Mainland Headwear Holdings Limited

(Stock code: 1100)

INTERIM REPORT 2011

Contents

Management Discussion and Analysis

The Board of Directors (the "Directors") of Mainland Headwear Holdings Limited (the "Company") is pleased to announce the unaudited interim results of the Company and its subsidiaries (collectively, the "Group") for the six months ended 30 June 2011 (the "Period") together with comparative figures for the corresponding period in 2010.

FINANCIAL REVIEW

For the six months ended 30 June 2011, the Group's turnover rose 23% over the same period last year to HK$360,520,000. The growth was mainly due to the increase in orders of the Manufacturing Business and the satisfactory performance of Trading Business.

Despite the unfavourable factors including the appreciating RMB, rising raw material prices and labour costs, the Group managed to offset the impact of rising costs to some extent by reducing the cost of its Manufacturing Business and increasing prices. Overall gross profit margin during the period was 25.5% (2010: 29.7%). On the other hand, the Group has adopted a prudent approach to business operations. During the period under review, the Group has had to make impairment provision for debts due from two customers of approximately HK$21,337,000 as detailed below. Consequently, the profit attributable to shareholders of the Group decreased from HK$10,262,000 in the corresponding period last year to HK$744,000 in the review period. Excluding the provision, the profit attributable to shareholders of the Group would be HK$22,081,000 (2010: HK$10,262,000) during the period.

(i) As at 30 June 2011, the Group had an aggregate amount of HK$52,843,000 (2010: HK$39,038,000) due from a customer, H3 Sportgear. On 24 March 2011, the Group received an unconditional guarantee from the shareholder of H3 Sportgear ("Guarantor") in respect of the repayment of the balance due to the Group. In the event that H3 Sportgear fails to make payments on time, the Group may require the Guarantor to make those payments under the guaranty agreement and the Group has the option to require the Guarantor to make such payments in the form of common stock of the customer of a value at least equal to the payment obligation.

Management Discussion and Analysis

On 19 August 2011, the Group completed the acquisition of the entire equity interest in Million Soung Limited at a total consideration of US$5,600,001 (equivalent to approximately HK$43,600,000) as a repayment of debts owed to a subsidiary of the Company. Upon completion of the acquisition, the Group would indirectly own 85% equity interest in H3 Sportgear, through Million Soung Limited. As H3 Sportgear is mainly engaged in distribution of licensed and private label headwear, apparel and accessories in the USA, the acquisition will make H3 Sportgear the Group's distribution trading arm in the USA, currently its largest market, enabling direct sales to major retailers there.

The amount due from H3 Sportgear to the Group has accumulated over 2 years. Despite the positive outlook of H3 business and synergy to the Group, some of its potential cannot be reflected in its business valuation which management has carried out in a prudent manner. Accordingly a provision of HK$17,371,000 has been made to reflect the shortfall of the value of the 85% of equity interest in H3 Sportgear as compared to the carrying value of its debt to the Group.

(ii) The Group has a note receivable from a customer of HK$7,931,000 (2010: HK$8,271,000). The note receivable is interest bearing at 7% per annum and is repayable by 26 monthly instalments up to November 2012. The balance is secured by a second mortgage over a property. As at 30 June 2011, a provision of HK$3,966,000 was made due to default in repayment of certain installments from the customer during the period.

Management Discussion and Analysis

BUSINESS REVIEW

Manufacturing Business

During the period under review, the recovery of the overall economy, a more proactive approach by customers towards procurement, and stronger demand for the Group's products have all benefitted the headwear market. This has led to a year-on-year increase of 22% in turnover of the Group's Manufacturing Business, its main income stream, to HK$291,423,000, accounting for 79.0% of the Group's total turnover.

The Group also faced myriad external challenges during the period, including an appreciating RMB as well as rising raw material prices and wages which have resulted in notable increases in cost. In addition, due to the impact of the temporary manpower shortage, the resulting limitation in production capacity of the Group's plants has made it unable to fully meet the substantial increase in customers' orders and brought extra challenges to the Group's operation. In order to maintain a long term and good cooperative relationship with customers, the Group outsourced the production of some orders, which incurred higher costs. The above factors have led to a reduction in gross profit margin to approximately 20%. Besides, as detailed above, an impairment provision of approximately HK$21,337,000 was recognised for trade and other receivables due from two customers. Therefore the operating profit of the Manufacturing Business dropped 60% from HK$24,679,000 in the corresponding period last year to HK$9,986,000.

Trading Business

The Group committed efforts to strengthening the sales team of Trading Business and expanding customer base during the period, thus the turnover rose by 60% to HK$22,855,000. The trading business has also reported an encouraging performance and achieved a turnaround with an operating profit of HK$2,120,000 (2010: an operating loss of HK$1,434,000).

Retail Business

With the continued improvement in consumer sentiment in the PRC, turnover of the Group's Retail Business grew by 11% year-on-year to HK$54,763,000 during the period under review, accounting for about 14.8% of the Group's total turnover. However, due to the rise of the JPY exchange rate exerting pressure on the Sanrio business operating cost as well as the increase of staff cost of the LIDs business during the period, the Retail Business recorded an operating loss of HK$5,243,000, which was similar to the performance of last year (2010 operating loss: HK$5,261,000).

Management Discussion and Analysis

Sanrio

Driven by the healthy growth of the PRC economy, market demand for high-end premium consumer products has been rising. Turnover from the Sanrio operations climbed by 8% to HK$41,431,000 with same store sales growth of 11%. However, as nearly 50% of products of the Sanrio business were imported from Japan, the continuous rise in the exchange rate of the JPY placed pressure on the operating costs of the Sanrio business, thus its gross profit margin was reduced to approximately 53.5% (2010: 56.6%), and its operating loss was HK$2,640,000 (2010: operating loss: HK$2,599,000). As at 30 June 2011, the Group operated 48 Sanrio self-owned stores and 59 franchise stores.

The exclusive licensing agreement signed by the Group and Sanrio in 2005 expired during the period under review. The two parties have renewed the agreement, pursuant to which Futureview Investment Ltd, a 75% subsidiary of the Group, was granted the right to continue to design, manufacture and distribute all Sanrio cartoon character products in the next three years. Capitalising on strong demand for high-end premium goods driven by the booming economy of China and rising consumer spending, the Group is confident that the Sanrio business will continue to improve in the future.

LIDS

The Group has strived to diversify the LIDS business. Apart from opening its first "NOP" store, which specialises in trendy headwear, and the "New Era" brand store in the previous financial year, the Group continued to expand the business by opening two "NOP" stores in prime locations within Tsim Sha Tsui, a major retail shopping district, during the period under review. The "NOP" store and "New Era" store have received positive response from customers after their debut, boosting the turnover of the LIDS business by 27% from HK$10,529,000 in the corresponding period of last year to HK$13,321,000, with same store sales growth of 12%. Gross profit of the LIDS business remained at a level slightly above 70%, similar to last year. However, because of the continuous growth of staff cost in Hong Kong and the PRC, and as the first half year is traditionally the slow season for LIDS' business, an operating loss of HK$1,807,000 was recorded. As at 30 June 2011, the Group had 30 self-owned LIDS stores, of which 24 were in the PRC and six were in Hong Kong. In addition, the Group operated 13 LIDS franchise stores in the PRC, and three own-brand "NOP" stores and one "New Era" retail store in Hong Kong.

Prospects

The Group expects to face tough ongoing challenges such as RMB appreciation, a labour shortage in the PRC and rising wages and rentals in the second half of the year. Despite this, the Group is continuing to prudently plan in a bid to drive sustainable business development.

Management Discussion and Analysis

For the Manufacturing Business, the Group's efforts in exploring new customer sources has begun to pay off. The negotiations between the Group and key customers to secure orders with an increase in volume are underway. The new orders are expected to sustain strong growth momentum during the second half of the year. To meet the order demands of customers, the Group plans to further expand production scale in other regions. Since the prices of some materials such as cotton have been decreasing from the second quarter of 2011, we believe the material cost pressure would be relieved during the second half of the year, so we remain confident that the manufacturing business will continue to develop steadily.

In its Trading Business, the Group's efforts in strengthening the sales team in Europe have gained a satisfactory result. The sales team has just reached an agreement with a leading soccer team in the English Premier League on the distribution rights of headwear products in Europe for the team. The trading business team is striving to gain the distribution rights of headwear products for more of the renowned teams in the English Premier League, and expand our customer base to create more synergies in operations within the Group.

Soon after the Group announced the acquisition of 85% equity interest in H3 Sportgear, one of the largest retailers in the US contacted H3 Sportgear for a supply arrangement. Thus, the Group has strong confidence in the prospects for its business in the US. Besides, Mainland Headwear can establish its own licensed product mix through this acquisition to attract higher margin licensed headwear business, while H3 Sportgear can also ease entry into the accessories market in the USA. With a better product mix, this acquisition is set to create stronger synergies for the Group.

To further expand the sales network and market share of the Sanrio business, the Group will open an online trading platform in the second half of the year. Capitalising on the anticipated strong visitation via the internet and its higher cost-efficiency, the online platform aims at boosting the sales of Sanrio products. Meanwhile, the Group is planning to devote more resources to improving operational efficiency to enhance sales performance, thus providing added momentum to advance the Group's long-term development. On the other hand, the Group is continuing to implement its development strategy to increase the number of its self-owned stores in first-tier cities and that of franchisees in second- and third-tier cities within mainland China.

For the LIDS business, backed by overwhelming responses received since the first "NOP" retail store has debut, the Group strives to capture the enormous market opportunities by opening more "NOP" retail stores in the second half of the year. At the same time, the Group is continuing to diversify its brand mix to meet the demand for different headwear in the market. On top of attracting new customers, the Group's ultimate aim is to increase the sales and profit.

Management Discussion and Analysis

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2011, the Group had cash and bank balances and a portfolio of liquid investments totaling HK$191.3 million (31 December 2010: HK$187.1 million). About 53% and 25% of these liquid funds were denominated in US dollars and Renminbi respectively. As at 30 June 2011, the Group had banking facilities of HK$104.0 million (31 December 2010: HK$116.0 million), of which HK$95.4 million (31 December 2010: HK$106.0 million) was not utilised.

The Group continues to maintain its gearing ratio (aggregate of bank borrowings divided by shareholders' equity) at 0% (31 December 2010: 0%). In view of the strong financial and liquidity position, the Group will have sufficient financial resources to meet its commitments and working capital requirements.

SUBSEQUENT EVENT

On 19 August 2011, the Group acquired 85% equity interest H3 Sportgear LLC which engages in distribution for licensed and private label headwear, apparel and accessories in the USA. The aggregate consideration for the acquisition amounted to US$5,600,001 which was settled in the following manner: (i) as to US$1 by payment to the vendor; (ii) as to US$2,800,000 by way of debt capitalization; and (iii) as to HK$2,800,000 in form of debenture by conversion of the existing debt.

CAPITAL EXPENDITURE

During the Period, the Group spent approximately HK$0.4 million (2010: HK$6.1 million) on additions to equipment to further upgrade its manufacturing capabilities, and HK$2.3 million (2010: HK$2.9 million) for the opening of retail stores and for trading business.

As at 30 June 2011, the Group had authorised capital commitment of HK$35.0 million in respect of manufacturing equipment. In addition, the Group also had authorised capital commitment of HK$1.5 million for the opening of new retail outlets.

EXCHANGE RISK

Most assets and liabilities of the Group are denominated either in HK dollars, US dollars or Renminbi. The Group estimates that any 1% appreciation of the Renminbi is expected to reduce the gross margin of the Group by about 1.5%.

Management Discussion and Analysis

EMPLOYEES AND REMUNERATION POLICIES

At 30 June 2011, the Group employed a total of 3,234 (2010: 3,477) workers and employees in the PRC, 97 (2010: 97) employees in Hong Kong and Macau, and 8 (2010: 8) employees in the UK. The expenditures for the employees during the Period were approximately HK$87 million (2010: HK$76 million). The Group ensures that the pay levels of its employees are competitive and employees are 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.

Interim Dividend and Closure of Register of Members

INTERIM DIVIDEND

The Board has declared an interim dividend of 1 HK cent (2010: 1 HK cent) per share, payable on or after 21 October 2011.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 27 September 2011 to 30 September 2011 (both dates inclusive). In order to qualify for the interim 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 26 September 2011.

Independent Review Report

TO THE BOARD OF DIRECTORS OF
MAINLAND HEADWEAR HOLDINGS LIMITED
(incorporated in Bermuda with limited liability)

INTRODUCTION

We have reviewed the interim financial information set out on pages 12 to 37, which comprises the interim condensed consolidated balance sheet of Mainland Headwear Holdings Limited (the "Company") and its subsidiaries (together, the "Group") as at 30 June 2011 and the related interim condensed consolidated statements of income, comprehensive income, changes in equity and cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Independent Review Report

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting".

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 29 August 2011

Condensed Consolidated Income Statement (Unaudited)

For the six months ended 30 June 2011

	Note	Six months ended 30 June 2011 HK$'000	2010 HK$'000
Revenue	5 & 6	**360,520**	292,902
Cost of sales		**(268,651)**	(205,870)
Gross profit		**91,869**	87,032
Other income		**912**	341
Other gains – net		**375**	479
Selling and distribution costs		**(33,452)**	(39,922)
Administration expenses		**(57,340)**	(35,202)
Profit from operations		**2,364**	12,728
Finance income		**196**	787
Finance expense		**(1,033)**	(32)
Finance (expense)/income – net	7(a)	**(837)**	755
Profit before income tax	7	**1,527**	13,483
Income tax expense	8	**(574)**	(3,119)
Profit for the period		**953**	10,364
Attributable to:			
Owners of the parent		**744**	10,262
Non-controlling interests		**209**	102
		953	10,364
Earnings per share attributable to owners of the parent	9		
Basic		**0.2 HK cent**	2.8 HK cents
Diluted		**0.2 HK cent**	2.8 HK cents

The notes on pages 19 to 37 form an integral part of these condensed consolidated interim financial information.

	Note	*HK$'000*	*HK$'000*
Dividends	10	**3,986**	3,980

Condensed Consolidated Statement of Comprehensive Income (Unaudited)

For the six months ended 30 June 2011

	Six months ended 30 June	
	2011	2010
	HK$'000	*HK$'000*
Profit for the period	**953**	10,364
Other comprehensive income for the period		
Exchange differences on translation of financial statements of foreign operations	**1,461**	(944)
Total comprehensive income for the period, net of tax	**2,414**	9,420
Attributable to:		
Owners of the parent	**2,171**	9,318
Non-controlling interests	**243**	102
Total comprehensive income for the period	**2,414**	9,420

The notes on pages 19 to 37 form an integral part of these condensed consolidated interim financial information.

Condensed Consolidated Balance Sheet (Unaudited)

At 30 June 2011

	Note	**30 June 2011 (Unaudited)** ***HK$'000***	31 December 2010 (Audited) *HK$'000*
ASSETS			
Non-current assets			
Property, plant and equipment	11	**107,621**	118,678
Land use rights		**760**	816
Goodwill		**4,958**	4,958
Other intangible assets	11	**37,717**	2,041
Other non-current receivables	12	**1,911**	5,023
Deferred tax assets		**1,164**	152
		154,131	131,668
Current assets			
Inventories		**114,477**	130,518
Trade and other receivables	12	**171,094**	160,325
Amount due from a related company		**964**	941
Financial assets at fair value through profit or loss		**1,364**	1,423
Tax recoverable		**–**	604
Cash and cash equivalents		**189,953**	185,667
		477,852	479,478
Total assets		**631,983**	611,146

Condensed Consolidated Balance Sheet (Unaudited)

At 30 June 2011

	Note	30 June 2011 (Unaudited) *HK$'000*	31 December 2010 (Audited) *HK$'000*
EQUITY			
Equity attributable to owners of the parent			
Share capital	13	**39,858**	39,800
Other reserves		**219,622**	216,873
Retained earnings			
– Proposed dividends		**3,986**	7,971
– Others		**217,405**	220,648
		480,871	485,292
Non-controlling interests		**4,268**	4,025
Total equity		**485,139**	489,317
LIABILITIES			
Non-current liabilities			
Other non-current payables	14	**25,584**	–
Long service payment payable		**336**	260
Deferred tax liabilities		**–**	629
		25,920	889
Current liabilities			
Trade and other payables	14	**104,184**	106,448
Amounts due to related companies		**1,469**	1,435
Income tax payable		**15,271**	13,057
		120,924	120,940
Total liabilities		**146,844**	121,829
Total equity and liabilities		**631,983**	611,146
Net current assets		**356,928**	358,538
Total assets less current liabilities		**511,059**	490,206

The notes on pages 19 to 37 form an integral part of these condensed consolidated interim financial information.

Condensed Consolidated Statement of Changes in Equity (Unaudited)

For the six months ended 30 June 2011

	Attributable to owners of the parent								
	Share capital	Share premium	Contributed surplus	Share based compensation reserve	Exchange reserve	Retained earnings	Total	Non-controlling interests	Total equity
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2011	39,800	159,539	25,878	4,685	26,771	228,619	485,292	4,025	489,317
Profit for the period	-	-	-	-	-	744	744	209	953
Other comprehensive income:									
– Exchange differences on translation of financial statements of foreign operations	-	-	-	-	1,427	-	1,427	34	1,461
Total comprehensive income for the period	-	-	-	-	1,427	744	2,171	243	2,414
2010 final dividend paid	-	-	-	-	-	(7,972)	(7,972)	-	(7,972)
Exercise of share options	58	691	-	(201)	-	-	548	-	548
Equity settled share-based transactions	-	-	-	832	-	-	832	-	832
Transactions with owners	58	691	-	631	-	(7,972)	(6,592)	-	(6,592)
At 30 June 2011	39,858	160,230	25,878	5,316	28,198	221,391	480,871	4,268	485,139
Representing:									
2011 proposed interim dividend						3,986			
Other retained earnings						217,405			
						221,391			

Condensed Consolidated Statement of Changes in Equity (Unaudited)

For the six months ended 30 June 2011

	Attributable to owners of the parent								
	Share capital	Share premium	Contributed surplus	Share based compensation reserve	Exchange reserve	Retained earnings	Total	Non-controlling interests	Total equity
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2010	35,191	125,377	25,878	5,438	22,948	234,467	449,299	8,740	458,039
Profit for the period	-	-	-	-	-	10,262	10,262	102	10,364
Other comprehensive income:									
– Exchange differences on translation of financial statements of foreign operations	-	-	-	-	(944)	-	(944)	-	(944)
Total comprehensive income for the period	-	-	-	-	(944)	10,262	9,318	102	9,420
2009 final dividend paid	-	-	-	-	-	(7,538)	(7,538)	-	(7,538)
Exercise of share options	2,500	19,883	-	(1,777)	-	-	20,606	-	20,606
Equity settled share-based transactions	-	-	-	1,783	-	-	1,783	-	1,783
Transactions with owners	2,500	19,883	-	6	-	(7,538)	14,851	-	14,851
At 30 June 2010	37,691	145,260	25,878	5,444	22,004	237,191	473,468	8,842	482,310
Representing:									
2010 proposed interim dividend						3,980			
Other retained earnings						233,211			
						237,191			

The notes on pages 19 to 37 form an integral part of these condensed consolidated interim financial information.

Condensed Consolidated Cash Flow Statement (Unaudited)

For the six months ended 30 June 2011

	Six months ended 30 June	
	2011	2010
	HK$'000	*HK$'000*
Net cash generated from/(used in) operating activities	**12,415**	(13,704)
Net cash used in investing activities	**(2,524)**	(2,747)
Net cash (used in)/generated from financing activities	**(7,424)**	13,067
Net increase/(decrease) in cash and cash equivalents	**2,467**	(3,384)
Cash and cash equivalents at the beginning of the period	**185,667**	138,729
Effect of foreign exchange rate changes	**1,819**	(54)
Cash and cash equivalents at the end of the period	**189,953**	135,291

The notes on pages 19 to 37 form an integral part of these condense consolidated interim financial information.

Notes to the Unaudited Interim Financial Information

For the six months ended 30 June 2011

1. BASIS OF PREPARATION

This condensed consolidated interim financial information for the six months ended 30 June 2011 has been prepared in accordance with HKAS 34, 'Interim financial reporting'. The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2010, which have been prepared in accordance with HKFRSs.

This condensed consolidated financial information has not been audited.

2. ACCOUNTING POLICIES

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2010, as described in those annual financial statements.

(a) New and amended standards adopted by the Group

The following amendments to standards are mandatory and relevant for the first time for the financial year beginning 1 January 2011:

- Amendment to HKAS 34 'Interim financial reporting' is effective for annual periods beginning on or after 1 January 2011. It emphasises the existing disclosure principles in HKAS 34 and adds further guidance to illustrate how to apply these principles. Greater emphasis has been placed on the disclosure principles for significant events and transactions. Additional requirements cover disclosure of changes to fair value measurement (if significant), and the need to update relevant information from the most recent annual report. The change in accounting policy only results in additional disclosures.

Notes to the Unaudited Interim Financial Information

For the six months ended 30 June 2011

2. ACCOUNTING POLICIES *(CONTINUED)*

(b) New and amended standards effective in 2011 but not relevant to the Group

The following amended standards and interpretations of HKFRS are mandatory for accounting periods beginning on or after 1 January 2011 but they are not relevant to the Group's operations:

HKAS 24 (Revised)	Related party disclosures
HKAS 32 Amendment	Classification of rights issue
HK(IFRIC) – Int 14	Prepayment of minimum funding requirement
HK(IFRIC) – Int 19	Extinguishing financial liabilities with equity instruments

Annual improvement project to HKFRS 2010

(c) New and amended standards have been issued but are not effective for the financial year beginning 1 January 2011 and have not been early adopted

The following new and amended standards have been issued but are not effective for the financial year beginning 1 January 2011 and have not been early adopted by the Group:

HKFRS 9	Financial instruments
HKAS 12 Amendment	Deferred tax: Recovery of underlying assets
HKFRS 7 Amendment	Disclosures – Transfers of financial assets
HKAS 1 Amendment	Presentation of financial statements
HKAS 19 Amendment	Employee benefits
HKFRS 10	Consolidated financial statements
HKFRS 11	Joint arrangements
HKFRS 12	Disclosure of interests in other entities
HKFRS 13	Fair value measurements
HKAS 27 Amendment	Separate financial statements
HKAS 28 Amendment	Investments in associates

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

Notes to the Unaudited Interim Financial Information

For the six months ended 30 June 2011

3 ESTIMATES

The preparation of interim condensed consolidated financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2010.

4 FINANCIAL RISK MANAGEMENT

4.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign currency risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The interim condensed consolidated financial information do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2010.

There have been no changes in any risk management policies since year end.

Notes to the Unaudited Interim Financial Information

For the six months ended 30 June 2011

4 FINANCIAL RISK MANAGEMENT *(CONTINUED)*

4.2 Liquidity risk

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

30 June 2011

	Within one year	**In the second to fifth years inclusive**
Trade and other payables	89,515	–
Minimum license fee payments	14,620	28,721
Amounts due to related companies	1,469	–
Total	105,604	28,721

31 December 2010

	Within one year	**In the second to fifth years inclusive**
Trade and other payables	106,448	–
Amounts due to related companies	1,435	–
Total	107,883	–

Notes to the Unaudited Interim Financial Information

For the six months ended 30 June 2011

4 FINANCIAL RISK MANAGEMENT *(CONTINUED)*

4.3 Fair value estimation

The Group's financial instruments carried at fair value is analysed by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).

- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).

- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs)(level 3).

The Group's financial assets at fair value through profit or loss are measured at quoted prices as at 31 December 2010 and as at 30 June 2011. Their fair value measurement is classified as level 1.

There were no significant changes in the business or economic circumstances for the period ended 30 June 2011 that affect the fair value of the Group's financial assets and financial liabilities. There were no reclassifications of financial assets for the period ended 30 June 2011.

Notes to the Unaudited Interim Financial Information

For the six months ended 30 June 2011

5. REVENUE

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

6. SEGMENT INFORMATION

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

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

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

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

(iii) Retail Business: The Group operates LIDS stores in the PRC and Hong Kong, and SANRIO stores in the PRC. The operation of tourist souvenir shops ceased during 2010.

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

Notes to the Unaudited Interim Financial Information

For the six months ended 30 June 2011

6. SEGMENT INFORMATION *(CONTINUED)*

	Manufacturing Six months ended		Trading Six months ended		Retail Six months ended		Total Six months ended	
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Revenue from external customers	**282,902**	229,320	**22,855**	14,294	**54,763**	49,288	**360,520**	292,902
Inter-segment revenue	**8,521**	8,881	**-**	–	**-**	–	**8,521**	8,881
Reportable segment revenue	**291,423**	238,201	**22,855**	14,294	**54,763**	49,288	**369,041**	301,783
Reportable segment profit/(loss)	**9,986**	24,679	**2,120**	(1,434)	**(5,243)**	(5,261)	**6,863**	17,984
Fair value (loss)/gain on financial assets at fair value through profit or loss							**(59)**	366
Share-based payment expenses							**(832)**	(1,783)
Unallocated corporate income							**7**	–
Unallocated corporate expenses							**(3,615)**	(3,839)
Profit from operations							**2,364**	12,728
Finance (expense)/income - net							**(837)**	755
Income tax expense							**(574)**	(3,119)
Profit for the period							**953**	10,364

Notes to the Unaudited Interim Financial Information

For the six months ended 30 June 2011

6. SEGMENT INFORMATION *(CONTINUED)*

	Manufacturing		Trading		Retail		Total	
	30 June 2011 (unaudited) *HK$'000*	31 December 2010 (audited) *HK$'000*	**30 June 2011 (unaudited) *HK$'000***	31 December 2010 (audited) *HK$'000*	**30 June 2011 (unaudited) *HK$'000***	31 December 2010 (audited) *HK$'000*	**30 June 2011 (unaudited) *HK$'000***	31 December 2010 (audited) *HK$'000*
Reportable segment assets	**309,119**	327,543	**8,408**	7,201	**69,081**	71,778	**386,608**	406,522
Other intangible assets							**37,717**	2,041
Deferred tax assets							**1,164**	152
Tax recoverable							**-**	604
Financial assets at fair value through profit or loss							**1,364**	1,423
Other corporate assets							**205,130**	200,404
Total assets							**631,983**	611,146

Notes to the Unaudited Interim Financial Information

For the six months ended 30 June 2011

7. PROFIT BEFORE INCOME TAX

Profit before income tax is stated after charging/(crediting):

	Six months ended 30 June	
	2011	2010
	HK$'000	*HK$'000*
(a) Finance (expense)/income – net		
Interest on bank loans, overdrafts and other borrowings	**(61)**	(12)
Interest on license fee payables	**(952)**	–
Interest on amount due to a related company	**(20)**	(20)
Interest income	**196**	787
Net finance (expense)/income	**(837)**	755
(b) Other items		
Fair value loss/(gain) on financial assets at fair value through profit or loss	**59**	(366)
Depreciation of property, plant and equipment	**13,405**	13,834
Amortisation of other intangible assets	**4,952**	875
Provision for impairment of trade and other receivables	**21,337**	2,000
Provision for slow moving and obsolete inventories	**6,004**	–
Exchange gain net	**(434)**	(113)

Notes to the Unaudited Interim Financial Information

For the six months ended 30 June 2011

8. INCOME TAX EXPENSE

	Six months ended 30 June	
	2011	2010
	HK$'000	*HK$'000*
Hong Kong Profits Tax	**–**	1,366
Overseas tax	**2,214**	1,739
	2,214	3,105
Deferred taxation	**(1,640)**	14
	574	3,119

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

Hong Kong profits tax has been provided at the rate of 16.5% (2010: 16.5%) on the estimated assessable profits for the period. Taxation on overseas profits has been calculated on the estimated assessable profits for the period at the rates of taxation prevailing in the countries in which the Group operates.

Notes to the Unaudited Interim Financial Information

For the six months ended 30 June 2011

9. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to owners of the parent of HK$744,000 (2010: HK$10,262,000) and on the weighted average number of shares of 398,527,041 (2010: 361,440,671) in issue during the Period.

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

	For the six months ended 30 June 2011
Profit attributable to equity holders of the Company (HK$'000)	744
Weighted average number of ordinary shares in issue	398,527,041
Adjustment for share options	1,792,759
Weighted average number of ordinary shares for diluted earnings per share	400,319,800
Diluted earnings per share (HK cent)	0.2

Dilutive earnings per share was the same as basic earnings per share for the period ended 30 June 2010 as there was no dilutive impact.

Notes to the Unaudited Interim Financial Information

For the six months ended 30 June 2011

10. DIVIDENDS

(a) Dividends attributable to the period

	Six months ended 30 June	
	2011	2010
	HK$'000	*HK$'000*
Interim dividend declared of 1 HK cent (2010: 1 HK cent) per share	**3,986**	3,980

The interim dividend declared after the balance sheet date has not been recognised as a liability at the balance sheet date, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2011.

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

	Six months ended 30 June	
	2011	2010
	HK$'000	*HK$'000*
Final dividend paid in respect of 2010 of 2 HK cents (2009: 2 HK cents) per share	**7,972**	7,538

Notes to the Unaudited Interim Financial Information

For the six months ended 30 June 2011

11. CAPITAL EXPENDITURE

	Property, plant and equipment *HK$'000*	Other intangible assets *HK$'000*
Six months ended 30 June 2011		
Opening net book amount as at 1 January 2011	118,678	2,041
Exchange differences	(375)	–
Additions	2,723	40,628
Depreciation and amortisation	(13,405)	(4,952)
Closing net book amount as at 30 June 2011	**107,621**	**37,717**
Six months ended 30 June 2010		
Opening net book amount as at 1 January 2010	128,703	3,790
Exchange differences	(890)	–
Additions	8,967	–
Disposals	(5,434)	–
Depreciation and amortisation	(13,834)	(875)
Closing net book amount as at 30 June 2010	**117,512**	**2,915**

As at 30 June 2011, other intangible assets represent acquired customer relationship attributable to the purchase orders committed by New Era Group of HK$1,021,000 and licensing rights for the use of certain licensed trademark, brands and logos in the Group's products and retail outlets of HK$36,696,000.

Notes to the Unaudited Interim Financial Information

For the six months ended 30 June 2011

12. TRADE AND OTHER RECEIVABLES

	30 June 2011 HK$'000	31 December 2010 HK$'000
Trade and bills receivables	**150,308**	116,762
Deposits, prepayments and other receivables	**47,799**	67,758
	198,107	184,520
Less: provision for impairment	**(25,102)**	(19,172)
	173,005	165,348
Less: non-current portion of other receivables	**(1,911)**	(5,023)
Current portion	**171,094**	160,325

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

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

	2011 HK$'000	2010 HK$'000
0 – 30 days	**57,091**	50,700
31 – 60 days	**39,039**	31,962
61 – 90 days	**13,417**	5,947
Over 90 days	**40,761**	28,153
	150,308	116,762

Notes to the Unaudited Interim Financial Information

For the six months ended 30 June 2011

12. TRADE AND OTHER RECEIVABLES *(CONTINUED)*

Notes:

(a) Included in other receivables are advances to a customer of HK$14,339,000 (2010: HK$14,004,000). These advances are interest bearing at 6% per annum (2009: 6% per annum).

(b) As at 30 June 2011, the Group had an aggregate amount of HK$52,843,000 (2010: HK$39,038,000) due from a customer, of which HK$38,504,000 and HK$14,339,000 are included in trade receivables and other receivables, respectively. On 24 March 2011, the Group received an unconditional guarantee from the shareholder of this customer ("Guarantor") in respect of the repayment of the customer's balance due to the Group. In the event that the customer fails to make payments on time, the Group may require the guarantor to make those payments under the guaranty agreement and the Group has the option to require the Guarantor to make such payments in the form of common stock of the customer of a value at least equal to the payment obligation.

Subsequent to the period end, on 19 August 2011, the Group acquired 85% equity interest of the customer (Note 17). The directors carried out an impairment assessment as at 30 June 2011 and an impairment provision of HK$17, 371,000 has been made.

(c) Included in other receivables is a note receivable from a customer of HK$7,931,000 (2010: HK$8,271,000). The note receivable is interest bearing at 7% per annum and are repayable by 26 monthly instalments up to November 2012. The balance is secured by a second mortgage over a property. As at 30 June 2011, a provision of HK$3,966,000 was made due to default in repayment of certain installments from the customer during the period.

Notes to the Unaudited Interim Financial Information

For the six months ended 30 June 2011

13. SHARE CAPITAL

	Note	**Number of shares of HK$0.10 each**	*HK$'000*
Authorised:			
At 1 January 2010, 31 December 2010 and 30 June 2011		1,000,000,000	100,000
Issued and fully paid:			
At 1 January 2010		351,910,284	35,191
Issue of shares upon exercise of share options	(a)	25,000,000	2,500
At 30 June 2010		376,910,284	37,691
At 1 January 2011		398,003,284	39,800
Issue of shares upon exercise of share options	(b)	580,000	58
At 30 June 2011		**398,583,284**	**39,858**

Notes:

(a) During the period ended 30 June 2010, New Era Cap Asia Pacific Limited ("NE") has exercised the share options granted to subscribe for 25,000,000 shares at the exercise price of HK$0.82425 per share. The total proceed received was HK$20,606,000.

(b) During the period ended 30 June 2011, 580,000 options were exercised to subscribe for 580,000 shares at the exercise price of HK$0.946 per share under the share option scheme.

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

Notes to the Unaudited Interim Financial Information

For the six months ended 30 June 2011

14. TRADE AND OTHER PAYABLES

	30 June 2011 *HK$'000*	31 December 2010 *HK$'000*
Trade and bills payables	**40,238**	44,857
Accrued charges and other payables	**89,530**	61,591
	129,768	106,448
Less: non-current portion of license fee payables	**(25,584)**	–
	104,184	106,448

As at 30 June 2011, other payables included license fee payables of HK$40,253,000, of which HK$25,284,000 have been classified as non-current liabilities.

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

	30 June 2011 *HK$'000*	31 December 2010 *HK$'000*
0 – 30 days	**21,281**	24,941
31 – 60 days	**14,245**	13,768
61 – 90 days	**2,170**	2,380
Over 90 days	**2,542**	3,768
	40,238	44,857

Notes to the Unaudited Interim Financial Information

For the six months ended 30 June 2011

15. CAPITAL COMMITMENTS

At 30 June 2011, the Group had capital expenditure commitments as follows:

	30 June 2011	31 December 2010
	HK$'000	*HK$'000*
Authorised but not contracted for		
– Manufacturing business	**35,000**	10,000
– Retail business	**1,500**	1,620
	36,500	11,620

16. SIGNIFICANT RELATED PARTY TRANSACTIONS

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

	Six months ended 30 June	
	2011	2010
	HK$'000	*HK$'000*
Sales of goods to an affiliated company of a shareholder	**92,674**	45,902
Rental paid in respect of office premises to a company controlled by a director	**480**	480

Notes to the Unaudited Interim Financial Information

For the six months ended 30 June 2011

16. SIGNIFICANT RELATED PARTY TRANSACTIONS *(CONTINUED)*

Key management personnel remuneration

Remuneration for the Group's key management personnel is as follows:

	Six months ended 30 June	
	2011	2010
	HK$'000	*HK$'000*
Short-term employee benefits	**7,265**	6,693
Share-based payments	**589**	1,349
Retirement scheme contributions	**66**	66
	7,920	8,108

17 POST-BALANCE SHEET EVENT

On 19 August 2011, the Group acquired 85% equity interest in H3 Sportgear LLC ("H3"), a customer of the Group by way of capitalisation of existing debt due to the Group. H3 engages in distribution for licensed and private label headwear, apparel and accessories in the USA.

Up to the date of approval of this condensed interim financial information, there is insufficient financial information available for the Group to identify and determine the fair values of H3's identifiable assets acquired, and liabilities and contingent liabilities assumed for the purpose of allocation of purchase consideration and calculation of goodwill.

18. APPROVAL OF INTERIM FINANCIAL INFORMATION

The interim financial information was approved by the Board of Directors on 29 August 2011.

Other Information Provided in Accordance with the Listing Rules

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 30 June 2011, the interests of the Directors in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), which had been notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

Long positions in the shares and underlying shares of the Company

	Number of shares				
	Personal interest	Other direct interest	Underlying shares	Total	Percentage of interest
Mr. Ngan Hei Keung	–	207,128,000 *(note 1, 2)*	45,800,000 *(note 3, 4)*	252,928,000	63.46%
Madam Ngan Po Ling, Pauline	23,428,000 *(note 2)*	183,700,000 *(note 1)*	45,800,000 *(note 3, 4)*	252,928,000	63.46%
Mr. James S. Patterson	–	–	2,000,000 *(note 5)*	2,000,000	0.50%

Other Information Provided in Accordance with the Listing Rules

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES *(CONTINUED)*

Long positions in the shares and underlying shares of the Company *(Continued)*

Notes:

(1) 183,700,000 shares are legally and beneficially owned by Mr. Ngan Hei Keung and Madam Ngan Po Ling, Pauline as to 40% and 60% respectively.

(2) The 23,428,000 shares are beneficially owned by Madam Ngan, Pauline, 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 have been granted share options under the Company's share options scheme to subscribe for 3,000,000 shares of the Company.

(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.

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.

Other Information Provided in Accordance with the Listing Rules

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, 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.

Other Information Provided in Accordance with the Listing Rules

SHARE OPTION SCHEMES *(CONTINUED)*

(1) *(Continued)*

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 on offer of that option. A consideration of HK$1 will be payable upon acceptance of the offer.

As at the date of interim report, save for those granted but yet to be exercised, the total number of shares available for issue under the New Scheme was 37,381,486 shares, which represented 9.4% of the issued share capital of the Company.

Other Information Provided in Accordance with the Listing Rules

SHARE OPTION SCHEMES *(CONTINUED)*

(1) *(Continued)*

At 30 June 2011, the Directors, employees, customers and suppliers of the Group had the following interests in options to subscribe for shares of the Company (market value per share was HK$0.89 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$)*	Outstanding at 1.1.2011	Exercised during the Period (note) *(HK$)*	Outstanding at 30.6.2011	Market value per share at date of grant
New Scheme							
Director	23.06.2009	23.06.2010 – 23.06.2019	0.946	8,000,000	–	8,000,000	0.93
Employees	11.06.2008	11.06.2009 – 11.06.2018	1.190	1,000,000	–	1,000,000	1.16
	23.06.2009	23.06.2010 – 22.06.2019	0.946	8,600,000	(580,000)	8,020,000	0.93
	08.11.2010	08.11.2011 – 07.11.2020	0.920	2,000,000	–	2,000,000	0.92
				11,600,000	(580,000)	11,020,000	

Note:

Closing prices of shares immediately before the dates on which options were exercised ranged from HK1.05 to HK$1.60 per share.

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 option granted is measured based on a Black-Scholes pricing mode.

Other Information Provided in Accordance with the Listing Rules

SHARE OPTION SCHEMES *(CONTINUED)*

(1) *(Continued)*

Under this share option scheme, HK$832,000 of share-based payment expense has been included in the condensed consolidated income statement for the six months ended 30 June 2011 (2010: HK$1,783,000) and the corresponding amount of which has been credited to share based compensation reserve.

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

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

Tranche No.	Number of underlying shares	Vested and exercisable period
1	16,750,000	1 April 2009 – 2 January 2010
2	25,000,000	1 February 2010 – 31 July 2010
3	21,093,000	1 August 2010 – 31 January 2011

Movements in share options

	Number of share options
At 1 January 2010	46,093,000
Exercised during 1 January 2010 to 31 December 2010	(46,093,000)
At 31 December 2010 and 30 June 2011	–
Options vested at 31 December 2010 and June 2011	–

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

Other Information Provided in Accordance with the Listing Rules

SHARE OPTION SCHEMES *(CONTINUED)*

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 30 June 2010, shareholders (other than Directors or chief executives of the Company) who had interests or short positions in the shares or underlying shares of the Company which were required to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Long positions in the shares and underlying shares

		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	46.09%
Mr. Christopher Koch *(note 2)*	Interest of a controlled corporation	–	79,601,000	–	79,601,000	19.97%
New Era Cap Hong Kong LLC *(note 2)*	Beneficial owner	79,601,000	–	–	79,601,000	19.97%

Other Information Provided in Accordance with the Listing Rules

SUBSTANTIAL SHAREHOLDERS *(CONTINUED)*

Long positions in the shares and underlying shares *(Continued)*

Notes:

1. Successful Years International Co., Ltd. is owned by Mr. Ngan Hei Keung and Madam Ngan Po Ling, Pauline as to 40% and 60% respectively. The interests of Mr. Ngan Hei Keung and Madam Ngan Po Ling, Pauline in Successful Years International Co., Ltd. are also disclosed in the section headed "Directors' Interests in Shares and Underlying Shares" above.

2. Pursuant to the manufacturing agreement, New Era Cap Asia Pacific Limited ("NE") subscribed 16,758,000 shares and exercised 62,843,000 option shares. NE transferred 79,601,000 shares of the Company to New Era Cap Hong Kong LLC on 23 June 2011. Mr. Christopher Koch owns 75% of the issued share capital of New Era Cap Hong Kong LLC. As such, Mr. Christopher Koch is deemed to be interested in the 79,601,000 shares.

Short positions in the underlying shares

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

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. On 23 June 2011, NE transferred the title of the contingent purchase deed to New Era Cap Hong Kong LLC. In view of Mr. Koch's 75% shareholding interest in New Era Cap Hong Kong LLC, Mr. Koch is also taken to have interest in short position of 39,800,000 underlying shares.

Save as disclosed above, as at 30 June 2011, 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.

Other Information Provided in Accordance with the Listing Rules

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

During the six months ended 30 June 2011, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

CODE ON CORPORATE GOVERNANCE PRACTICES

In the opinion of the Board, the Company has complied with the code provisions in the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Listing Rules during the six months ended 30 June 2011 except for the deviations from Code Provisions A.4.1 and A.4.2 as detailed in the Corporate Governance Report included in the 2010 Annual Report that independent non-executive directors have not been appointed for a specific term; and that the Chairman and the Managing Director (who are also the founders of the Company), are not subject to retirement by rotation.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code 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 period.

AUDIT COMMITTEE

The Company has complied with Rule 3.21 of the Listing Rules in relation to the establishment of an audit committee. The audit committee members comprise all independent non-executive directors and non-executive directors. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control procedures of the Group. The audit committee has reviewed the interim financial information for the period.

By Order of the Board
Ngan Hei Keung
Chairman

Hong Kong, 29 August 2011

As at the date hereof, the Board of Directors of the Company comprises eight directors, of which three are Executive Directors, namely Mr. Ngan Hei Keung, Madam Ngan Po Ling, Pauline and Mr. James S. Patterson; two Non-executive Directors, Mr. Tse Kam Fow and Mr. Andrew Ngan; and three are Independent Non-executive Directors, namely Mr. Leung Shu Yin, William, Mr. Lo Hang Fong and Mr. Liu Tieh Ching, Brandon, JP.