe. He joined the Group in March 2005 when the Group set up its subsidiary in the UK.

Mr. Lai Man Sing, Thomas

aged 42, firstly joined the Company during July 1999 to May 2001 and rejoined the Company in March 2008. He is the Chief Financial Officer of the Company and in charge of the finance department. Mr. Lai obtained his first degree from London School of Economics and Political Science, University of London, UK and earned a Master degree in Business Administration from University of Western Sydney, Australia. He is a fellow member of the Hong Kong Institute of Certified Public Accountants, also a fellow member of The Australian Society of Certified Practising Accountants. He took senior financial position for sizable listed companies and worked in international accounting field for many years.

Ms. Maggie Gu

aged 33, first joined the Company in May 2003 and rejoined as Sales and Marketing Director on February 2009. She studied in United States of America, and graduated from the California State University, with the degree of Bachelor of Arts in Communications. She managed the global marketing department with a reputable media company in US before she resumed to Hong Kong. She is now in charge of the Sales and Marketing department of the Company, responsible for the strategy formulation and direction of global marketing and business development in US and Europe markets.

Mr. Lam Yen Wah, Henry

Aged 55, joined the Company in January 2010, is the General Manager – Retail, in charge of the retail and wholesale operations of the Sanrio licensed products in China. Mr. Lam obtained his Master degree in Business Administration from the Chinese University of Hong Kong. He is a fellow member of the Hong Kong Institute of Certified Public Accountants and the Association of Certified Accountants. He has over 15 years of experience in retail and wholesale businesses.

Ms. Oei Oi Leung, Linda

aged 61, is the Director of Corporate Communications of the Company. She joined the Company in April 2001 and is responsible for investor relations and media relations of the Company. Ms. Oei is well experienced in the industry of public relations.

Mr. Samuel Wai

aged 50, firstly joined the Company from January 2006 to October 2008 and rejoined the Company in May 2009 as the Factory Operations Director. He graduated from Chengchi University in Taiwan with a Bachelor Degree in Arts. A veteran in textiles products, he has gained a wealth of experience through his employment at several leading Hong Kong apparel companies.

Mr. Fung Hok Man, Samson

aged 47, firstly joined the Company in 2001 and left in 2003, rejoining in March 2007 as the General Manager of the Company's Manufacturing Branch in Panyu. Mr. Fung has more than 20 years of experience in the textiles and in manufacturing management.

Ms. Yeung Wing Sze, Celia

aged 32, firstly joined the Company as a Product Manager of Lids operation during May 2005 to May 2007. She rejoined in March 2009 as the General Manager – Lids. Ms. Yeung holds a Bachelor of Arts in Fashion Design and a Master of Arts in Fashion Design and Textile from the Hong Kong Polytechnic University. She also holds a Master of Arts in Management and Marketing from the London College of Fashion in UK. Ms Yeung has worked in local and international renowned fashion and accessories retailing firms for many years.

Mr. Lau Ka Fai, Edward

aged 43, joined the Company in February 2009 and is the Product Development Director. Mr. Lau graduated from the Hong Kong Polytechnic (Now known as Hong Kong Polytechnic University) with a Bachelor of Arts in Fashion Design (with commendation). He holds a Master Degree in Business Administration in Management from Southeastern University Washington, DC. He is also a Diploma Member of the Chartered Society of Designers London. He has worked in creative and design areas within several global buying offices for more than 18 years and is now responsible for design and product development in the US and Asia.

Ms Leung Ka Pik, Ada

aged 48, joined the Company in December 2007 and is the Human Resources and Administrative Director. She holds a Master Degree in Business Administration from University of Canberra, Australia. She had worked in two listed apparel companies and international accounting firm for many years.

CORPORATE GOVERNANCE REPORT

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

The Company has complied with all the code provisions set out in Appendix 14 Code on Corporate Governance Practices (the "Code") of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the accounting year ended 31 December 2009, except for the deviations from Code Provisions A.4.1 and A.4.2 which are explained in the following relevant paragraphs.

Corporate Governance Principles and the Company's Practices

A. Directors

A.1. Board of Directors

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

Regular Board meetings are held at quarterly intervals. In addition, special Board meetings will be held when necessary. Attendance of individual Directors at Board meetings in 2009 are as follows:

Number of meetings		8
Executive Directors		
Mr. Ngan Hei Keung	*(Chairman)*	8
Madam Ngan Po Ling, Pauline	*(Deputy Chairman and Managing Director)*	8
Mr. James S. Patterson	*(Appointed on 7 April 2009)*	3
Mr. Luh Yih Ping	*(Chief Operating Officer resigned on 15 April 2009)*	1
Non-executive Director		
Mr. Tse Kam Fow		6
Independent Non-executive Directors		
Mr. Leung Shu Yin, William		7
Mr. Lo Hang Fong		4
Mr. Liu Tieh Ching, Brandon, JP		6

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

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

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

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

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

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

A.2. Chairman and Chief Executive Officer

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

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

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

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

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

A.3. Board Composition

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

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

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

Biographies which include relationships of Directors are set out in pages 12 to 14 of the annual report, which demonstrate a diversity of skills, expertise, experience and qualifications among members of the Board.

A.4. Appointments, Re-election and Removal

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

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

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

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

Non-executive Director and Independent Non-executive Directors of the Company do not have a specific term of appointment. This deviates from Code Provision A.4.1. However, all the Non-executive Director and Independent Non-executive Directors of the Company are subject to retirement by rotation and re-election in accordance with the Company's bye-law No. 87.

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

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

The Directors consider that it is not necessary to have a nomination committee for the time being. The work in connection with the nomination and appointment of new Directors during 2009 included reviewing the Board composition and reviewing and making recommendation to the Board on appointment of new Directors. During the year of 2009, one meeting in connection with the nomination and appointment of new Directors was held. The Directors will review this from time to time and will establish a nomination committee should there be a need.

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

A.5. Responsibilities of Directors

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

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

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

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

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules. All Directors have confirmed, following enquiry by the Company, that they have complied with the required standard set out in Model Code throughout the year ended 31 December 2009.

A.6. Supply of and Access to Information

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

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

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

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

B. Remuneration of directors and senior management

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

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

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

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

The meeting of the Committee is held at least once a year or when necessary. The Remuneration Committee held one meeting in 2009, which was attended by all members of the Committee. The Committee had considered the following proposals for the remuneration of Directors and senior management and made recommendation to the Board:

1. Annual salary review policy;

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

3. Performance related bonus.

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

Details of the amount of Directors' emoluments for 2009 are set out in note 9 to the financial statements. Details of the share option schemes of the Company are set out in the Report of the Director and note 29 to the financial statements.

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

C. Account ability and audit

C.1. Financial Reporting

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

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

The Directors acknowledge their responsibility to keep proper accounting records and prepare financial statements of each financial period, which shall give a true and fair view of the state of affairs of the Group and of the results and cash flow for that period. In preparing the financial statements for the year ended 31 December 2009, the Directors have made judgements and estimates that are prudent and reasonable and prepared the financial statements on a going concern basis.

A statement by the auditors about their reporting responsibilities is included in the Independent Auditors' Report on pages 40 to 41 of the annual report for the year ended 31 December 2009.

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

C.2. Internal Controls

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

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

C.3. Audit Committee

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

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

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

The Audit Committee comprises the Non-executive Director and three Independent Non-executive Directors of the Company and is chaired by Mr. Leung Shu Yin, William. This Committee held two meetings in 2009 which were attended by all members of the Committee.

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

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

2. Reviewed and recommended to the Board approval of the audit fee proposal for 2009;

3. Considered and recommended to the Board that the shareholders be asked to re-appoint the existing auditors as the Company's external auditors for 2010;

4. Reviewed and approved the Group's internal audit plan for 2010;

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 2008; and

7. Reviewed the Interim Report and the interim results announcement for the six months ended 30 June 2009.

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

The Board agrees with the Audit Committee's proposal for the re-appointment of existing auditors as the Company's external auditors for 2010.

The remuneration of the Group's external auditors is HK$1,543,000 for statutory audit fees as disclosed in note 8 to the financial statements.

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

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

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

D. Delegation by the Board

D.1. Management Functions

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

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

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

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

Matters Reserved to the Board for Decision include:

1. Business plan;

2. Financial statements and budget;

3. Mergers and acquisitions and other substantial investments;

4. Formation of board committees;

5. Appointment and resignation of directors; and

6. Appointment and removal of auditors.

D.2. Board Committees

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

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

E. Communication with shareholders

E.1. Effective Communication

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

At the 2009 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 2010 Annual General Meeting to answer questions of shareholders.

E.2. Voting by Poll

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

The directors of the Company (the "Directors") have pleasure in submitting their annual report together with the audited financial statements for the year ended 31 December 2009.

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 7 to the financial statements.

Results and Appropriation

An interim dividend of 1 HK cent (2008: 2 HK cents) per share, totaling HK$3,352,000 was paid on 21 October 2009. The Directors now recommend the payment of a final dividend of 2 HK cents (2008: 3 HK cents) per share in respect of the year ended 31 December 2009. Subject to the approval at the forthcoming annual general meeting, the final dividend will be payable on or after 9 June 2010 to the shareholders whose names appear on the register of members at the close of the business on 19 May 2010.

The register of members of the Company will be closed from 20 May 2010 to 26 May 2010 (both dates inclusive). In order to qualify for the proposed final dividend, all transfers, accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong Branch Share Registrar, Tricor Tengis Limited, at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on 19 May 2010.

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

Five Year Financial Summary

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on pages 111 to 112.

Major Customers and Suppliers

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

	Percentage of the Group's total Purchases	Sales
The largest customer	–	12%
Five largest customers in aggregate	–	39%
The largest supplier	10%	–
Five largest suppliers in aggregate	29%	–

As at 31 December 2009, New Era Cap Co., Inc., a major customer of the Group, was an affiliated company of New Era Cap Asia Pacific Limited ("NE"). NE holds 9.5% equity interest in the Company. Mr. Christopher Koch owns 75% of the issued share capital of New Era Cap Hong Kong LLC which in turn owns 100% of the issued share capital of NE.

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

Property, Plant and Equipment

During the year, the Group spent HK$14,576,000 (2008: HK$15,002,000) on construction of a factory building, additions to property, plant and equipment to upgrade its manufacturing capabilities, and on opening of retail stores. Details of movements in property, plant and equipment are set out in note 16 to the financial statements.

Share Capital

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

Reserves

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

As at 31 December 2009, the Company's reserves available for cash distribution amounted to HK$205,181,000 (2008: HK$199,663,000) as computed in accordance with the Companies Act 1981 of Bermuda. In addition, the Company's share premium account of HK$125,377,000 (2008: HK$100,203,000) as at 31 December 2009 may be distributed in the form of fully paid bonus shares.

Donations

Charitable and other donations made by the Group during the year amounted to HK$131,000 (2008: HK$3,588,677).

Directors

The Directors during the financial year were:

Executive Directors

Mr. Ngan Hei Keung	*(Chairman)*
Madam Ngan Po Ling, Pauline	*(Deputy Chairman and Managing Director)*
Mr. James S. Patterson	*(Appointed on 7 April 2009)*
Mr. Luh Yih Ping	*(Chief Operating Officer, resigned on 15 April 2009)*

Non-executive Director

Mr. Tse Kam Fow

Independent Non-executive Directors

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

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

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

In accordance with the Company's Bye-Law No. 87, Mr. Liu Tieh Ching, Brandon, JP and Mr. Leung Shu Yin, William shall retire by rotation at the forthcoming annual general meeting. Mr. Liu Tieh Ching, Brandon, JP and Mr. Leung Shu Yin, William will hold office until the forthcoming annual general meeting pursuant to the Company's Bye-Law No. 86(2). All of the retiring Directors, being eligible, offer themselves for re-election.

Directors' Service Contracts

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

Mr. James S. Patterson, has entered into a service contract with the Company, which may be terminated by not less than three months' notice in writing served by either party.

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

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

Directors' Interests in Contracts

Save as disclosed in note 38 to the financial statements and in the section "Connected Transaction" below, no contract of significance to which the Company or its subsidiaries was a party, and in which a Director of the Company had a material interest subsisted at the end of the year or at any time during the year.

Connected Transaction

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

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

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

During 2009, an affiliated company of NE purchased goods totalling HK$59,554,000 from the Group.

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

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

In addition, the auditors of the Company have reviewed the continuing connected transactions and confirmed in a letter to the Board that the continuing connected transactions have been approved by the Board and have been carried out in accordance with the terms of the relevant agreements governing them; and did not exceed the respective annual caps applicable to them.

Directors' Interests in Shares and Underlying Shares

As at 31 December 2009, the interests of the Directors in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), which had been notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

Long positions in the shares and underlying shares of the Company

	Number of shares				
	Personal interest	Other direct interest	Underlying shares	Total	Percentage of interest
Mr. Ngan Hei Keung	–	200,848,000 *(note 1, 2)*	45,800,000 *(note 3, 4)*	246,648,000	70.09%
Madam Ngan Po Ling, Pauline	17,148,000 *(note 2)*	183,700,000 *(note 1)*	45,800,000 *(note 3, 4)*	246,648,000	70.09%
Mr. James S. Patterson	–	–	2,000,000 *(note 5)*	2,000,000	0.57%

Notes:

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

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

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

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

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

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

Share Option Schemes

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

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

The total number of shares which may be issued upon exercise of all options to be granted under the New Scheme and any other share option schemes of the Group may not in aggregate exceed 30,536,058, being 10% of the shares in issue of the Company as at 23 May 2002, the date of adoption of the New Scheme adjusted for the issue of bonus shares on 22 May 2007. The scheme mandate limit was refreshed on 28 November 2008. Upon refreshing of the scheme mandate limit, the Company may grant options up to a maximum of 31,840,228 shares, representing 10% of the shares in issue of the Company as at 28 November 2008.

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

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

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

As at the date of annual report, the total number of shares available for issue, save for those granted but yet to be exercised, under the New Scheme was 37,816,486 shares, which represented 10.7% of the issued share capital of the Company as at 31 March 2010.

At 31 December 2009, the Directors, employees, customers and suppliers of the Group had the following interests in options to subscribe for shares in the Company (market value per share is HK$0.93 at the balance sheet date) granted at nominal consideration under the share option schemes operated by the Company, each option gives the holder the right to subscribe for one share:

	Date of grant	Period during which options exercisable	Exercise price (HK$)	Outstanding at 1.1.2009	Granted during the period	Cancelled during the period	Lapsed during the period	Outstanding at 31.12.2009	Market value per share at date of grant (HK$)
Old Scheme									
Employees	11.06.2001	11.06.2002 – 10.06.2009	1.116	301,400	–	–	(301,400)	–	1.40
New Scheme									
Director	11.11.2008	11.11.2009 – 24.09.2018	0.800	3,000,000	–	–	(3,000,000)	–	0.80
	23.06.2009	23.06.2010 – 23.06.2019	0.946	–	8,000,000	–	–	8,000,000	0.93
				3,000,000	8,000,000	–	(3,000,000)	8,000,000	
Employees	03.07.2002	03.07.2003 – 02.07.2010	2.455	4,361,500	–	(4,361,500)	–	–	2.45
	03.06.2003	03.06.2004 – 02.06.2013	2.091	7,836,300	–	(7,836,300)	–	–	2.09
	11.06.2008	11.06.2009 – 10.06.2018	1.190	1,000,000	–	–	–	1,000,000	1.16
	23.06.2009	23.06.2010 – 23.06.2019	0.946	–	8,600,000	–	–	8,600,000	0.93
				13,197,800	8,600,000	(12,197,800)	–	9,600,000	
Customers and suppliers	03.07.2002	03.07.2003 – 02.07.2010	2.455	2,145,000	–	–	–	2,145,000	2.45

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

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

		Number of underlying shares		
Tranche No.	**Exercise period**	**Outstanding at 1.1.2009**	**Exercised during the year**	**Outstanding at 31.12.2009**
1	01.04.2009 – 02.01.2010	16,750,000	(16,750,000)	–
2	01.02.2010 – 31.07.2010	25,000,000	–	25,000,000
3	01.08.2010 – 31.01.2011	21,093,000	–	21,093,000
		62,843,000	(16,750,000)	46,093,000

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

The total number of underling shares of option amounts to 46,093,000 shares, representing 13.10% of the issued share capital of the Company as at 31 March 2010.

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

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

Note:

(i) During the period from 1 January 2009 to 30 June 2009, the actual aggregate purchase by New Era did not exceed the minimum annual consideration in accordance with the Manufacturing Agreement, NE was not entitled to higher discount levels set out in above.

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

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

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

The exercise price of the tranche No. 1 being exercised during the year was HK$0.7939 per share.

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

Substantial Shareholders

So far as is known to the Directors or chief executives of the Company, as at 31 December 2009, shareholders (other than Directors or chief executives of the Company) who had interests or short positions in the shares or underlying shares of the Company which were required to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Long positions in the shares and underlying shares:

		Number of shares				
Name	Capacity	Personal interest	Other interest	Underlying shares	Total	Percentage of interest
Successful Years International Co., Ltd. (note 1)	Beneficial owner	183,700,000	–	–	183,700,000	52.20%
Standard Chartered Trust (Cayman) Limited (note 1)	Trustee	–	183,700,000	–	183,700,000	52.20%
Mr. Christopher Koch (note 2)	Interest of a controlled corporation	–	33,508,000	46,093,000	79,601,000	22.62%
New Era Cap Hong Kong LLC (note 2)	Interest of a controlled corporation	–	33,508,000	46,093,000	79,601,000	22.62%
New Era Cap Asia Pacific Limited (note 2)	Beneficial owner	33,508,000	–	46,093,000	79,601,000	22.62%

Notes:

1. Successful Years International Co., Ltd. is owned by NHK Trust and NPL Trust as to 40% and 60% respectively. These two trusts are discretionary family trusts settled by Mr. Ngan Hei Keung and the discretionary beneficiaries include Mr. Ngan Hei Keung, Madam Ngan Po Ling, Pauline, and their family members. Standard Chartered Trust (Cayman) Limited is the trustee of the two trusts. The interests of Mr. Ngan Hei Keung and Madam Ngan Po Ling, Pauline in Successful Years International Co., Ltd. are also disclosed in the section headed "Directors' Interests in Shares and Underlying Shares" above.

2. Pursuant to the manufacturing agreement, New Era Cap Asia Pacific Limited ("NE") subscribed 16,758,000 shares and exercised 16,750,000 option shares, and granted option of 46,343,000 underlying shares subject to the terms and conditions of the manufacturing agreement. Mr. Christopher Koch owns 75% of the issued share capital of New Era Cap Hong Kong LLC which in turn owns 100% of the issued share capital of NE. As such, Mr. Christopher Koch and New Era Cap Hong Kong LLC are deemed to be interested in the 33,508,000 shares and 46,093,000 underlying shares.

Short positions in the underlying shares:

Name	Number of underlying shares	Percentage of interest
Mr. Christopher Koch	39,800,000 *(note)*	11.31%
New Era Cap Hong Kong LLC	39,800,000 *(note)*	11.31%
New Era Cap Asia Pacific Limited ("NE")	39,800,000 *(note)*	11.31%

Note:

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

Save as disclosed above, as at 31 December 2009, 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 15 to the financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws or the laws of Bermuda which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

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

During the year ended 31 December 2009, 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 12 April 2010, being the date of this report.

AUDITORS

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

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

By order of the Board

Ngan Hei Keung
Chairman

Hong Kong, 12 April 2010

INDEPENDENT AUDITORS' REPORT

Grant Thornton
均富

Member of Grant Thornton International Ltd

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

We have audited the consolidated financial statements of Mainland Headwear Holdings Limited ("the Company") and its subsidiaries (collectively referred to as "the Group") set out on pages 42 to 110, which comprise the consolidated and the Company's balance sheet as at 31 December 2009, 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 notes.

Directors' Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

Auditors' Responsibility (Continued)

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2009 and of the loss and cash flows of the Group for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Grant Thornton
Certified Public Accountants
6th Floor, Nexxus Building
41 Connaught Road Central
Hong Kong

12 April 2010

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2009

	Note	2009 HK$'000	2008 HK$'000
Turnover and revenue	5	515,834	610,959
Cost of sales		(401,842)	(440,586)
Gross profit		113,992	170,373
Other income	6	5,581	9,133
Selling and distribution costs		(65,979)	(69,533)
Administration expenses		(99,474)	(99,071)
Other operating expense		(6,815)	(4,861)
Impairment of goodwill and intangibles		–	(28,348)
Loss from operations		(52,695)	(22,307)
Share of results of a jointly controlled entity		209	(4,570)
Finance costs		(62)	(86)
Loss before taxation	8	(52,548)	(26,963)
Taxation	11	(140)	(2,857)
Loss for the year		(52,688)	(29,820)
Attributable to:			
Equity holders of the Company		(45,133)	(29,259)
Minority interests		(7,555)	(561)
Loss for the year		(52,688)	(29,820)
Loss per share	14		
Basic		(13.4 HK cents)	(9.2 HK cents)
Diluted		N/A	N/A

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2009

	2009	2008
	HK$'000	HK$'000
Loss for the year	**(52,688)**	(29,820)
Other comprehensive income for the year		
Exchange differences on translation of financial statements of foreign operations	**894**	13,272
Total comprehensive loss for the year	**(51,794)**	(16,548)
Attributable to:		
Equity holders of the Company	**(44,133)**	(16,265)
Minority interests	**(7,661)**	(283)
Total comprehensive loss for the year	**(51,794)**	(16,548)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2009

	Attributable to equity holders of the Company								
	Share capital HK$'000	Share premium HK$'000	Contributed surplus HK$'000 (note 30(a))	Accumulated profits HK$'000	Capital reserve HK$'000 (note 30(b))	Exchange reserve HK$'000	Total HK$'000	Minority interests HK$'000	Total equity HK$'000
At 1 January 2008	31,840	100,203	25,878	339,847	4,612	8,954	511,334	2,854	514,188
Loss for the year	–	–	–	(29,259)	–	–	(29,259)	(561)	(29,820)
Other comprehensive income:									
– Exchange differences on translation of financial statements of foreign operations	–	–	–	–	–	12,994	12,994	278	13,272
Total comprehensive (loss)/income for the year	–	–	–	(29,259)	–	12,994	(16,265)	(283)	(16,548)
2007 final dividend paid (note 13)	–	–	–	(15,920)	–	–	(15,920)	–	(15,920)
2008 interim dividend paid (note 13)	–	–	–	(6,368)	–	–	(6,368)	–	(6,368)
Equity settled share-based transactions	–	–	–	–	713	–	713	–	713
Transactions with owners	–	–	–	(22,288)	713	–	(21,575)	–	(21,575)
Share options lapsed	–	–	–	78	(78)	–	–	–	–
At 31 December 2008	31,840	100,203	25,878	288,378	5,247	21,948	473,494	2,571	476,065
Representing:									
2008 proposed final dividend (note 13)		–	–	10,055	–	–	10,055		
Reserves		100,203	25,878	278,323	5,247	21,948	431,599		
		100,203	25,878	288,378	5,247	21,948	441,654		

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2009

	Attributable to equity holders of the Company								
	Share capital HK$'000	Share premium HK$'000	Contributed surplus HK$'000 (note 30(a))	Accumulated profits HK$'000	Capital reserve HK$'000 (note 30(b))	Exchange reserve HK$'000	Total HK$'000	Minority interests HK$'000	Total equity HK$'000
At 1 January 2009	31,840	100,203	25,878	288,378	5,247	21,948	473,494	2,571	476,065
Loss for the year	–	–	–	(45,133)	–	–	(45,133)	(7,555)	(52,688)
Other comprehensive income:									
– Exchange differences on translation of financial statements of foreign operations	–	–	–	–	–	1,000	1,000	(106)	894
Total comprehensive (loss)/income for the year	–	–	–	(45,133)	–	1,000	(44,133)	(7,661)	(51,794)
Increase in shareholding of a subsidiary	–	–	–	–	–	–	–	13,830	13,830
2008 final dividend paid (note 13)	–	–	–	(10,055)	–	–	(10,055)	–	(10,055)
2009 interim dividend paid (note 13)	–	–	–	(3,352)	–	–	(3,352)	–	(3,352)
Issue of new shares	1,676	12,468	–	–	–	–	14,144	–	14,144
Exercise of share options	1,675	12,706	–	–	(1,083)	–	13,298	–	13,298
Equity settled share-based transactions	–	–	–	–	5,903	–	5,903	–	5,903
Transactions with owners	3,351	25,174	–	(13,407)	4,820	–	19,938	13,830	33,768
Share options cancelled	–	–	–	4,534	(4,534)	–	–	–	–
Share options lapsed	–	–	–	95	(95)	–	–	–	–
	–	–	–	4,629	(4,629)	–	–	–	–
At 31 December 2009	35,191	125,377	25,878	234,467	5,438	22,948	449,299	8,740	458,039
Representing:									
2009 proposed final dividend (note 13)		–	–	7,038	–	–	7,038		
Reserves		125,377	25,878	227,429	5,438	22,948	407,070		
		125,377	25,878	234,467	5,438	22,948	414,108		

CONSOLIDATED BALANCE SHEET

As at 31 December 2009

	Note	2009 HK$'000	2008 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	16	128,703	138,696
Prepaid premium on leasehold land held for own use under an operating lease	17	937	1,075
Interests in a jointly controlled entity	19	–	15,136
Goodwill	20	4,958	4,958
Intangibles	21	3,790	–
Deferred tax assets	27	67	28
		138,455	159,893
Current assets			
Inventories	22	103,153	119,946
Trade and other receivables	23	167,644	144,738
Amount due from a related company	24	923	918
Short term investments	25	4,758	4,322
Tax recoverable		604	608
Bank balances and cash		138,729	149,148
		415,811	419,680
Current liabilities			
Trade and other payables	26	90,876	95,996
Amounts due to related companies	24	1,170	1,412
Taxation		2,595	3,774
		94,641	101,182
Net current assets		321,170	318,498
Total assets less current liabilities		459,625	478,391
Non-current liabilities			
Post-employment benefits		73	73
Deferred tax liabilities	27	1,513	2,253
		1,586	2,326
NET ASSETS		458,039	476,065

CONSOLIDATED BALANCE SHEET

As at 31 December 2009

	Note	2009 HK$'000	2008 HK$'000
CAPITAL AND RESERVES			
Share capital	28	35,191	31,840
Reserves		414,108	441,654
Total equity attributable to equity holders of the Company		449,299	473,494
Minority interests		8,740	2,571
TOTAL EQUITY		458,039	476,065

Ngan Hei Keung
Director

Ngan Po Ling, Pauline
Director

BALANCE SHEET

As at 31 December 2009

	Note	2009 HK$'000	2008 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Interests in subsidiaries	18	351,360	310,389
Intangibles	21	3,790	–
		355,150	310,389
Current assets			
Other receivables		22,730	14,904
Tax recoverable		227	201
Bank balances and cash		4,350	25,693
		27,307	40,798
Current liabilities			
Accrued charges and other creditors		11,270	14,234
Net current assets		16,037	26,564
NET ASSETS		371,187	336,953
CAPITAL AND RESERVES			
Share capital	28	35,191	31,840
Reserves	30	335,996	305,113
		371,187	336,953

Ngan Hei Keung
Director

Ngan Po Ling, Pauline
Director

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2009

	Note	2009 HK$'000	2008 HK$'000
Operating activities			
Cash (used in)/generated from operations	32	(14,008)	62,653
The People's Republic of China ("PRC") Income Tax paid		(480)	(3,724)
Hong Kong Profits Tax paid		(484)	(4,544)
Overseas taxation paid		(1,142)	(311)
Net cash (used in)/from operating activities		(16,114)	54,074
Investing activities			
Interest received		2,757	2,260
Acquisition of a subsidiary	33	(1,452)	(23,081)
Acquisition of a jointly controlled entity		–	(19,706)
Purchase of property, plant and equipment		(14,576)	(15,002)
Proceeds from disposal of property, plant and equipment		6,056	70
Net (acquisition)/sales of short term investments		(393)	72,399
Net cash (used in)/from investing activities		(7,608)	16,940
Financing activities			
Interest paid		(62)	(191)
Dividends paid		(13,407)	(22,288)
Proceeds from issue of shares		27,442	–
New bank loans borrowed		–	18,000
Repayment of bank loans		–	(18,000)
Net cash from/(used in) financing activities		13,973	(22,479)
Net (decrease)/increase in cash and cash equivalents		(9,749)	48,535
Cash and cash equivalents at beginning of year		149,148	95,874
Effect of foreign exchange rate changes		(670)	4,739
Cash and cash equivalents at end of year		138,729	149,148
Analysis of the balances of cash and cash equivalents			
Bank balances and cash		138,729	149,148

1. General Information

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

The immediate and ultimate holding company of the Company is Successful Years International Company Limited, a company incorporated in the British Virgin Islands.

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.

The financial statements for the year ended 31 December 2009 were approved for issue by the board of directors on 12 April 2010.

2. Principal Accounting Policies

(a) Statement of compliance

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

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 3 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

It should be noted that accounting estimates and assumptions are used in preparation of the financial statements. Although these estimates are based on management's best knowledge and judgement of current events and actions, actual results may ultimately differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 4.

(b) Basis of preparation

The financial statements are prepared under the historical cost convention, except for short term investments which are stated at fair value as explained in accounting policies set out below.

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

(c) Subsidiaries and minority interests

A subsidiary is an entity, in which the Company, directly or indirectly, has the power to govern the financial and operating policies so as to obtain benefits from its activities. In the Company's balance sheet, investments in subsidiaries are stated at cost less impairment loss (see note 2(h)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale). The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable at the balance sheet date. All dividends whether received out of the investee's pre or post-acquisition profits are recognised in the Company's profit or loss.

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

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

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

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

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

(d) Goodwill

Goodwill represents the excess of the cost of a business combination over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. The cost of the business combination is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group, plus any costs directly attributable to the business combination.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment (see note 2(h)).

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

On disposal of a subsidiary any attributable amount of goodwill is included in the calculation of the profit or loss on disposal.

(e) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses (see note 2(h)).

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

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

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

Furniture and equipment	20% to 33%
Leasehold improvements	10% to 50%
Plant and machinery	10%
Motor vehicles	12.5% to 20%

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

(f) Jointly controlled entities

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

In consolidated financial statements, an investment in a jointly controlled entity is initially recognised at cost and subsequently accounted for using the equity method. Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the jointly controlled entity recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. The cost of acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed and equity instruments issued by the Group, plus any costs directly attributable to the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss in the determination of the Group's share of the jointly controlled entity's profit or loss in the period in which the investment is acquired.

Under the equity method, the Group's interest in the jointly controlled entity is carried at cost and adjusted for the post-acquisition changes in the Group's share of the jointly controlled entity's net assets less any identified impairment loss, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). The profit or loss for the period includes the Group's share of the post-acquisition, post-tax results of the jointly controlled entity for the year, including any impairment loss on the investment in jointly controlled entity recognised for the year.

Unrealised gains on transactions between the Group and its jointly controlled entity are eliminated to the extent of the Group's interest in the jointly controlled entity. Where unrealised losses on assets sales between the Group and its jointly controlled entities are reversed on equity accounting, the underlying asset is also tested for impairment from the Group's perspective.

When the Group's share of losses in a jointly controlled entity equals or exceeds its interest in the jointly controlled entity, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the jointly controlled entity. For this purpose, the Group's interest in the jointly controlled entity is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the jointly controlled entity.

After the application of equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group's investment in its jointly controlled entity. At each balance sheet date, the Group determines whether there is any objective evidence that the investment in jointly controlled entity is impaired. If such indications are identified, the Group calculates the amount of impairment as being the difference between the recoverable amount (higher of value in use and fair value less costs to sell) of the jointly controlled entity and its carrying amount. In determining the value in use of the investment, the Group estimates its share of the present value of the estimated future cash flows expected to be generated by the jointly controlled entity, including cash flows arising from the operations of the jointly controlled entity and the proceeds on ultimate disposal of the investment.

(g) Intangibles

Intangibles are stated in the balance sheet at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see note 2(h)). Amortisation of intangibles with finite useful lives is charged to income statement from the date they are available for use and the estimated useful life is 2 to 3 years. Both the period and method of amortisation are reviewed annually.

(h) Impairment of assets

(i) Impairment of trade and other receivables

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

Objective evidence of impairment of individual financial assets includes observable data that comes to the attention of the Group about one or more of the following loss events:

- 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; and
- Significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

Loss events in respect of a group of financial assets include observable data indicating that there is a measurable decrease in the estimated future cash flows from the group of financial assets. Such observable data includes but not limited to adverse changes in the payment status of debtors in the group and, national or local economic conditions that correlate with defaults on the assets in the group.

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, 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 under an operating lease;

– intangibles;

– investments in subsidiaries;

– investments in a jointly controlled entity;

– goodwill.

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

– Calculation of recoverable amount

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

– Recognition of impairment losses

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

– Reversals of impairment losses

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

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

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

(j) Inventories

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

(k) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less impairment losses for bad and doubtful debts (see note 2(h)).

(l) Trade and other payables

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

(m) Short term investments

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

(n) Cash 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.

(o) Leasing

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

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

(p) Financial guarantees issued, provisions and contingent liabilities

(i) Financial guarantees issued

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

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

The amount of the guarantee initially recognised as deferred income is amortised in income statement over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised if and when it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and the amount of that claim on the Group is expected to exceed the current carrying amount i.e. the amount initially recognised, less accumulated amortisation.

(ii) Other provisions and contingent liabilities

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

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

(q) Taxation

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

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

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

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

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

(r) Foreign currencies translation

The financial statements are presented in Hong Kong Dollars (HK$), which is also the functional currency of the Company. In the individual financial statements of the consolidated entities, 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 in other comprehensive income.

Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated 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.

In the consolidated financial statements, all individual financial statements of foreign operations, originally presented in a currency different from the Group's presentation currency, have been converted into Hong Kong dollars. Assets and liabilities have been translated into Hong Kong dollars at the closing rates at the balance sheet date. Income and expenses have been converted into the Hong Kong dollars at the exchange rates ruling at the transaction dates, or at the average rates over the reporting period provided that the exchange rates do not fluctuate significantly. Any differences arising from this procedure have been recognised in other comprehensive income and accumulated separately in the exchange reserve in equity. Goodwill and fair value adjustments arising on the acquisition of a foreign operation on or after 1 January 2005 have been treated as assets and liabilities of the foreign operation and translated into Hong Kong dollars at the closing rates. Goodwill arising on the acquisitions of foreign operations 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 relating to that foreign operation is reclassified from equity to profit or loss where the profit or loss on disposal is recognised.

(s) Share capital

Ordinary shares are classified as equity. Share capital is determined using the nominal value of shares that have been issued.

Any transaction costs associated with the issuing of shares are deducted from share premium (net of any related income tax benefit) to the extent they are incremental costs directly attributable to the equity transaction.

(t) Related parties

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

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

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

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

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

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

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

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

(u) Retirement benefit costs

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

(v) Share-based payments

(i) Share options granted to employees

The fair value of share options granted is charged to the consolidated income statement with a corresponding increase in capital reserve within equity. The fair value is measured at grant date using the Black-Scholes pricing model or binomial option pricing model, taking into account the terms and conditions upon which the options were granted. Where the vesting conditions have to be met before becoming unconditionally entitled to the share options, the total estimated fair value of the share options is spread over the vesting period, taking into account the probability that the options will vest.

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

(ii) Share options granted to customers

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

(w) Revenue recognition

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

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

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

(x) Segment reporting

The Group identifies operating segments and prepares segment information based on the regular internal financial information reported to the executive directors for their decisions about resources allocation to the Group's business components and for their review of the performance of those components. The business components in the internal financial information reported to the executive directors are determined following the Group's major product and service lines.

Each of the operating segments is managed separately as each of the product and service lines requires different resources as well as marketing approaches. All inter-segment transfers are carried out at arms length prices.

The measurement policies the Group uses for reporting segment results under HKFRS 8 are the same as those used in its financial statements prepared under HKFRSs, except that:

- expenses related to share-based payments
- net gain or loss from short term investments
- share of results of a jointly controlled entity accounted for using the equity method
- finance costs
- taxation
- corporate income and expenses which are not directly attributable to the business activities of any operating segment

are not included in arriving at the operating results of the operating segment.

Segment assets include all assets with the exception of short term investments, intangibles, interests in a jointly controlled entity, deferred tax assets and tax recoverable. In addition, corporate assets which are not directly attributable to the business activities of any operating segment are not allocated to a segment, which primarily applies to the Group's headquarter.

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

3. Changes in Accounting Policies

In the current year, the Group has applied for the first time the following new standards, amendments and interpretations (the new "HKFRSs") issued by the HKICPA, which are relevant to and effective for the Group's financial statements for the annual period beginning on 1 January 2009:

HKAS 1 (Revised 2007)	Presentation of Financial Statements
HKAS 23 (Revised 2007)	Borrowing Costs
HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
HKFRS 2 (Amendments)	Share-based Payments: Vesting Conditions and Cancellations
HKFRS 7 (Amendments)	Improving Disclosures about Financial Instruments
HKFRS 8	Operating Segments
Various	Annual Improvements to HKFRSs 2008

Other than as noted below, the adoption of these new and revised HKFRSs has had no material impact on how the results and financial position for the current and prior periods have been prepared and presented.

HKAS 1 (Revised 2007) Presentation of Financial Statements

The adoption of HKAS 1 (Revised 2007) makes certain changes to the format and presentation of some items within the primary financial statements. A third balance sheet as at the beginning of the earliest comparative period is required when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements or when it reclassifies items in its financial statements.

The measurement and recognition of the Group's assets, liabilities, income and expenses is unchanged. However, some items that were recognised directly in equity are now recognised in other comprehensive income. HKAS 1 affects the presentation of owner changes in equity and introduces a 'Statement of comprehensive income'.

Comparatives have been restated to conform with the revised standard. However, the changes to the comparatives have not affected the consolidated or parent company balance sheet at 1 January 2008 and accordingly the third balance sheet as at 1 January 2008 is not presented.

HKFRS 7 (Amendments) Improving Disclosures about Financial Instruments

The amendments require additional disclosures for financial instruments which are measured at fair value in the balance sheet. These fair value measurements are categorised into a three-level fair value hierarchy, which reflects the extent of observable market data used in making the measurements. The Group has taken advantage of the transitional provisions in the amendments and has not provided comparative information in respect of the new requirements.

HKFRS 8 Operating Segments

As a result of the adoption of HKFRS 8, reported segment information is now based on internal management reporting information that is regularly reviewed by the senior executive management. In the previous annual financial statements, segments were identified by reference to the dominant source and nature of the Group's risks and returns. The adoption of HKFRS 8 has not affected the identified and reportable operating segments but to provide comparative amounts in respect of items disclosed for the first time in 2009.

At the date of authorisation of these financial statements, certain new and amended HKFRSs have been published but are not yet effective, and have not been adopted early by the Group.

The directors anticipate that all of the pronouncements will be adopted in the Group's accounting policy for the first period beginning after the effective date of the pronouncement. Information on new and amended HKFRSs that are expected to have impact on the Group's accounting policies is provided below. Certain other new and amended HKFRSs have been issued but are not expected to have a material impact of the Group's financial statements.

HKFRS 3 Business Combinations (Revised 2008)

The standard is applicable in reporting periods beginning on or after 1 July 2009 and will be applied prospectively. The new standard still requires the use of the purchase method (now renamed the acquisition method) but introduces material changes to the recognition and measurement of consideration transferred and the acquiree's identifiable assets and liabilities, and the measurement of non-controlling interests (previously known as minority interest) in the acquiree. The new standard is expected to have a significant effect on business combinations occurring in reporting periods beginning on or after 1 July 2009.

HKFRS 9 Financial Instruments

The standard is effective for accounting periods beginning on or after 1 January 2013 and addresses the classification and measurement of financial assets. The new standard reduces the number of measurement categories of financial assets and all financial assets will be measured at either amortised cost or fair value based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. Fair value gains and losses will be recognised in profit or loss except for those on certain equity investments which will be presented in other comprehensive income.

HKAS 27 Consolidated and Separate Financial Statements (Revised 2008)

The revised standard is effective for accounting periods beginning on or after 1 July 2009 and introduces changes to the accounting requirements for the loss of control of a subsidiary and for changes in the Group's interest in subsidiaries. Total comprehensive income must be attributed to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Annual Improvements to HKFRSs 2009

The HKICPA has issued Improvements to HKFRSs 2009. Most of the amendments become effective for annual periods beginning on or after 1 January 2010. The Group expects the amendment to HKAS 17 Leases to be relevant to the Group's accounting policies. Prior to the amendment, HKAS 17 generally required a lease of land to be classified as an operating lease. The amendment requires a lease of land to be classified as an operating or finance lease in accordance with the general principles in HKAS 17. The Group will need to reassess the classification of its unexpired leases of land at 1 January 2010 on the basis of information existing at the inception of those leases in accordance with the transitional provisions for the amendment. The amendment will apply retrospectively except where the necessary information is not available. In that situation, the leases will be assessed on the date when the amendment is adopted.

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) Estimated impairment of goodwill

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

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

(b) Provision for impairment of receivables

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

(c) Provision for impairment of inventories

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

5. Turnover and Revenue

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

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

6. Other Income

	2009	2008
	HK$'000	HK$'000
Interest income	2,757	2,260
Sundry income	1,748	1,065
Net gain from short term investments	43	–
Negative goodwill (note 33)	1,033	5,808
	5,581	9,133

7. Segment Information

The executive directors have identified the following three operating segments:

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

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

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

	Manufacturing		Trading		Retail		Total	
	2009	2008	**2009**	2008	**2009**	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Revenue from external customers	**388,080**	379,421	**31,248**	45,622	**96,506**	185,916	**515,834**	610,959
Inter-segment revenue	**13,600**	19,947	**–**	–	**–**	–	**13,600**	19,947
Reportable segment revenue	**401,680**	399,368	**31,248**	45,622	**96,506**	185,916	**529,434**	630,906
Reportable segment (loss)/profit	**(2,613)**	364	**(2,101)**	4,987	**(17,946)**	(22,838)	**(22,660)**	(17,487)
Net gain/(loss) from short term investments							**43**	(4,861)
Share-based payment expenses							**(1,975)**	(713)
Unallocated corporate income							**1,227**	943
Unallocated corporate expenses							**(29,330)**	(189)
Loss from operations							**(52,695)**	(22,307)
Share of results of a jointly controlled entity							**209**	(4,570)
Finance costs							**(62)**	(86)
Taxation							**(140)**	(2,857)
Loss for the year							**(52,688)**	(29,820)
Depreciation and amortisation	**27,631**	23,362	**157**	130	**4,483**	6,692	**32,271**	30,184
Impairment of goodwill and intangibles	**–**	11,146	**–**	–	**–**	17,202	**–**	28,348
Provision for impairment of property, plant and equipment	**6,815**	–	**–**	–	**–**	–	**6,815**	–
Loss on disposal of property, plant and equipment	**3,079**	–	**–**	–	**–**	–	**3,079**	–
Written down of inventories to net realisable value	**6,319**	–	**–**	–	**3,270**	–	**9,589**	–
Provision for impairment of trade and other receivables	**3,606**	1,662	**–**	–	**–**	–	**3,606**	1,662
Negative goodwill	**(1,033)**	(5,808)	**–**	–	**–**	–	**(1,033)**	(5,808)
Interest income	**(2,402)**	(1,476)	**–**	–	**–**	–	**(2,402)**	(1,476)

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For the year ended 31 December 2009

	Manufacturing		Trading		Retail		Total	
	2009	2008	**2009**	2008	**2009**	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Reportable segment assets	**327,285**	327,982	**8,456**	10,312	**70,577**	72,040	**406,318**	410,334
Interests in a jointly controlled entity							**–**	15,136
Intangibles							**3,790**	–
Deferred tax assets							**67**	28
Tax recoverable							**604**	608
Short term investments							**4,758**	4,322
Other corporate assets							**138,729**	149,145
Total assets							**554,266**	579,573
Reportable segment liabilities	**48,654**	39,983	**9,434**	7,907	**22,761**	35,357	**80,849**	83,247
Deferred tax liabilities							**1,513**	2,253
Taxation							**2,595**	3,774
Other corporate liabilities							**11,270**	14,234
Total liabilities							**96,227**	103,508
Capital expenditure incurred during the year	**32,087**	10,283	**251**	296	**4,176**	6,928	**36,514**	17,507

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

The Group's revenue from external customers and its non-current assets (other than deferred tax assets) are divided into the following geographical areas:

(i) Revenue from external customers

	2009	2008
	HK$'000	HK$'000
Hong Kong (Place of domicile)	14,526	16,014
USA	292,313	289,238
PRC	88,477	191,648
Europe	86,713	98,074
Others	33,805	15,985
Total	515,834	610,959

(ii) Non-current assets

	2009	2008
	HK$'000	HK$'000
Hong Kong (Place of domicile)	7,975	6,637
PRC and Macau	125,923	137,743
Vietnam	473	15,136
Europe	4,017	349
	138,388	159,865

During 2009, HK$59,554,000 or 11.6% of the Group's revenue was derived from a single customer in the Manufacturing business (2008: HK$77,704,000 or 12.7%).

8. Loss Before Taxation

This is stated after charging/(crediting):

	2009	2008
	HK$'000	HK$'000
(a) Finance costs		
Interest on bank loans, overdrafts and other borrowings wholly repayable within five years	62	86
(b) Other items		
Employee remuneration (including directors' emoluments and retirement benefit costs)		
– Salaries and allowances	146,476	151,304
– Contribution to retirement scheme	734	775
– Share-based payments	1,975	269
	149,185	152,348
Cost of inventories	227,819	272,485
Auditors' remuneration	1,543	1,172
Depreciation of property, plant and equipment	32,127	30,042
Amortisation on prepaid premium on leasehold land held for own use under operating lease	144	142
Amortisation of intangibles	138	–
Net foreign exchange loss	2,534	1,153
Loss on disposal of property, plant and equipment	3,079	–
Operating leases charges in respect of office premises, shops, factories and warehouses	39,069	38,995
Provision for impairment of trade and other receivables	3,606	1,662
Provision for impairment of property, plant and equipment	6,815	–
Written down of inventories to net realisable value	9,589	–
Impairment of goodwill	–	17,202
Impairment of intangibles	–	11,146
Net (gain)/loss from short term investments	(43)	4,861
Negative goodwill (note 33)	(1,033)	(5,808)

9. Directors' Emoluments

	2009	2008
	HK$'000	HK$'000
Fees	432	432
Salaries, housing benefits, other allowances and benefits in kind	3,332	5,576
Share-based payments	835	165
Contributions to retirement scheme	48	61
	4,647	6,234

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

	Fees	Salaries, allowances and benefits in kind	Share-based payments	Retirement scheme contributions	2009 Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Mr. Ngan Hei Keung	–	1,016	313	24	1,353
Madam Ngan Po Ling, Pauline	–	1,536	313	24	1,873
Mr. James S. Patterson	–	88	209	–	297
Mr. Luh Yih Ping	–	692	–	–	692
Mr. Leung Shu Yin, William	96	–	–	–	96
Mr. Tse Kam Fow	120	–	–	–	120
Mr. Lo Hang Fong	96	–	–	–	96
Mr. Liu Tieh Ching, Brandon, JP	120	–	–	–	120
Total	432	3,332	835	48	4,647

Mr. James S. Patterson was appointed as director on 7 April 2009 and Mr. Luh Yih Ping was resigned as director on 15 April 2009.

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For the year ended 31 December 2009

	Fees	Salaries, allowances and benefits in kind	Share-based payments	Retirement scheme contributions	2008 Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Mr. Ngan Hei Keung	–	1,040	–	24	1,064
Madam Ngan Po Ling, Pauline	–	1,604	–	24	1,628
Mr. Luh Yih Ping	–	340	95	2	437
Mr. Cheung Wai Ching	–	2,592	70	11	2,673
Mr. Leung Shu Yin, William	96	–	–	–	96
Mr. Tse Kam Fow	120	–	–	–	120
Mr. Lo Hang Fong	96	–	–	–	96
Mr. Liu Tieh Ching, Brandon, JP	120	–	–	–	120
Total	432	5,576	165	61	6,234

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.

10. Five Highest Paid Employees

The five highest paid individuals included two (2008: three) directors, details of whose remuneration are set out in note 9. The details of the emoluments of the remaining three (2008: two) highest paid individuals are as follows:

	2009	2008
	HK$'000	HK$'000
Salaries and allowances	3,574	3,485
Discretionary bonuses	2,039	1,824
Share-based payments	555	104
Contributions to retirement scheme	23	12
	6,191	5,425

The emoluments of these three (2008: two) employee are within the following bands:

	2009	2008
	HK$'000	HK$'000
Nil – HK$1,000,000	1	–
HK$1,000,001 – HK$2,000,000	1	1
HK$2,000,001 – HK$3,000,000	–	–
HK$3,000,001 – HK$4,000,000	1	1

11. Taxation

	2009	2008
	HK$'000	HK$'000
Hong Kong Profits Tax		
– Current year	(27)	527
– Under/(over)-provision in prior years	175	(839)
	148	(312)
PRC income tax	1,296	3,488
Overseas tax	(525)	1,035
	919	4,211
Deferred taxation (note 27)		
– Current year	(779)	(1,147)
– Decrease in tax rate	–	(207)
	(779)	(1,354)
	140	2,857

Hong Kong Profits Tax has been provided at the rate of 16.5% (2008: 16.5%) on the estimated assessable profits for the year. Taxation for PRC and overseas subsidiaries has been calculated at the rates applicable in the respective jurisdictions and based on prevailing legislation, interpretations, and practices in respect thereof.

Reconciliation of tax expenses

	2009	2008
	HK$'000	HK$'000
Loss before taxation	(52,548)	(26,963)
Calculated at a taxation rate of 16.5% (2008: 16.5%)	(8,670)	(4,449)
Effect of different taxation rates in other countries	(130)	896
Decrease in tax rate	–	207
Non-deductible expenses	9,642	8,611
Tax exempt revenue	(428)	(2,780)
Unrecognised tax losses	244	602
Under/(over)-provision in prior years	175	(839)
Others	(693)	609
Tax expenses for the year	140	2,857

12. Profit Attributable to Equity Holders of the Company

The profit attributable to equity holders of the Company dealt with in the financial statements of the Company for the year amounted to HK$14,296,000 (2008: HK$14,279,000).

13. Dividends

(a) Dividends attributable to the year

	2009	2008
	HK$'000	HK$'000
Interim dividend of 1 HK cent (2008: 2 HK cents) per share	3,352	6,368
Proposed final dividend of 2 HK cents (2008: 3 HK cents) per share	7,038	10,055
	10,390	16,423

A final dividend in respect of 2009 of 2 HK cents (2008: 3 HK cents) per share amounting to approximately HK$7,038,000 (2008: HK$10,055,000) has been proposed by the directors after the balance sheet date. The proposed final dividend has not been recognised as a liability at the balance sheet date, but reflected as an appropriation of accumulated profits for the year ended 31 December 2009.

(b) Dividends attributable to the previous year, approved and paid during the year

	2009	2008
	HK$'000	HK$'000
Final dividend in respect of the previous year of 3 HK cents (2008: 5 HK cents) per share	10,055	15,920

14. Loss Per Share

The calculation of basic loss per share is based on the loss attributable to equity holders of the Company of HK$45,133,000 (2008: HK$29,259,000) and on the weighted average number of shares of 335,710,859 (2008: 318,402,284) in issue during the year.

No diluted loss per share has been presented for the year ended 31 December 2009 and 2008 because the impact of exercise of the share options was anti-dilutive.

15. Retirement Schemes

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

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

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

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

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

	2009	2008
	HK$'000	HK$'000
Gross retirement schemes contributions	734	775
Less: Forfeited contributions for the year	–	–
Net retirement schemes contributions	734	775

As at 31 December 2009, 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.

16. 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 2008	31,376	38,088	213,015	14,524	10,537	307,540
Acquisition of a subsidiary	226	1,454	–	–	825	2,505
Additions	2,568	4,496	3,866	3,355	717	15,002
Disposals	(38)	(333)	(57)	–	(253)	(681)
Exchange differences	791	1,311	6,570	1,067	251	9,990
At 31 December 2008 and 1 January 2009	**34,923**	**45,016**	**223,394**	**18,946**	**12,077**	**334,356**
Acquisition of a subsidiary	521	–	21,249	–	168	21,938
Transfers	–	–	20,203	(20,203)	–	–
Additions	1,728	4,560	6,115	1,433	740	14,576
Disposals	(1,688)	(191)	(11,866)	(286)	(743)	(14,774)
Exchange differences	173	539	1,602	110	94	2,518
At 31 December 2009	**35,657**	**49,924**	**260,697**	**–**	**12,336**	**358,614**
Accumulated depreciation						
At 1 January 2008	25,525	26,197	103,091	–	6,607	161,420
Charge for the year	2,768	8,179	17,334	–	1,761	30,042
Eliminated on disposals	(37)	(333)	(57)	–	(196)	(623)
Exchange differences	696	1,077	2,925	–	123	4,821
At 31 December 2008 and 1 January 2009	**28,952**	**35,120**	**123,293**	**–**	**8,295**	**195,660**
Charge for the year	2,761	6,022	22,207	–	1,137	32,127
Eliminated on disposals	(978)	(141)	(3,981)	–	(539)	(5,639)
Impairment loss	–	–	6,815	–	–	6,815
Exchange differences	165	383	362	–	38	948
At 31 December 2009	**30,900**	**41,384**	**148,696**	**–**	**8,931**	**229,911**
Net book value						
At 31 December 2009	**4,757**	**8,540**	**112,001**	**–**	**3,405**	**128,703**
At 31 December 2008	5,971	9,896	100,101	18,946	3,782	138,696

The recent global weakening economy has affected the performance of Keen Idea (note 33), especially in the third quarter of 2009. Therefore, in August 2009, the directors have decided to close down the operations of the Vietnam factory starting from the third quarter of 2009 and an impairment loss of HK$6,815,000 (2008: nil) was recognised.

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

	The Group HK$'000
Cost	
At 1 January 2008	2,684
Exchange difference	183
At 31 December 2008 and 1 January 2009	2,867
Exchange difference	16
At 31 December 2009	2,883
Accumulated amortisation	
At 1 January 2008	1,543
Charge for the year	142
Exchange difference	107
At 31 December 2008 and 1 January 2009	1,792
Charge for the year	144
Exchange difference	10
At 31 December 2009	1,946
Net book value	
At 31 December 2009	**937**
At 31 December 2008	1,075

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

18. Interests in Subsidiaries

	The Company 2009	The Company 2008
	HK$'000	HK$'000
Unlisted shares, at cost	99,631	99,631
Due from subsidiaries (note (i))	251,729	210,758
	351,360	310,389

Notes:

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

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

19. Interests in a Jointly Controlled Entity

	The Group 2009	The Group 2008
	HK$'000	HK$'000
Cost of unlisted investment (note)	–	19,706
Share of post-acquisition loss	–	(4,570)
	–	15,136

Notes:

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

(ii) At 31 December 2008, investment in a jointly controlled entity represented 36% equity interests in Keen Idea Group Limited ("Keen Idea"), a company which is engaged in headwear manufacturing business with its factory based in Vietnam.

(iii) On 27 February 2009, the Group further acquired 24% equity interests of Keen Idea. After the acquisition, the Group had effectively 60% equity interests in Keen Idea, which has become a non-wholly owned subsidiary of the Group (note 33).

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

	2009	2008
	HK$'000	HK$'000
Current assets	–	19,782
Non-current assets	–	23,402
Current liabilities	–	(9,188)
Non-current liabilities	–	–
Income	–	32,314
Expense	–	(45,009)

20. Goodwill

	The Group
	HK$'000
Gross carrying value	
At 1 January 2008	8,161
Acquisition of a subsidiary	17,202
Adjustment to cost of acquisition	(3,203)
At 31 December 2008 and 31 December 2009	22,160
Accumulated impairment	
At 1 January 2008	–
Impairment of goodwill	17,202
At 31 December 2008 and 31 December 2009	17,202
Net carrying amount	
At 31 December 2009	**4,958**
At 31 December 2008	4,958

In 2008, the amount of HK$3,203,000 represented the adjustment to the cost of acquisition in respect of the acquisition of Bollman (Hong Kong) Limited and Guang Zhou Jian Hao Headwear Manufacturing Ltd. ("Panyu Factory", together, "Bollman Subsidiaries") in 2006 that was contingent subsequent to the acquisition.

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

The recoverable amount of the CGU is determined based on value-in-use calculations. These calculations use cash flow projection based on a three-year (2008: three-year) financial budgets and pre-tax discount rate of 8% (2008: 8%). The cashflows for the next five years are extrapolated using a steady growth rate of 3%. The growth rate is based on forecast of the relevant industries and do not exceed the average long-term growth rate.

The budgeted sales and gross margin of the CGU were determined by the management based on past performance and their expectations for market development.

21. Intangibles

	The Group		The Company	
	2009	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000
At 1 January				
Gross carrying amount	**11,146**	10,603	**–**	–
Accumulated amortisation and impairment	**(11,146)**	–	**–**	–
Net carrying amount	**–**	10,603	**–**	–
Net carrying amount at 1 January	**–**	10,603	**–**	–
Addition	**3,928**	–	**3,928**	–
Amortisation	**(138)**	–	**(138)**	–
Interest recognised in income statement	**–**	543	**–**	–
Impairment loss	**–**	(11,146)	**–**	–
Net carrying amount at 31 December	**3,790**	–	**3,790**	–
At 31 December				
Gross carrying amount	**3,928**	11,146	**3,928**	–
Accumulated amortisation and impairment	**(138)**	(11,146)	**(138)**	–
	3,790	–	**3,790**	–

In 2008, the intangible represented the fair value of purchase orders during the two years from 1 July 2007 committed by the vendor to the Group in respect of the acquisition of Bollman Subsidiaries recognised in 2006. The management considered that the vendor probably could not fulfil the purchase orders commitment and the intangible was fully impaired in 2008.

In 2009, the addition of HK$3,928,000 represents the fair value of purchase orders committed by New Era Group during the three years ending 31 December 2011 pursuant to the Manufacturing Agreement dated 21 October 2008 (note 29). It is initially recognised at fair value and subsequently measured at cost less accumulated amortisation.

22. Inventories

	The Group 2009	The Group 2008
	HK$'000	HK$'000
Raw materials	48,558	48,981
Work-in-progress	15,560	13,754
Finished goods	39,035	57,211
	103,153	119,946

The amount of inventories, included in above, carried at net realisable value is HK$4,489,000 (2008: HK$38,112,000).

23. Trade and Other Receivables

	The Group 2009	The Group 2008
	HK$'000	HK$'000
Trade and bills receivables	108,713	107,713
Less: provision for impairment	(3,273)	(3,566)
	105,440	104,147
Deposits, prepayments and other debtors	62,204	40,591
	167,644	144,738

(a) Ageing analysis of trade and bills receivables

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

	The Group	
	2009	2008
	HK$'000	HK$'000
0 – 30 days	**52,479**	41,651
31 – 60 days	**18,101**	28,258
61 – 90 days	**4,180**	15,033
Over 90 days	**30,680**	19,205
	105,440	104,147

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

(b) Impairment of trade and bills receivables

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

	The Group	
	2009	2008
	HK$'000	HK$'000
At 1 January	**3,566**	1,997
Acquisition of a subsidiary	**556**	3
Impairment loss recognised	**67**	1,662
Impairment loss written back	**(461)**	–
Uncollectible amounts written off	**(455)**	(96)
At 31 December	**3,273**	3,566

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

(c) Trade and bills receivables that were past due but not impaired

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

	The Group	
	2009	2008
	HK$'000	HK$'000
Neither past due nor impaired	**68,382**	59,152
1 – 30 days past due	**5,984**	19,734
31 – 60 days past due	**3,522**	8,377
Over 60 days past due	**27,552**	16,884
	105,440	104,147

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

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

(d) Included in other receivables of HK$23,215,000 (2008: HK$7,800,000) is interest bearing at 6% (2008: 12%) per annum.

24. Amounts Due from/(to) Related Companies

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

25. Short Term Investments

	The Group	
	2009	2008
	HK$'000	HK$'000
Listed equity investments in Hong Kong	2,556	–
Unlisted managed funds	2,202	4,322
	4,758	4,322

26. Trade and Other Payables

	The Group	
	2009	2008
	HK$'000	HK$'000
Trade and bills payables	35,257	43,938
Accrued charges and other creditors	55,619	52,058
	90,876	95,996

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

	The Group	
	2009	2008
	HK$'000	HK$'000
0 – 30 days	20,447	19,816
31 – 60 days	8,169	9,263
61 – 90 days	2,382	1,385
Over 90 days	4,259	13,474
	35,257	43,938

27. Deferred Taxation

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

	The Group			
	Assets		Liabilities	
	2009	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000
Depreciation allowances	**–**	–	**(1,513)**	(2,253)
Others	**67**	28	**–**	–
Deferred tax assets/(liabilities)	**67**	28	**(1,513)**	(2,253)

The Group has not recognised deferred tax assets in respect of cumulative tax losses of HK$20,019,000 (2008: HK$18,525,000) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. The tax losses do not expire under current tax legislation.

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

	2009	2008
	HK$'000	HK$'000
Net deferred tax liabilities at 1 January	**(2,225)**	(3,586)
Exchange differences	**–**	7
Credited to income statement (note 11)	**779**	1,354
Net deferred tax liabilities at 31 December	**(1,446)**	(2,225)

28. Share Capital

	Note	The Group and the Company Number of shares of HK$0.10 each	HK$'000
Authorised:			
At 1 January 2008, 31 December 2008 and **31 December 2009**		**1,000,000,000**	**100,000**
Issued and fully paid:			
At 1 January 2008, 31 December 2008 and 1 January 2009		318,402,284	31,840
Issue of new shares	(a)	16,758,000	1,676
Issue of shares pursuant to share option scheme	(b)	16,750,000	1,675
At 31 December 2009		**351,910,284**	**35,191**

Note:

(a) Pursuant to a manufacturing agreement entered into by the Group with New Era Cap Asia Pacific Limited ("NE"), New Era Cap Co., Inc and its group companies on 21 October 2008, NE was granted a right to subscribe 16,758,000 shares of the Company at a subscription price of HK$0.844 per share. NE has fully subscribed 16,758,000 shares of the Company during the year ended 31 December 2009. The total consideration received was HK$14,144,000 and the balance of HK$12,468,000 was credited to the share premium account.

(b) During the year ended 31 December 2009, NE has exercised the share options granted to subscribe for 16,750,000 shares at the exercise price of HK$0.7939 per share. The total consideration was HK$13,298,000 and the balance of HK$11,623,000 was credited to the share premium account. An amount of HK$1,083,000 has been transferred from capital reserve to the share premium account in accordance with the policy set out in Note 2(v).

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

29. Equity Settled Share-based Payment Transactions

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

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

The total number of shares which may be issued upon exercise of all options to be granted under the New Scheme and any other share option schemes of the Group may not in aggregate exceed 30,536,058, being 10% of the shares in issue of the Company as at 23 May 2002, the date of adoption of the New Scheme adjusted for the issue of bonus shares on 22 May 2007. The scheme mandate limit was refreshed on 28 November 2008. Upon refreshing of the scheme mandate limit, the Company may grant options entitling holders thereof to subscribe for up to a maximum of 31,840,228 shares, representing 10% of the shares in issue of the Company as at 28 November 2008.

The options granted were vested one year from the date of grant and generally exercisable within a period of three years.

(a) Movements in share options

	2009		2008	
	Number of share options	Weighted average exercise price	Number of share options	Weighted average exercise price
		HK$		HK$
At 1 January	**18,644,200**	**1.94**	18,644,200	2.25
Granted	**16,600,000**	**0.95**	4,000,000	0.90
Cancelled	**(12,197,800)**	**2.22**	–	–
Lapsed	**(3,301,400)**	**0.83**	(4,000,000)	2.29
As 31 December	**19,745,000**	**1.12**	18,644,200	1.94
Options vested at 31 December	**2,445,000**	**2.29**	14,644,200	2.01

At the balance sheet date, the weighted average remaining contractual life of the Company's share options was 8.5 years (2008: 6.8 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 34.

(b) Fair value of share options and assumptions

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

	2009	2008
Weighted average share price	**HK$0.95**	HK$0.89
Weighted average exercise price	**HK$0.95**	HK$0.9
Expected volatility	**76.1%**	72.7%
Expected life	**9.5 years**	9.8 years
Risk free rate	**0.5%**	1%
Expected dividend yield	**5.7%**	6%

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

Under this share option scheme, HK$1,975,000 of share-based payment expense has been included in the consolidated income statement for 2009 (2008: HK$269,000) and the corresponding amount of which has been credited to capital reserve.

(2) Under a manufacturing agreement ("Manufacturing Agreement") entered between a wholly owned subsidiary of the Company and New Era Cap Asia Pacific Limited ("NE"), New Era Cap Co., Inc ("New Era") and its group companies (collectively "New Era Group") on 21 October 2008, in consideration of the purchase commitment given by New Era Group during the three years ending 31 December 2011, the Company granted NE share options in respect of subscription of 62,843,000 shares of the Company subject to the terms and conditions of the Manufacturing Agreement.

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

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

(a) Movements in share options

	Number of share options
At 1 January 2008	–
Granted	62,843,000
At 31 December 2008 and 1 January 2009	62,843,000
Exercised during the year	(16,750,000)
At 31 December 2009	**46,093,000**
Options vested at 31 December 2009	–

The share price for share options exercised during the year at the date of exercise was HK$0.7939.

At the balance sheet date, the weighted average remaining contractual life of the Company's share options was 0.8 year (2008: 1.5 years).

(b) Fair value of share options and assumptions

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

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

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

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

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

Note:

(i) During the period from 1 January 2009 to 30 June 2009, the actual aggregate purchase by New Era Group did not exceed the minimum annual consideration in accordance with the Manufacturing Agreement, NE was not entitled to higher discount level set out in above.

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

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

The fair value of the share options granted of HK$3,928,000 (2008: nil) was recognised as intangible assets (note 21) and the corresponding amount of which has been credited to capital reserve.

30. Reserves and Minority Interests

The Company	Share premium HK$'000	Contributed surplus HK$'000	Accumulated profits HK$'000	Capital reserve HK$'000	Total HK$'000
At 1 January 2008	100,203	99,431	108,163	4,612	312,409
Profit for the year	–	–	14,279	–	14,279
2007 final dividend paid (note 13)	–	–	(15,920)	–	(15,920)
2008 interim dividend paid (note 13)	–	–	(6,368)	–	(6,368)
Share options lapsed	–	–	78	(78)	–
Equity settled share-based transactions	–	–	–	713	713
At 31 December 2008	100,203	99,431	100,232	5,247	305,113
Representing:					
2008 proposed final dividend (note 13)	–	–	10,055	–	10,055
Reserves	100,203	99,431	90,177	5,247	295,058
	100,203	99,431	100,232	5,247	305,113
At 1 January 2009	100,203	99,431	100,232	5,247	305,113
Profit for the year	–	–	14,296	–	14,296
2008 final dividend paid (note 13)	–	–	(10,055)	–	(10,055)
2009 interim dividend paid (note 13)	–	–	(3,352)	–	(3,352)
Issue of new shares	12,468	–	–	–	12,468
Exercise of share options	12,706	–	–	(1,083)	11,623
Share options cancelled	–	–	4,534	(4,534)	–
Share options lapsed	–	–	95	(95)	–
Equity settled share-based transactions	–	–	–	5,903	5,903
At 31 December 2009	**125,377**	**99,431**	**105,750**	**5,438**	**335,996**
Representing:					
2009 proposed final dividend (note 13)	–	–	7,038	–	7,038
Reserves	125,377	99,431	98,712	5,438	328,958
	125,377	99,431	105,750	5,438	335,996

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

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

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

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

(ii) the realisable value of the company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

(b) The capital reserve of the Group and the Company represents the fair value of the actual or estimated number of unexercised share options granted of the Company recognised in accordance with the accounting policy adopted for share based payments in note 2(v).

(c) As at 31 December 2009, the Company's reserves available for cash distribution amounted to HK$205,181,000 (2008: HK$199,663,000) as computed in accordance with the Companies Act 1981 of Bermuda. In addition, the Company's share premium account of HK$125,377,000 (2008: HK$100,203,000) may be distributed in the form of fully paid bonus shares.

(d) Capital management

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

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings, and makes adjustments to the capital structure in light of changes in economic conditions. During 2009, the Group's strategy, which was unchanged from 2008, was to maintain its gearing ratio at zero.

31. Financial Risk Management

(a) Categories of financial instruments

	The Group 2009	The Group 2008	The Company 2009	The Company 2008
	HK$'000	HK$'000	HK$'000	HK$'000
Financial assets				
Loans and receivables (include cash and cash equivalents):				
– Trade and other receivables	141,802	124,395	22,713	14,904
– Amount due from a related company	923	918	–	–
– Bank balances and cash	138,729	149,148	4,350	25,693
	281,454	274,461	27,063	40,597
Financial assets at fair value through profit or loss:				
– Short term investments	4,758	4,322	–	–
	286,212	278,783	27,063	40,597
Financial liabilities				
Amortised cost:				
– Trade and other payables	90,876	95,996	11,270	14,234
– Amounts due to related companies	1,170	1,412	–	–
	92,046	97,408	11,270	14,234

(b) Financial risk factors

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

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

(i) Market risk

a. Foreign currency risk

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

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

b. Interest rate risk

As the Group has no significant interest-bearing liabilities, the Group's interest rate risk primarily arises from bank deposits. The Group has not used any derivative contracts to hedge its exposure to interest rate risk.

At 31 December 2009, it is estimated that a general increase/decrease of 50 basis points in bank deposits interest rates, with all other variables held constant, would increase/decrease the Group's results after tax and accumulated profits by approximately HK$694,000 (2008: HK$746,000). The 50 basis point increase/decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next annual balance sheet date.

c. Price risk

The Group is exposed to equity price risk through its short term investments. If the market bid prices of the investments had been 10% higher, the Group's loss after tax and accumulated profits would decrease/increase by approximately HK$476,000 for the year ended 31 December 2009 (2008: HK$432,000). This is mainly attributable to the changes in fair values of the short term investments held for trading purpose. The same % depreciation would have the same magnitude on the Group's loss for the year and accumulated profits but of opposite effect.

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

(ii) Credit risk

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

Short term investments are made normally with counterparties that have sound credit ratings. Given their high credit ratings, management does not expect any investment counterparty to fail to meet its obligations. Cash and cash equivalents and deposits with banks are normally placed at financial institutions that have sound credit rating and the Group considers the credit risk to be insignificant.

Trade receivables are due within 30 to 90 days from the date of billing depending on the trading relationship. Credit evaluations of customers are performed by the Group from time to time to minimise any credit risk associated with receivables.

At the balance sheet date, the Group has certain concentration of credit risk as 13% (2008: 13%) and 41% (2008: 38%) of the total trade and other receivables was due from the Group's largest customer and the five largest customers respectively.

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

(iii) Liquidity risk

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

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

The Group's financial liabilities at the balance sheet date will normally be settled within 1 year (2008: 3 months).

(c) Fair value

The Group's financial assets and liabilities are carried at amounts not materially different from their fair values as at 31 December 2009 and 2008 because of the immediate or short term maturity of these financial assets and liabilities.

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

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

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

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

	2009 – The Group			
	Level 1	Level 2	Level 3	Total
	HK$'000	HK$'000	HK$'000	HK$'000
Assets				
Listed equity investments in Hong Kong	2,556	–	–	2,556
Unlisted managed funds	–	2,202	–	2,202
	2,556	2,202	–	4,758

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

32. Cash (Used in)/Generated from Operations

	The Group	
	2009	2008
	HK$'000	HK$'000
Loss before taxation	(52,548)	(26,963)
Interest income	(2,757)	(2,260)
Interest expenses	62	86
Share of results of a jointly controlled entity	(209)	4,570
Impairment of goodwill and intangibles	–	28,348
Negative goodwill	(1,033)	(5,808)
Provision for impairment of property, plant and equipment	6,815	–
Loss/(gain) on disposal of property, plant and equipment	3,079	(12)
Net (gain)/loss from short term investments	(43)	4,861
Depreciation and amortisation	32,409	30,184
Written down of inventories to net realisable value	9,589	–
Share-based payment expenses	1,975	713
Provision for impairment of trade and other receivables	3,606	1,662
Changes in working capital:		
Inventories	9,151	894
Trade and other receivables	(10,913)	5,057
Trade and other payables	(12,944)	20,819
Amounts due from/to related companies	(247)	502
Cash (used in)/generated from operations	(14,008)	62,653

33. Acquisition of a Subsidiary

At 31 December 2008, the Group had 36% equity interests in a jointly controlled entity, Keen Idea (note 19). Keen Idea is a company engaged in headwear manufacturing business with its factory based in Vietnam.

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

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

	Carrying value and fair value HK$'000
Net assets acquired:	
Property, plant and equipment	21,938
Inventories	7,369
Trade and other receivables	10,177
Bank balances and cash	2,916
Trade and other payables	(7,824)
	34,576
Share of net assets by the minority interests	(13,830)
Change in the Group's share of net assets from date of initial investment to date of acquisition	4,361
Negative goodwill	(1,033)
Total cash consideration	24,074
The analysis of the net cash outflow in respect of the acquisition transaction is as follows:	
Total cash consideration	24,074
Cash consideration paid in previous period	(19,706)
Bank balances and cash acquired	(2,916)
Net cash outflow	1,452

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

Negative goodwill has arisen on the acquisition of Keen Idea as a result of a bargain purchase.

The subsidiary acquired contributed a revenue of approximately HK$13,860,000 and a loss of approximately HK$7,837,000 to the Group for the year.

If the acquisition had been completed on 1 January 2009, the Group's turnover would have been increased by HK$6,709,000 and loss after tax would have been decreased by HK$139,000 for the year ended 31 December 2009.

34. Operating Lease Commitments

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

	The Group	
	2009	2008
	HK$'000	HK$'000
Within one year	**21,260**	20,635
In the second to fifth years inclusive	**24,021**	24,594
Over five years	**18,639**	18,945
	63,920	64,174

In addition, the Group has operating lease commitments in respect of retail outlets with rentals determined in relation to sales. It is not possible to quantify accurately future rentals payable under such leases. Contingent rentals expensed in the consolidated income statement amounted to HK$12,518,000 (2008: HK$15,630,000).

35. Capital Commitments

At 31 December 2009, the Group had capital expenditure commitments as follows:

	The Group	
	2009	2008
	HK$'000	HK$'000
Contracted but not provided for		
– Manufacturing business	**–**	335
Authorised but not contracted for		
– Manufacturing business	**10,500**	7,296
– Retail business	**1,522**	3,989
	12,022	11,620

36. Contingent Liabilities

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

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

In June 2008, Concept One amended its complaint to include a claim for commission allegedly due under the MA. Also, in May 2008, Concept One filed an answer and counterclaims to the Company's above complaint, adopting the same argument, further seeking declaratory and injunctive relief finding the non-compete provisions in the APA to be in full force and effect. In April 2009, Concept One filed an amended counterclaim further seeking damages, an accounting and injunctive relief pursuant to the foregoing non-compete provisions based upon the Company's entry into a long-term manufacturing agreement with a business partner in October 2008, after Concept One terminated the MA.

The directors strongly refute the allegations from Concept One and consider them to be without merit, and as such, are determined to vigorously defend those allegations. Although the directors are confident that the Company will prevail in the case, they do not expect the matter to be resolved until the second half of 2010.

37. Financial Guarantee

At 31 December 2009, the Company had executed a corporate guarantee of HK$122,300,000 (2008: HK$125,500,000) to secure general banking facilities granted to subsidiaries. Facilities utilised by the subsidiaries amounted to HK$1,580,000 as at 31 December 2009 (2008: HK$1,667,000). This represents the Company's maximum exposure under the guarantee contract. No provision for the Company's obligation under the financial guarantee contract has been made as the directors considered that it was not probable that the repayment would be in default. According to the terms of the facilities utilised, the earliest repayment date would be in year 2010.

38. Material Related Party Transactions

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

	The Group	
	2009	2008
	HK$'000	HK$'000
Sales of goods to an affiliated company of a shareholder	**59,554**	–
Rental paid in respect of office premises to a company controlled by a director	**960**	960
Guarantee provided by a minority shareholder for banking facilities granted to a subsidiary	**–**	750

Note: The above transactions fall 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 9 and certain of the highest paid employees as disclosed in note 10, is as follows:

	The Group	
	2009	2008
	HK$'000	HK$'000
Short-term employee benefits	**12,570**	14,523
Share-based payments	**1,526**	269
Retirement scheme contributions	**123**	113
	14,219	14,905

Total remuneration is included in "employee remuneration" in note 8.

39. Comparative Figures

As a result of the application of HKAS 1 (Revised 2007) "Presentation of Financial Statements" and HKFRS 8 "Operating Segments", certain comparative figures have been adjusted to conform to current year's presentation and to provide comparative amounts in respect of items disclosed for the first time in 2009.

40. Post Balance Sheet Event

On 2 April 2010, New Era, pursuant to the Manufacturing Agreement signed by the Group and New Era on 21 October 2008, issued a letter to the Company requesting to exercise the share options for 25,000,000 ordinary shares at the exercise price of HK$0.82425 per share. The request was approved by the board of directors on 12 April 2010. Upon the receipt of the shares proceeds from New Era, share certificates are expected to be issued by late April 2010.

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%	Trading of headwear
北京叠翠旅遊紀念品有限責任公司	PRC (note i)	PRC	RMB10,000,000	100%	Retailing and trading of souvenirs and gifts
Dongguan Mainland Headwear Co., Ltd.	PRC (note ii)	PRC	HK$10,000,000	100%	Manufacture and sale of headwear
Drew Pearson International (Europe) Ltd.	The United Kingdom	The United Kingdom	£10,000	90%	Trading of headwear
Fully Point Investments Limited	The British Virgin Islands	Hong Kong	US$1	100%	Investment holding
Futureview Investment Ltd.	The British Virgin Islands	Hong Kong	US$196	75%	Investment holding

Name of company	Place of incorporation/ registration	Principal place of operation	Nominal value of issued ordinary share capital/ registered capital	Interest held	Principal activities
Great Champion International Co., Ltd.	The British Virgin Islands	Hong Kong	US$10,000	100%	Investment holding
Guang Zhou Jian Hao Headwear Manufacturing Ltd.	PRC (note ii)	PRC	RMB45,777,729	100%	Manufacture and sale of headwear
Hatworld (Hong Kong) Ltd.	Hong Kong	Hong Kong	HK$1	100%	Retailing
Hatworld (Shenzhen) Ltd.	PRC (note ii)	PRC	HK$8,500,000	100%	Retailing
Jumbo Creation Investments Limited	The British Virgin Islands	Hong Kong	US$1	100%	Investment holding
Keen Idea Group Limited	The British Virgin Islands	Hong Kong	US$7,000,000	60%	Trading of headwear
Long Link Cap Company Limited	Vietnam	Vietnam	US$1,500,000	60%	Manufacture and sale of headwear
Mainland Partners Holdings Limited	The British Virgin Islands	Hong Kong	US$1	100%	Investment holding
Mainland Sewing Headwear Manufacturing Limited	Hong Kong	Hong Kong	HK$10,000	100%	Manufacture and sale of headwear
Million Excel Trading Limited	The British Virgin Islands	Hong Kong	US$1	100%	Investment holding
PPW Asia Ltd.	Hong Kong	Hong Kong	HK$2	75%	Investment holding
Rhys Trading Ltd.	The British Virgin Islands	Hong Kong	US$10,000	100%	Investment holding

Name of company	Place of incorporation/ registration	Principal place of operation	Nominal value of issued ordinary share capital/ registered capital	Interest held	Principal activities
Top Super Investments Ltd.	The British Virgin Islands	Hong Kong	US$10,000	100%	Investment holding
Top Super Sportswear (Shenzhen) Co., Ltd.	PRC (note ii)	PRC	HK$52,000,000	100%	Manufacture and sale of headwear
United Crown International Macao Commercial Offshore Ltd.	Macau	Macau	MOP$100,000	100%	Trading of headwear and provision of digitizing services
上海成顏豐商貿有限公司	PRC (note ii)	PRC	RMB10,000,000	75%	Retailing
深圳市大同啟豐實業有限公司	PRC (note i)	PRC	RMB1,000,000	75%	Retailing
北京大同啟豐商貿有限公司	PRC (note i)	PRC	RMB1,000,000	75%	Retailing
廣州市天開貿易有限公司	PRC (note i)	PRC	RMB1,000,000	75%	Trading and wholesales

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

Notes:

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

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

FINANCIAL SUMMARY

For the year ended 31 December 2009

	Year ended 31 December				
	2005	2006	2007	2008	**2009**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
Turnover and revenue	586,717	742,592	539,041	610,959	**515,834**
Cost of sales	(368,922)	(485,534)	(365,957)	(440,586)	**(401,842)**
Gross profit	217,795	257,058	173,084	170,373	**113,992**
Other income	11,438	7,354	12,620	9,133	**5,581**
Selling and distribution costs	(24,310)	(45,877)	(55,459)	(69,533)	**(65,979)**
Administration expenses	(123,068)	(134,091)	(76,962)	(99,071)	**(99,474)**
Other operating expenses	–	–	–	(4,861)	**(6,815)**
Impairment of goodwill and intangibles	–	–	–	(28,348)	**–**
Profit/(loss) from operations	81,855	84,444	53,283	(22,307)	**(52,695)**
Share of results of a jointly controlled entity	–	–	–	(4,570)	**209**
Gain/(Adjustment to gain) on disposal of assets and liabilities of a subsidiary	–	8,047	(5,475)	–	**–**
Finance costs	(30)	(208)	(277)	(86)	**(62)**
Profit/(loss) before taxation	81,825	92,283	47,531	(26,963)	**(52,548)**
Taxation	(6,153)	(8,761)	(5,940)	(2,857)	**(140)**
Profit/(loss) for the year	75,672	83,522	41,591	(29,820)	**(52,688)**
Attributable to:					
Equity holders of the Company	77,772	86,970	41,702	(29,259)	**(45,133)**
Minority interests	(2,100)	(3,448)	(111)	(561)	**(7,555)**
Profit/(loss) for the year	75,672	83,522	41,591	(29,820)	**(52,688)**
Dividends					
– Interim dividend paid	5,724	8,587	9,552	6,368	**3,352**
– Proposed final dividend	31,487	31,839	15,920	10,055	**7,038**
– Proposed special dividend	–	14,472	–	–	**–**
– Proposed bonus issue	–	2,894	–	–	**–**
	(restated)	(restated)			
Earnings/(loss) per share Basic	24.7 HK cents	27.6 HK cents	13.1 HK cents	(9.2 HK cents)	**(13.4 HK cents)**
Earnings per share Diluted	24.5 HK cents	27.5 HK cents	13.0 HK cents	N/A	**N/A**

FINANCIAL SUMMARY

For the year ended 31 December 2009

	As at 31 December				
	2005	2006	2007	2008	**2009**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
Non-current assets	133,015	154,487	166,061	159,893	**138,455**
Current assets	416,778	463,455	430,587	419,680	**415,811**
Current liabilities	(77,191)	(88,411)	(70,192)	(101,182)	**(94,641)**
Net current assets	339,587	375,044	360,395	318,498	**321,170**
Non-current liabilities	(6,630)	(13,251)	(12,268)	(2,326)	**(1,586)**
Net assets	465,972	516,280	514,188	476,065	**458,039**

Note: The information of the financial summary for two years ended 31 December 2009 and 2008 have been extracted from the audited consolidated income statement and consolidated balance sheet which are set out on page 42 to page 47 of the annual report.