Mainland Headwear Holdings Limited

(Stock code: 1100)

ANNUAL REPORT 2011

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CORPORATE INFORMATION

Directors

Executive Directors

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

Non-executive Director

Mr. Tse Kam Fow
Mr. Andrew Ngan

Independent Non-executive Directors

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

Company Secretary

Ms. Chan Hoi Ying

Auditors

PricewaterhouseCoopers
Certified Public Accountants

Principal Banker

Hang Seng Bank Limited

Registered Office

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

Head Office and Principal Place of Business in Hong Kong

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

Bermuda Share Registrar

HSBC Securities Services
(Bermuda) Limited
6 Front Street,
Hamilton HM 11,
Bermuda.

Hong Kong Branch Share Registrar

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

Company Websites

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

CHAIRMAN'S STATEMENT

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 2011.

Business Review

Overview

The Group recorded encouraging results during 2011 with an increase in turnover across all operations including manufacturing, trading and retail businesses. Profit attributable to shareholders surged 274% to HK$21,202,000. The Group's strategic measures to counter the many challenges during the year such as rising prices for raw materials and labour costs in the PRC enabled us to capture the enormous opportunities from the continued thriving Chinese economy and stronger demand from a gradually recovering global economy. Thus, our overall business recorded satisfactory performance.

In the Manufacturing Business, the Group maintained its strong position in the face of industry consolidation taking place in recent years. Capitalising on our strengths, we have become the preferred partner for numerous customers, and we have continued to expand our customer base. Combining our cost control measures and increased capacity through outsourcing production to a factory in Bangladesh, this segment remained as our major income source through its outstanding performance.

For the Trading Business, the consistent efforts to strengthen our sales team has paid off and led to a turnaround this year. The acquisition of H3 Sportgear has also provided a major boost in expanding the distribution and trading channels within Europe and the US, enabling us to achieve sustainable long-term growth of the business there.

CHAIRMAN'S STATEMENT

Within the Retail Business, the Group has strived to expand the sales network and diversify its Sanrio and LIDS businesses to set a foundation for long-term development.

Financial Review

Resulting from the satisfactory performance of the manufacturing business segment and the strong growth in the trading business segment, turnover of the Group for the year ended 31 December 2011 rose 11% to HK$751,017,000 while overall gross profit increased by 4% to HK$196,425,000, profit attributable to shareholders also skyrocketed 274% to HK$21,202,000.

On the other hand, the Group's business was adversely influenced by the appreciating RMB and increasing labour cost during the year, resulting overall gross profit margin was 26.2% (2010: 27.8%). However, our effective cost control measures managed to boost the net profit margin from 0.8% last year to 2.8%.

The Group has adopted a prudent approach to its business operations. During the year, the Manufacturing and Retail businesses made inventory provisions of HK$6,320,000 and HK$6,250,000 respectively. The Group also made an impairment provision for the debts due from two customers of approximately HK$21,336,000 as detailed in note 24(d) and 24(e) to the Financial Information in pages 90 of this Annual Report. Excluding these provisions, profit attributable to shareholders would be HK$55,108,000.

CHAIRMAN'S STATEMENT

Business Review

Manufacturing Business

During the year under review, the robust demand of the Group's customers boosted the order volume, so the turnover of the Manufacturing Business grew 7% to HK$586,507,000 from the previous year. This segment remained as our major income source, occupying 76.2% of the Group's total turnover. However, the prices of materials continued to rise and productivity was also affected by an increasing labour turnover rate in the Group's factories in Mainland China. Thus, the gross profit of this segment dropped slightly by 1% to HK$116,757,000. The Group outsourced part of the order to a factory in Bangladesh in order to mitigate the high turnover rate at local factories, and to increase flexibility in production and enlarged capacity.

Adhering to our prudent financial practices, the Group has made a provision of approximately HK$21,336,000 for trade and other receivables due from two customers. However, thanks to the effective cost effective measures initiated last year, in particular using less expensive means of delivery, we managed to appreciably reduce the cost of sales of the Manufacturing Business, thus the operating profit of this segment increased by 37% from HK$32,767,000 last year to HK$44,995,000.

CHAIRMAN'S STATEMENT

Mainland Headwear has maintained close collaboration with our strategic partner, New Era. During the year, New Era's orders were at US$28,048,000, 60% higher than the minimum amount of US$17,500,000 stated in the manufacturing agreement. Besides, the Group has obtained approval from its shareholders at the Special General Meeting held on 9 November 2011 to renew a three-year manufacturing agreement with New Era. Under the agreement, New Era is required to purchase a minimum of US$35,000,000, US$40,000,000 and US$45,0000,000 worth of products from the Group for three financial years from 2012 to 2014. These amounts are more than double when compared with its committed minimum purchase amount in the previous agreement that was signed in 2008. This large order forms a solid foundation for our future growth. We have confidence that we can maintain a good relationship with New Era in the future.

In recent years, as the headwear industry underwent consolidation, Mainland Headwear managed to thrive as it has become the preferred choice for major customers and secured new customers with our flexible operational strategies and strong design and production capability. To satisfy the increasing volume of orders and mitigate rising cost pressures, we have begun to outsource our orders to a factory in Bangladesh that has lower production costs. This move not only adds immediate capacity, but also gives us greater flexibility to fill larger orders.

Trading Business

The Group's efforts to strengthened its sales team of its Trading Business during the year have been rewarded with an 86% increase in turnover to HK$62,707,000, achieving a segment turnaround, and recording an operating profit of HK$2,588,000 (2010: operating loss of HK$1,386,000).

The Group continued to devote resources to nurture its sales team in Europe which have begun to bear fruit. The sales team followed up its success in securing the distribution right of the headwear products for a leading soccer team in the English Premier League (EPL) in the first half of 2011 by gaining similar distribution rights from several leading soccer teams in the EPL in the second half of the year, further fuelling business growth.

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. Under the terms of the agreement, 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 would make H3 Sportgear the Group's distribution trading arm in the USA, currently its largest market, enabling direct sales to major retailers there. Upon completion of the acquisition, the Group immediately received orders from one of the largest retailers in the USA, illustrating the bright prospects in that market. The Group has also included H3 Sportgear under its Trading Business after the acquisition and achieved considerable progress in integrating the business. The operating loss of H3 Sportgear has reduced substantially during the end of the year. The Group believes the Trading Business would bring a greater contribution as stronger synergies are realised in the future.

Retail Business

With the continuous economic growth and rising consumer demand in China, together with the Group's strategy of actively expanding its sales network and promoting the diversification of the LIDS business, turnover of the Group's retail business grew by 7% year-on-year to HK$120,598,000, accounting for about 15.7% of the Group's total turnover. Adhering to the prudent management philosophy, the Group has made provision for inventory of HK$6,250,000, it explained the increase of the operating loss of the year to HK$10,236,000 (2010: HK$4,227,000) compared with last year.

Sanrio

Driven by the healthy growth of China's economy along with the establishment of an online sales platform for the Sanrio business which helped boost sales, turnover from the Sanrio operations climbed by 4% year-on-year to HK$89,538,000 with a same store sales growth of 10%. However, the continuous rise in the exchange rate of the Japanese Yen, together with increases in store rentals and raw material costs in Mainland China, and increase in inventory provision of HK$2,300,000 made by the Group for the Sanrio business have placed pressure on the operations of the business. Thus, gross profit margin was reduced to approximately 50.4% (2010: 57.2%), and its operating loss was HK$5,830,000 (2010: HK$1,047,000).

The Group has strived constantly to expand its market and strengthen its sales network in second and third-tier cities such as Shenyang and Baotou. As at 31 December 2011, the Group is operating a total of 49 self-owned stores and 64 franchise stores.

The Group has diversified its business with an aim to enhance both the brand awareness and profitability of the Sanrio business. It has committed to developing new branded product lines during the year including "Hello Kitty" teenage girls' apparel, handbags and stationery. 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

Turnover of the LIDS business increased by 21% from HK$25,757,000 last year to HK$31,044,000, with same store sales growth of 5%. This satisfactory performance was mainly attributable to the expansion of the sales network and the opening of "NOP" and "New Era" stores to diversify business development. The new stores have been well received by consumers during the year as they have become the main growth driver of the LIDS business. However, affected by the high rental and continuous increase of staff costs in China and Hong Kong, the gross profit margin of LIDS business reduced to 71.7% (2010:76.3%). In addition, the increase in inventory provision of HK$2,500,000 made by the Group for the LIDS business led to an operating loss of HK$2,595,000. Excluding the provision for inventory, the LIDS business would have almost achieved breakeven.

CHAIRMAN'S STATEMENT

As at 31 December 2011, the Group owned 27 LIDS self-owned stores, of which 22 were in China and 5 were in Hong Kong. In addition, the Group operated 12 LIDS franchise stores in China, and 4 of its own-brand "NOP" stores and 1 "New Era" retail store in Hong Kong.

Prospects

The continuous economic growth in China have increased the purchasing power of consumers, which in turn creates immense potential for the consumer goods market. This favourable factor supplements by robust demand of the Group's customers, Mainland Headwear has established a solid position in the global headwear market. Although the Group expects to face tough ongoing challenges such as the possibility of RMB appreciation along with labour shortages in China and rising wages and rentals, it is confident of driving sustainable business development through prudent planning.

Within the Manufacturing Business, the Group's efforts in exploring new customer sources have begun to pay off. Anticipating an increasing market demand for its headwear, the Group is negotiating with key customers for increasing orders volume. The strategic cooperative agreement signed between the Group and New Era stipulates that the minimum order value of the procurement contracts for the coming year will increase from US$17,500,000 this year to US$35,000,000, US$40,000,000 and US$45,000,000 respectively between 2012 and 2014, bringing a stable and substantial income stream to the Group.

To meet the keen demand of customers, while reducing costs and the reliance on the increasingly expensive production from plants in South China, the Group plans to further expand the scale of its production elsewhere during the coming years. As for the factories in the South China, since the staff there are highly productive skilled labourers, the Group will maintain the existing production capacity of its South China plants to address the production specifications of high value-added products. Backed by the substantial orders and its expansion to production bases with lower costs, the Group is confident of the healthy development of the Manufacturing Business in the future.

The Group will continue to expand the online e-commerce platform for its Sanrio business in the coming year with an aim of expanding the reach of its sales network and adding to market share. The huge visitation potential of the internet world and the cost effective model will further drive sales of the Sanrio products. The Group expects contribution will be generated by the online business in second half of 2012. The Group is also investing more resources in improving the operational efficiency of the existing stores and promoting product diversification to boost sales performance. It plans to expand its business by adding more self-owned stores and attracting more franchisees for stores in second and third-tier cities and capture the strongly rising domestic demand.

As for the LIDS business, the Group plans to open more "NOP" retail stores and "New Era" retail stores in Hong Kong at the appropriate time to further seize opportunities in the retail headwear market. The Group is also stepping up its efforts in developing more diverse brands and improving the design and development of new products. These initiatives should enable the Group to meet the diversity of market demands in a timely manner, develop a broad and loyal customer base, increase sales and profit and maintain business growth.

CHAIRMAN'S STATEMENT

For the Trading Business, the Group is striving to enhance the strength of its sales team in Europe and the efforts have born satisfactory results. The sales team of the segment had gained the distribution rights of headwear products for a few leading soccer teams in EPL last year, which has laid a solid foundation for the order growth in Europe. The team will consistently strive to secure more distribution right so as to create larger synergies for the Group. In addition, the integration of H3 Sportsgear with the Group's Trading Business has progressed smoothly. The Group expects continuous improvement in its Trading Business and further narrowing of operating loss in the coming year, thus providing a greater contribution to the Group's development in Europe and the USA.

Acknowledgement

Looking ahead, the management will focus on reducing cost pressure, expanding its sales network and diversifying its business through a variety of strategic measures. Just as in the past, the Group will steadily forge ahead and strive to deliver the best returns to our shareholders. On behalf of Mainland Headwear, I would like to express my sincere gratitude to all of our shareholders, our staff members, customers and suppliers for their tireless support to the Group.

Ngai Hei Keung
Chairman

Hong Kong
27 March 2012

MANAGEMENT DISCUSSION AND ANALYSIS

Liquidity and Financial Resources

As at 31 December 2011, the Group had cash, bank balances and a portfolio of liquid investments totaling HK$192.0 million (2010: HK$187.1 million). About 63% and 19% of these liquid funds were denominated in US dollars and HK dollars respectively and the remainder mainly in Renminbi and Pound Sterling.

The Group maintained similar level of liquid funds in 2011 compared to 2010.

As at 31 December 2011, in addition to the HK$1.8 million bank loan of a newly acquired subsidiary, the Group had banking facilities of HK$106.6 million (2010: HK$116.0 million), of which HK$95.6 million (2010: HK$106.0 million) was not utilised.

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

Capital Expenditure

During the year, the Group spent approximately HK$4.7 million (2010: HK$15.3 million) on additions to plant and equipment to upgrade its manufacturing capability. The Group had also spent HK$5.4 million (2010: HK$5.2 million) on the retail systems and opening of new retail stores in 2011.

For the year 2011, the Group has budgeted HK$9.7 million for capital expenditure to enhance its production capacity and efficiency, and HK$3.4 million for opening of new shops.

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

Exchange Risk

Most assets and liabilities of the Group are denominated either in HK dollars, US dollars or Renminbi. The Group estimates that any 1% appreciation of the Renminbi is expected to reduce the gross margin of the Manufacturing Business by about 0.8%. However, as the Retail businesses in the PRC market grow, the expected positive contribution will provide a hedge against the adverse effect of any appreciation of Renminbi to the manufacturing costs.

Employees and Remuneration Policies

At 31 December 2011, the Group employed 95 (2010: 106) employees in Hong Kong and Macau, and 2,695 (2010: 3,459) employees in the PRC and a total of 20 (2010: 8) employees in the US and UK. The expenditures for employees during the year were approximately HK$177.8 million (2010: HK$160.3 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 56, is the Chairman of the Company and co-founder of the Group. Mr. Ngan is responsible for the production activities of the Group. Mr. Ngan obtained a bachelor degree from 福建農業學院 (Fujian Agricultural College) (now known as 福建農林大學 (Fujian Agricultural University, the "FA University")) in 1982 and currently is a guest professor of the FA University. Mr. Ngan has over 20 years of experience in the headwear industry. He is presently a member of Fujian Committee of The Chinese People's Political Consultative Conference and the Honorary Adviser (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 52, 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 president of Hong Kong Young Industrialists Council, the committee member of All-China Federation of Returned Overseas Chinese, the vice chairman of the Youth Committee of the All-China Federation of Returned Overseas Chinese, 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 41, is the Executive Director of the Company. Mr. Patterson graduated from the State University of New York at Buffalo, Buffalo, NY, USA and completed a Bachelor Degree in Economics. Mr. Patterson has been employed for the past 16 years with New Era Cap Co., Inc. ("New Era"), a US based company which is engaged in the global marketing, sale, and manufacturing of headwear and apparel. Mr. Patterson is holding the position of chief operating officer and senior vice president of New Era.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Ms. Maggie Gu

aged 34, first joined the Company during May 2003 to May 2008 and rejoined as Sales and Marketing Director on February 2009. Ms. Gu was appointed as the Executive Director of the Company in Feb 2012. She studied in United States of America, and graduated from the California State University Fullerton, with the degree of Bachelor of Arts in Communications. She managed the global marketing department with a reputable media company in US before she 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.

Non-Executive Director

Mr. Tse Kam Fow

aged 52, had been appointed as an Independent Non-executive Director of the Company since August 2004 and is re-designated as a Non-executive Director of the Company since September 2007. Mr. Tse is a certified public accountant practising in Hong Kong with wide experience in most areas of accounting, taxation, audit, corporate consulting and investment advisory. He is also presently independent non-executive director of Thunder Sky Battery Limited, which is listed in the main board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

Mr. Andrew Ngan

aged 24, was appointed as a Non-Executive Director of the Company in July 2011. Mr. Ngan graduated from the Carnegie Mellon University, Pittsburgh, USA. He completed a Bachelor of Science Degree in Information Systems in 2010. He is the son of Mr. Ngan Hei Keung and Madam Ngan Po Ling, Pauline.

Independent Non-Executive Directors

Mr. Leung Shu Yin, William

aged 62, 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.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Lo Hang Fong

aged 48, 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 66, 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 51, 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. Scott Hines

aged 48, is the president and CEO of H3 Sportgear. Mr. Hines has served as president and CEO at H3 since founding the company in 1995. He has more than 20 years experience in the headwear and licensed apparel business in the United States. Mr. Hines graduated with a Bachelors Degree in Business Marketing from Ball State University in the US prior to starting his career.

Mr. Lai Man Sing, Thomas

aged 44, 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.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Samuel Wai

aged 52, 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.

Ms. Yeung Wing Sze, Celia

aged 34, firstly joined the Company as a Product Manager of Lids operation during May 2005 to May 2007. She rejoined in March 2009 as the General Manager – LIDS. Ms. Yeung holds a Bachelor of Arts in Fashion Design and a Master of Arts in Fashion and Textile Design from the Hong Kong Polytechnic University. She also holds a Master of Arts in Management and Marketing from the London College of Fashion in UK. Ms Yeung has worked in local and international renowned fashion and accessories retailing firms for many years.

Mr. Lau Ka Fai, Edward

aged 45, 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 50, 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 2011, except for the deviations from Code Provisions A.4.1 is 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 shareholders' meetings and board meetings in 2011 are as follows:

		Shareholders' Meeting	Board Meeting
Number of meetings		2	8
Executive Directors			
Mr. Ngan Hei Keung	*(Chairman)*	2/2	8/8
Madam Ngan Po Ling, Pauline	*(Deputy Chairman and Managing Director)*	2/2	8/8
Mr. James S. Patterson		0/2	4/8
Non-executive Director			
Mr. Tse Kam Fow		0/2	7/8
Mr. Andrew Ngan		1/1	2/4
Independent Non-executive Directors			
Mr. Leung Shu Yin, William		2/2	8/8
Mr. Lo Hang Fong		0/2	6/8
Mr. Liu Tieh Ching, Brandon, *JP*		0/2	6/8

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.

CORPORATE GOVERNANCE REPORT

A.3. Board Composition

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

The Board comprises four Executive Directors, namely Mr. Ngan Hei Keung, Madam Ngan Po Ling, Pauline, Mr. James S. Patterson and Ms. Maggie Gu (appointed on 1 February 2012); two Non-executive Directors namely, Mr. Tse Kam Fow and Mr. Andrew Ngan, 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 of Directors – Nomination Committee

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

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

According to the Company's bye-law No. 87, at each annual general meeting, one-third of the Directors for the time being (or, if the member is not three or a multiple of three, then the number nearest to but not greater than one-third) shall retire from office by rotation provided that every Director (including those appointed for a specific term, the chairman of the Board and Managing Director of the Company) shall be subject to retirement by rotation or at least once every three years.

One Non-executive Director and one Independent Non-executive Director of the Company do not have a specific term of appointment as at 31 December 2011. 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. All Directors of the Company have a specific term of appointment at the date of this annual report.

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.

No nomination committee was formed as at 31 December 2011. The work in connection with the nomination and appointment of new Directors during 2011 included reviewing the Board composition and reviewing and making recommendation to the Board on appointment of new Directors. During the year of 2011, one meeting in connection with the nomination and appointment of new Directors was held. The nomination committee was formed in March 2012. This Committee is chaired by Mr. Liu Tieh Ching, Brandon JP. The other members are Mr. Ngan Hei Keung, Mr. Leung Shu Yin, William and Mr. Lo Hang Fong.

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.

CORPORATE GOVERNANCE REPORT

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 2011.

A.6. Supply of and Access to Information

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

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

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

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

B. Remuneration of directors and senior management

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

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

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

A majority of the members of the Remuneration Committee are Independent Non-executive Directors. This Committee was chaired by Mr. Tse Kam Fow. The other members were Madam Ngan Po Ling, Pauline, Mr. Leung Shu Yin, William, Mr. Lo Hang Fong and Mr. Liu Tieh Ching, Brandon, JP. The Chairman of this Committee was changed on 23 March 2012. It is now chaired by Mr. Lo Hang Fong. Mr. Tse Kam Fow remains the member of the Committee.

The meeting of the Committee is held at least once a year or when necessary. The Remuneration Committee held three meetings in 2011, which were attended by all members of the Committee except Mr. Lo Hang Fong attended two meetings and Mr. Liu Tieh Ching, Brandon, JP attended one meeting. 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 2011 are set out in note 12 to the financial statements. Details of the share option schemes of the Company are set out in the Report of the Director and note 29 to the financial statements.

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

C. Accountability and audit

C.1. Financial Reporting

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

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

CORPORATE GOVERNANCE REPORT

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 2011, 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 37 to 38 of the annual report for the year ended 31 December 2011.

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 two Non-executive Directors and three Independent Non-executive Directors of the Company and is chaired by Mr. Leung Shu Yin, William. This Committee held three meetings in 2011 which were attended by all members of the Committee except Mr. Tse Kam Fow attended two meetings and Mr. Liu Tieh Ching, Brandon, JP attended one meeting.

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 2011;

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 2012;

4. Reviewed and approved the Group's internal audit plan for 2012;

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 2010; and

7. Reviewed the Interim Report and the interim results announcement for the six months ended 30 June 2011.

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 2012.

The remuneration of the Group's external auditors is HK$1,980,000 for statutory audit fees as disclosed in note 9 to the financial statements and HK$960,000 for other non-assurance services.

CORPORATE GOVERNANCE REPORT

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), Remuneration Committee (particulars are disclosed under B.1) and Nomination Committee (particulars are disclosed under A.4), there are no other board committees established by the Board. Where board committees are established to deal with matters, the Board shall prescribe sufficiently clear terms of reference to enable such committees to discharge their functions properly. The terms of reference of board committees shall require such committees to report back to the board on their decisions or recommendations, unless there are legal or regulatory restrictions on their ability to do so.

E. 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 2011 Annual General Meeting and Special General Meeting, a separate resolution was proposed by the Chairman in respect of each separate issue, including the re-election of Directors.

The Chairman of the Board and the chairmen of the Audit and Remuneration Committees shall attend the 2012 Annual General Meeting to answer questions of shareholders.

E.2. Voting by Poll

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

REPORT OF THE DIRECTORS

The directors of the Company (the "Directors") have pleasure in submitting their annual report together with the audited financial statements for the year ended 31 December 2011.

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 40 to the financial statements.

Segmental Information

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

Results and Appropriation

An interim dividend of 1 HK cent (2010: 1 HK cent) per share, totaling HK$3,986,000 was paid on 21 October 2011. The Directors now recommend the payment of a final dividend of 3 HK cents (2010: 2 HK cents) per share in respect of the year ended 31 December 2011. Subject to the approval at the forthcoming annual general meeting, the final dividend will be payable on or after 20 June 2012 to the shareholders whose names appear on the register of members at the close of the business on 30 May 2012.

To determine the identity of members who are entitled to attend and vote at the forthcoming Annual General Meeting which will be held on 22 May 2012, the register of members of the Company will be closed from 18 May 2012 to 22 May 2012 (both dates inclusive). In order to qualify to attend the Annual General Meeting, all transfers, accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong Branch Share Registrar, Tricor Tengis Limited, at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on 17 May 2012.

To determine the identity of members who are entitled to the final dividend of the Company for the year ended 31 December 2011, the register of members of the Company will be closed from 28 May 2012 to 30 May 2012 (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 25 May 2012.

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

Five Year Financial Summary

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 106.

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	–	29%
Five largest customers in aggregate	–	57%
The largest supplier	14%	–
Five largest suppliers in aggregate	42%	–

As at 31 December 2011, New Era Cap Co., Inc., a major customer of the Group, was an affiliated company of New Era Cap Hong Kong LLC ("NEHK"). NEHK holds 19.97% equity interest in the Company. Mr. Christopher Koch owns 75% of the issued share capital of NEHK.

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

Property, Plant and Equipment

During the year, the Group spent HK$10,436,000 (2010: HK$20,530,000) on additions to property, plant and equipment to upgrade its manufacturing capabilities, and on opening of retail stores. Details of movements in property, plant and equipment are set out in note 18 to the financial statements.

Share Capital

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

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 2011, the Company's reserves available for cash distribution amounted to HK$253,282,000 (2010: HK$232,466,000) as computed in accordance with the Companies Act 1981 of Bermuda. In addition, the Company's share premium account of HK$160,230,000 (2010: HK$159,539,000) as at 31 December 2011 may be distributed in the form of fully paid bonus shares.

REPORT OF THE DIRECTORS

Donations

Charitable and other donations made by the Group during the year amounted to HK$5,000 (2010: HK$7,000).

Directors

The Directors during the financial year were:

Executive directors

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

Non-executive director

Mr. Tse Kam Fow
Mr. Andrew Ngan (appointed on 22 July 2011)

Independent non-executive directors

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

The following Executive Director was appointed after the end of the financial year:

Ms. Maggie Gu (appointed on 1 February 2012)

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

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

In accordance with the Company's Bye-Law No. 87, Mr. Ngan Hei Keung, Madam Ngan Po Ling, Pauline and Mr. James S. Patterson shall retire by rotation at the forthcoming annual general meeting. Mr. Andrew Ngan and Ms. Maggie Gu, being Directors appointed by the Board after the Company's annual general meeting held on 17 May 2011, will hold office until the forthcoming annual general meeting pursuant to the Company's Bye-Law No. 86(2). All of the retiring Directors, being eligible, offer themselves for re-election.

Directors' Service Contracts

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

Each of Mr. James S. Patterson, Mr. Tse Kam Fow, Mr. Andrew Ngan, Mr. Leung Shu Yin, William, Mr. Lo Hang Fong and Mr. Liu Tieh Ching, Brandon, JP has entered into a service contract with the Company, which may be terminated by not less than three months' notice in writing served by either party.

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

Directors' Interests in Contracts

Save as disclosed in note 39 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 ended 31 December 2011; (ii) Subscription of 16,758,000 shares of the Company at subscription price of HK$0.844 per share; and (iii) Option in respect of right to subscribe for share options agreed to be granted to NE. Under the Contingent Purchase Deed, NE is entitled to require Mr. Ngan Hei Keung ("Mr. Ngan") and Madam Ngan Po Ling, Pauline, ("Madam Ngan") who are executive directors and controlling shareholders of the Company to purchase up to 39,800,000 shares of the Company from subscription and exercise of the option and owned by NE over a six months period after a notice is served by NE, if NE have agreed to give purchase commitment under the Manufacturing Agreement on the occurrence of several events. On 23 June 2011, NE transferred the title of the Contingent Purchase Deed to New Era Cap Hong Kong LLC ("NEHK").

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 ended 31 December 2011 are HK$117,000,000, HK$273,000,000 and HK$273,000,000 respectively.

During 2011, an affiliated company of NE purchased goods totalling HK$218,214,000 from the Group.

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

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

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

Directors' Interests in Shares and Underlying Shares

As at 31 December 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	–	212,310,000 *(notes 1, 2)*	45,800,000 *(notes 3, 4)*	258,110,000	64.76%
Madam Ngan Po Ling, Pauline	28,610,000 *(note 2)*	183,700,000 *(note 1)*	45,800,000 *(notes 3, 4)*	258,110,000	64.76%
Mr. James S. Patterson	–	–	2,000,000 *(note 5)*	2,000,000	0.50%

Notes:

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

(2) The 28,610,000 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 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. On 23 June 2011, NE transferred the title of the contingent purchase deed to NEHK.

(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

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

The total number of shares which may be issued upon exercise of all options to be granted under the Old Scheme and any other share option schemes of the Group may not in aggregate exceed 30,536,058, being 10% of the shares in issue of the Company as at 23 May 2002, the date of adoption of the 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.

On 29 December 2011, the Old Scheme was terminated and a new share option scheme (the "New Scheme") was adopted, whereby the Board of Directors, may, at their absolute discretion, grant options to any eligible employees, including directors of the Company or any of its subsidiaries or any invested entity, any suppliers of goods or services to any member of the Group or any interested entity, and any customers of the Group or any invested entity to subscribe for shares in the Company.

The total number of shares which may be issued upon exercise of all options to be granted under the New Scheme and any other share option schemes of the Group may not in aggregate exceed 39,858,328, being 10% of the shares in issue of the Company as at 29 December 2011, the date of adoption of the New Scheme.

The exercise price of the options is the highest of the nominal value of the shares, the closing price of the shares on the Stock Exchange on the date of offer of the options and the average closing price of the shares on the Stock Exchange for the five trading days immediately preceding the date of offer of the options.

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

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

REPORT OF THE DIRECTORS

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

As at the date of annual report, the total number of shares available for issue, save for those granted but yet to be exercised, under the New Scheme was 35,858,328 shares, which represented 9.0% of the issued share capital of the Company as at 31 March 2012.

At 31 December 2011, 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$0.8 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	Outstanding at 1.1.2011	Granted	Exercised	Outstanding at 31.12.2011	Market value per share at date of grant
			HK$					*HK$*
Director	23.06.2009	23.06.2010 – 22.06.2019	0.946	8,000,000	–	–	8,000,000	0.93
Employees	11.06.2008	11.06.2009 – 10.06.2018	1.190	1,000,000	–	–	1,000,000	1.16
	23.06.2009	23.06.2010 – 22.06.2019	0.946	8,600,000	–	(580,000)	8,020,000	0.93
	08.11.2010	08.11.2011 – 07.11.2020	0.92	2,000,000	–	–	2,000,000	0.92
	30.12.2011	30.12.2012 – 29.12.2021	0.80	–	2,000,000	–	2,000,000	0.80
				9,600,000	2,000,000	(580,000)	13,020,000	
Customers and suppliers	30.12.2011	30.12.2012 – 29.12.2021	0.80	–	2,000,000	–	2,000,000	0.80

REPORT OF THE DIRECTORS

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 2011, shareholders (other than Directors or chief executives of the Company) who had interests or short positions in the shares or underlying shares of the Company which were required to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Long positions in the shares and underlying shares:

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

Notes:

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

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

Short positions in the underlying shares:

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

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 NEHK. In view of Mr. Koch's 75% shareholding interest in NEHK, Mr. Koch is also taken to have interest in short position of 39,800,000 underlying shares.

Save as disclosed above, as at 31 December 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.

Retirement Schemes

Particulars of retirement schemes operated by the Group are set out in note 11 to the financial statements.

Pre-Emptive Rights

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

Purchase, Sale or Redemption of the Company's Listed Securities

During the year ended 31 December 2011, 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 27 March 2012, being the date of this report.

Auditors

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

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

By order of the Board

Ngan Hei Keung
Chairman

Hong Kong, 27 March 2012

INDEPENDENT AUDITOR'S REPORT

羅兵咸永道

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

We have audited the consolidated financial statements of Mainland Headwear Holdings Limited (the "Company") and its subsidiaries (together, "the Group") set out on pages 39 to 105, which comprise the consolidated and company balance sheets as at 31 December 2011, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 90 of the Companies Act 1981 of Bermuda and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

INDEPENDENT AUDITOR'S REPORT

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

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2011, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 27 March 2012

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2011

	Note	2011 HK$'000	2010 HK$'000
Revenue	5, 6	751,017	678,633
Cost of sales	9	(554,592)	(490,086)
Gross profit		196,425	188,547
Other income	7	1,589	1,077
Other losses – net	8	(2,122)	(12,420)
Selling and distribution costs	9	(70,637)	(81,913)
Administration expenses	9	(97,299)	(85,097)
Profit from operations		27,956	10,194
Finance income	10	451	1,099
Finance costs	10	(3,155)	(62)
Profit before income tax		25,252	11,231
Income tax expense	14	(4,364)	(5,672)
Profit for the year		20,888	5,559
Attributable to:			
Owners of the Company		21,202	5,670
Non-controlling interests		(314)	(111)
		20,888	5,559
Earnings per share attributable to owners of the Company	16		
Basic		5.3 HK cents	1.5 HK cents
Diluted		5.3 HK cents	1.5 HK cents
Dividends	17	15,943	11,951

The notes on pages 47 to 105 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2011

	2011 HK$'000	2010 HK$'000
Profit for the year	**20,888**	5,559
Other comprehensive income:		
Exchange differences on translation of financial statements of foreign operations	**2,021**	3,899
Total comprehensive income for the year, net of tax	**22,909**	9,458
Attributable to:		
Owners of the Company	**23,119**	9,493
Non-controlling interests	**(210)**	(35)
Total comprehensive income for the year	**22,909**	9,458

The notes on pages 47 to 105 are an integral part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET

As at 31 December 2011

	Note	2011 HK$'000	2010 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment	18	104,245	118,678
Land use rights	19	695	816
Goodwill	21	27,446	4,958
Other intangible assets	22	38,588	2,041
Other non-current receivables	24	2,857	5,023
Deferred income tax assets	32	975	152
Non-current bank deposits	27	1,689	–
		176,495	131,668
Current assets			
Inventories	23	137,074	130,518
Trade and other receivables	24	156,044	160,325
Amount due from a related company	25	–	941
Financial assets at fair value through profit or loss	26	3,141	1,423
Income tax recoverable		262	604
Cash and cash equivalents	27	188,896	185,667
		485,417	479,478
Total assets		661,912	611,146
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company			
Share capital	28	39,858	39,800
Other reserves		220,515	216,873
Retained earnings			
– Proposed final dividend		11,957	7,971
– Others		225,906	220,648
		498,236	485,292
Non-controlling interests		801	4,025
Total equity		499,037	489,317
LIABILITIES			
Non-current liabilities			
Other non-current payables	33	22,216	–
Long service payment payable		336	260
Deferred income tax liabilities	32	–	629
		22,552	889

CONSOLIDATED BALANCE SHEET

As at 31 December 2011

	Note	2011 HK$'000	2010 HK$'000
Current liabilities			
Trade and other payables	33	120,091	106,448
Amounts due to related companies	25	513	1,435
Current income tax liabilities		17,888	13,057
Borrowings	31	1,831	–
		140,323	120,940
Total liabilities		162,875	121,829
Total equity and liabilities		661,912	611,146
Net current assets		345,094	358,538
Total assets less current liabilities		521,589	490,206

Ngan Hei Keung
Director

Ngan Po Ling, Pauline
Director

The notes on pages 47 to 105 are an integral part of these consolidated financial statements.

BALANCE SHEET

As at 31 December 2011

	Note	2011 HK$'000	2010 HK$'000
ASSETS			
Non-current assets			
Interests in subsidiaries	20	451,338	418,192
Intangible asset	22	–	2,041
		451,338	420,233
Current assets			
Other receivables	24	–	14,738
Income tax recoverable		262	262
Cash and cash equivalents	27	8,328	4,581
		8,590	19,581
Total assets		459,928	439,814
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company			
Share capital	28	39,858	39,800
Other reserves	30	265,380	263,655
Retained earnings			
– Proposed final dividend		11,957	7,971
– Others		141,894	125,064
		459,089	436,490
LIABILITIES			
Current liabilities			
Accrued charges and other payables	33	839	3,324
		839	3,324
Total equity and liabilities		459,928	439,814

Ngan Hei Keung
Director

Ngan Po Ling, Pauline
Director

The notes on pages 47 to 105 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2011

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2011

	Attributable to owners of the Company								
	Share capital HK$'000	Share premium HK$'000	Contributed surplus HK$'000 *(note 30)*	Share based compensation reserve HK$'000	Exchange reserve HK$'000	Retained earnings HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
Balance 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 year	–	–	–	–	–	21,202	21,202	(314)	20,888
Other comprehensive income:									
– Exchange differences on translation of financial statements of foreign operations	–	–	–	–	1,917	–	1,917	104	2,021
Total comprehensive income for the year	–	–	–	–	1,917	21,202	23,119	(210)	22,909
Dividend paid by a subsidiary	–	–	–	–	–	–	–	(436)	(436)
Reduction of share capital of a subsidiary	–	–	–	–	–	–	–	(1,966)	(1,966)
Acquisition of a subsidiary	–	–	–	–	–	–	–	(612)	(612)
2010 final dividend paid	–	–	–	–	–	(7,972)	(7,972)	–	(7,972)
2011 interim dividend paid	–	–	–	–	–	(3,986)	(3,986)	–	(3,986)
Exercise of share options	58	691	–	(201)	–	–	548	–	548
Equity settled share-based transactions	–	–	–	1,235	–	–	1,235	–	1,235
Total contribution by and distribution to owners of the Company	58	691	–	1,034	–	(11,958)	(10,175)	(3,014)	(13,189)
Balance at 31 December 2011	39,858	160,230	25,878	5,719	28,688	237,863	498,236	801	499,037
Representing:									
2011 proposed final dividend						11,957			
Other retained earnings						225,906			
						237,863			

The notes on pages 47 to 105 are an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2011

	Note	2011 HK$'000	2010 HK$'000
Cash flows from operating activities			
Cash generated from operations	34	31,346	33,817
Income tax (paid)/refund		(656)	3,686
Interest paid		(363)	(62)
Net cash generated from operating activities		30,327	37,441
Cash flows from investing activities			
Interest received		451	1,099
Acquisition of a subsidiary	35	11	–
Reduction of share capital of a subsidiary		(1,966)	(4,680)
Purchase of property, plant and equipment		(10,436)	(20,530)
Proceeds from disposal of property, plant and equipment		–	4,435
Net (acquisition)/sale of financial assets at fair value through profit or loss		(994)	4,201
Increase in non-current bank deposits		(1,689)	–
Net cash used in investing activities		(14,623)	(15,475)
Cash flows from financing activities			
Dividends paid		(12,394)	(11,518)
Proceeds from issue of shares		548	35,482
Repayment of bank borrowings		(1,298)	–
Net cash (used in)/generated from financing activities		(13,144)	23,964
Net increase in cash and cash equivalents		2,560	45,930
Cash and cash equivalents at beginning of year		185,667	138,729
Effect of foreign exchange rate changes		669	1,008
Cash and cash equivalents at end of year		188,896	185,667

The notes on pages 47 to 105 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the ended 31 December 2011

1. GENERAL INFORMATION

The Company is a public limited company incorporated in Bermuda and its shares are listed on the Stock Exchange of Hong Kong Limited ("Stock Exchange"). The address of the registered office is Clarendon House, 2 Church Street, Hamilton HM11, Bermuda.

The principal activity of the Company is investment holding. The principal activities of the subsidiaries are set out in note 40 to the financial statements.

These financial statements are presented in Hong Kong dollars, unless otherwise stated. These financial statements were approved for issue by the board of directors on 27 March 2012.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of preparation

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the ended 31 December 2011

Changes in accounting policy and disclosures

(i) *New and amended standards adopted by 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	

(ii) *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:

HKAS 1 (Amendment)	Presentation of financial statements[3]
HKAS 12 (Revised)	Deferred tax: Recovery of underlying assets[2]
HKAS 19 (Amendment)	Employee benefits[4]
HKAS 27 (revised 2011)	Separate financial statements[4]
HKAS 28 (revised 2011)	Investment in associates and joint ventures[4]
HKAS 32 (Amendment)	Financial instruments: Presentation — Offsetting financial assets and financial liabilities[5]
HKFRS 1 (Amendment)	Severe hyperinflation and removal of fixed dates for first-time adopters[1]
HKFRS 7 (Amendment)	Disclosures — Transfer of financial assets[1]
HKFRS 7 (Amendment)	Financial instruments: Disclosures — Offsetting financial assets and financial liabilities[4]
HKFRS 7 and HKFRS 9 (Amendments)	Mandatory effective date and transition disclosures[6]
HKFRS 9	Financial instruments[6]
HKFRS 10	Consolidated financial statements[4]
HKFRS 11	Joint arrangements[4]
HKFRS 12	Disclosures of interests in other entities[4]
HKFRS 13	Fair value measurements[4]

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the ended 31 December 2011

[1] effective for annual periods beginning on or after 1 July 2011
[2] effective for annual periods beginning on or after 1 January 2012
[3] effective for annual periods beginning on or after 1 July 2012
[4] effective for annual periods beginning on or after 1 January 2013
[5] effective for annual periods beginning on or after 1 January 2014
[6] effective for annual periods beginning on or after 1 January 2015

The expected impacts from the adoption of the above standards and amendments are still being assessed in details by management but it is expected that the adoption should not have significant impacts to the Group.

(b) Subsidiaries

(i) Consolidation

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. The Group also assesses existence of control where it does not have more than 50% of the voting power but is able to govern the financial and operating policies by virtue of de-facto control. De-facto control may arise from circumstances such as enhanced minority rights or contractual terms between shareholders, etc.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances, income and expenses on transactions between group companies are eliminated. Profits and losses resulting from intercompany transactions that are recognised in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the ended 31 December 2011

(ii) *Business combinations*

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

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

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

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

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

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(iv) Disposal of subsidiaries

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

(c) Separate financial statements

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

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

(d) Segment reporting

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

(e) Foreign currencies translation

(i) Functional and presentation currency

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the ended 31 December 2011

(ii) *Transactions and balances*

In the individual financial statements of the consolidated entities, transactions in foreign currencies are translated into the functional currency at the rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rates of exchange ruling as at the balance sheet date. Translation differences are dealt with in the income statement, except those arising from foreign currency borrowings used to hedge a net investment in a foreign operation which are recognised in other comprehensive income.

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

(iii) *Group companies*

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

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

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

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

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

(iv) Disposal of foreign operation and partial disposal

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

In the case of a partial disposal that does not result in the Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (that is, reductions in the Group's ownership interest in associates or jointly controlled entities that do not result in the Group losing significant influence or joint control) the proportionate share of the accumulated exchange difference is reclassified to profit or loss.

(f) Property, plant and equipment

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

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

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

Depreciation is provided over their estimated useful lives from the date on which they are available for use and after taking into account of their estimated residual values, using the straight-line method, at the following rates per annum:

Building	5%
Furniture and equipment	20% to 33%
Leasehold improvements	10% to 50%
Machinery	10%
Motor vehicles	12.5% to 20%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the ended 31 December 2011

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

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

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

(g) Land use right

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

(h) Goodwill

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

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

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

(i) Other intangible assets

Other intangible assets represent acquired customer relationships and licensing rights. The intangible assets are stated on the balance sheet at cost less accumulated amortisation and impairment losses (see note 2(j)). Amortisation of the acquired customer relationships is over the expected pattern of consumption of expected future economic benefits from the intangible assets or over 10 years.

Amortisation of licensing rights is based on the expected pattern of consumption of these rights, which are either on a straight line basis or based on the units of production.

(j) Impairment of assets

(i) Impairment of financial assets

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

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

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

- Significant financial difficulty of the debtor;
- A breach of contract, such as a default or delinquency in interest or principal payments;
- It becomes probable that the debtor will enter bankruptcy or other financial reorganisation;
- The disappearance of an active market for that financial asset because of financial difficulties; or
- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
  - (i) adverse changes in the payment status of borrowers in the portfolio;
  - (ii) national or local economic conditions that correlate with defaults on the assets in the portfolio.

The Group first assesses whether objective evidence of impairment exists.

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For the ended 31 December 2011

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

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

(ii) Impairment of non-financial assets

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

(k) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchase and, where applicable, costs of conversion and other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the weighted-average costing method.

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

(l) Trade and other receivables

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

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

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

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

Regular way purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Financial assets at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement. Financial assets at fair value through profit or loss are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Financial assets at fair value through profit or loss are subsequently carried at fair value.

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

(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. In the consolidated balance sheet, bank overdrafts are shown within borrowings in current liabilities.

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(o) Share capital

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

(p) Trade and other payables

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

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

(q) Borrowings

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

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

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

(r) Current and deferred income tax

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

The charge for current income tax is based on the results for the year as adjusted for items that are non-assessable or disallowed. It is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date in the countries where the Company's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided, using the liability method, on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. The deferred income tax are measured at the tax rates that are expected to apply to the period when the asset is recovered or liability is settled, based on the tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date. Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, tax losses and credits can be utilised.

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

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

(s) Employee benefits

(i) Pension obligations

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

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(ii) Profit-sharing and bonus plans

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

(t) Share-based payments

(i) Share options granted to employees

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

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

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

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

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

(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.

(u) Provisions

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

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

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

(v) Revenue recognition

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the ended 31 December 2011

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

(i) *Sales of goods – wholesale and trading*

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

(ii) *Sales of goods – retail*

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

(iii) *Interest income*

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

(w) Leases

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

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

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

(x) Dividend distribution

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

(y) Financial guarantees

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the ended 31 December 2011

3. FINANCIAL RISK MANAGEMENT

(a) Categories of financial instruments

	Group 2011	Group 2010	Company 2011	Company 2010
	HK$'000	HK$'000	HK$'000	HK$'000
Financial assets				
Loans and receivables (include cash and cash equivalents):				
– Trade and other receivables	150,876	138,484	–	14,738
– Amount due from a related company	–	941	–	–
– Bank balances and cash	190,585	185,667	8,328	4,581
	341,461	325,092	8,328	19,319
Financial assets at fair value through profit or loss	3,141	1,423	–	–
	344,602	326,515	8,328	19,319
Financial liabilities				
Amortised cost:				
– Borrowings	1,831	–	–	–
– Trade and other payables	115,325	106,448	–	3,324
– Amounts due to related companies	513	1,435	–	–
	117,669	107,833	–	3,324

(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 and Chinese Renminbi.

The Group does not hedge its foreign currency risks with United States dollars as the rate of exchange between Hong Kong dollars and the United States dollars is controlled within a tight range.

The Group estimates that any 1% appreciation of the Renminbi is expected to reduce the gross margin of the Manufacturing Business by about 0.8%. However, as the Retail business in the PRC market grow, the expected positive contribution will provide a hedge against the adverse effect of any appreciation of Renminbi to the manufacturing costs.

(b) Interest rate risk

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the ended 31 December 2011

At 31 December 2011, it is estimated that a general increase/decrease of 50 basis points (2010: 50 basis points) in bank deposits and bank borrowings interest rates, with all other variables held constant, would increase/decrease the Group's post-tax profit for the year by approximately HK$935,000 (2010: increase/decrease the Group's post-tax profit for the year by approximately HK$928,000). The 50 basis point increase/decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next annual balance sheet date.

(c) Price risk

The Group is exposed to equity price risk through its financial assets at fair value through profit or loss. If the market bid prices of the investments had been 10% higher, with all other variables held constants, the Group's post-tax profit for the year would increase by approximately HK$314,000 for the year ended 31 December 2011 (2010: post-tax profit for the year would increase by approximately HK$142,000). A 10% change is used when reporting the price risk internally to the management.

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

Management constantly reviews the portfolio of investments and maintains the Group's exposures to price risk within an acceptable level.

(ii) Credit risk

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

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

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For the ended 31 December 2011

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

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

At the balance sheet date, the Group has certain concentration of credit risk as 34% (2010: 14%) and 59% (2010: 42%) of the total trade and other receivables was due from the Group's largest customer and the five largest customers respectively.

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

(iii) Liquidity risk

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

The Group continues to enjoy financing for its operations by internally generated cash flows. The Group maintained its gearing ratio (being the Group's net borrowings over total equity) at close to zero and the Group will have sufficient financial resources to meet its commitments and working capital requirements.

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

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For the ended 31 December 2011

31 December 2011

	Group		Company
	Within one year	In the second to fifth years inclusive	Within one year
Trade and other payables	79,078	1,570	–
Minimum license fee payables	14,031	20,646	–
Bank borrowings	1,831	–	–
Amounts due to related companies	513	–	–
Total	95,453	22,216	–

31 December 2010

	Group		Company
	Within one year	In the second to fifth years inclusive	Within one year
Trade and other payables	106,448	–	3,324
Amounts due to related companies	1,435	–	–
Total	107,883	–	3,324

(c) Capital management

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

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings, and makes adjustments to the capital structure in light of changes in economic conditions. The Group's strategy, which was unchanged from 2010, was to maintain its gearing ratio at a low level.

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(d) Fair value

The Group's financial assets and liabilities are carried at amounts not materially different from their fair values as at 31 December 2010 and 2011 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).

	2011 – Group			
	Level 1	**Level 2**	**Level 3**	**Total**
	HK$	**HK$**	**HK$**	**HK$**
Assets				
Listed equity investments in Hong Kong	**3,141**	**–**	**–**	**3,141**

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

The fair values of listed equity investments in Hong Kong have been determined by reference to quoted market prices on the Stock Exchange.

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

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Impairment of goodwill

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

(b) Provision for impairment of receivables

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

(c) Net realisable value of inventories

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

(d) Income taxes

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

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

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

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

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

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For the ended 31 December 2011

(f) Employee benefits – share-based payments

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

5. SEGMENT INFORMATION

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

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

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

(ii) Trading Business: The trading and distribution of headwear and other products business of the Group is operating through Drew Pearson International (Europe) Ltd., ("DPI Europe") which focus on the Europe market, and H3 Sportgear LLC, ("H3") which focus on the US 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 has been ceased during 2010.

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

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

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	Manufacturing		Trading		Retail		Total	
	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	567,712	532,311	62,707	33,644	120,598	112,678	751,017	678,633
Inter-segment revenue	18,795	12,290	–	–	–	–	18,795	12,290
Reportable segment revenue	586,507	544,601	62,707	33,644	120,598	112,678	769,812	690,923
Reportable segment profit/(loss)	44,995	32,767	2,588	(1,386)	(10,236)	(4,227)	37,347	27,154
Gain from disposal of financial assets at fair value through profit or loss							1,013	874
Fair value loss on financial assets at fair value through profit or loss							(289)	(8)
Share-based payment expenses							(1,235)	(2,536)
Unallocated corporate income							46	474
Unallocated corporate expenses							(8,475)	(14,665)
Profit from operations							28,407	11,293
Finance costs							(3,155)	(62)
Income tax expense							(4,364)	(5,672)
Profit for the year							20,888	5,559
Depreciation of property, plant and equipment and amortisation of land use rights	21,357	24,275	316	114	5,213	4,528	26,886	28,917
Amortisation of other intangible assets	2,040	1,749	6,492	–	5,140	–	13,672	1,749
Loss on disposal of property, plant and equipment	60	350	–	–	58	–	118	350
Provision for impairment of inventories	6,320	1,000	–	–	6,250	1,365	12,570	2,365
Provision for impairment and write-off of trade and other receivables	21,336	16,281	–	–	–	18	21,336	16,299
Reportable segment assets	296,697	327,543	58,987	7,201	74,366	71,778	430,050	406,522
Other intangible assets							38,588	2,041
Deferred income tax assets							975	152
Income tax recoverable							262	604
Financial assets at fair value through profit or loss							3,141	1,423
Other corporate assets							188,896	200,404
Total assets							661,912	611,146
Reportable segment liabilities	63,613	71,151	30,194	7,270	48,510	26,398	142,317	104,819
Deferred income tax liabilities							–	629
Current income tax liabilities							17,888	13,057
Borrowings							1,831	–
Other corporate liabilities							839	3,324
Total liabilities							162,875	121,829
Capital expenditure incurred during the year	4,671	15,350	953	2	5,436	5,178	11,060	20,530

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

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

(i) Revenue from external customers

	2011	2010
	HK$'000	HK$'000
Hong Kong	23,859	15,280
USA	493,071	431,393
PRC	105,504	101,927
Europe	84,556	92,635
Others	44,027	37,398
Total	751,017	678,633

(ii) Non-current assets

	2011	2010
	HK$'000	HK$'000
Hong Kong	6,581	10,420
PRC	100,223	113,755
Europe	2,203	342
USA	479	–
	109,486	124,517
Goodwill	27,446	4,958
Other intangible assets	38,588	2,041
Deferred income tax assets	975	152
	176,495	131,668

During 2011, HK$218,214,000 or 29.1% and HK$92,452,000 or 12.3% of the Group's revenue was derived from two customers in the Manufacturing business (2010: HK$142,790,000 or 21.0% and HK$68,633,000 or 10.1%).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the ended 31 December 2011

6. REVENUE

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

7. OTHER INCOME

	2011	2010
	HK$'000	HK$'000
Sundry income	**1,589**	1,077
	1,589	1,077

8. OTHER LOSSES – NET

	2011	2010
	HK$'000	HK$'000
Gain from disposal of financial assets at fair value through profit or loss	**1,013**	874
Financial assets at fair value through profit or loss – fair value loss	**(289)**	(8)
Net foreign exchange (loss)/gain	**(2,728)**	581
Loss on disposal of property, plant and equipment	**(118)**	(350)
Loss on settlement of a litigation *(Note)*	**–**	(13,517)
	(2,122)	(12,420)

Note:

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the ended 31 December 2011

9. EXPENSES BY NATURE

	2011	2010
	HK$'000	HK$'000
Employee remuneration (including directors' emoluments and retirement benefit costs)		
– Salaries and allowances	175,848	157,009
– Contribution to retirement scheme	745	727
– Share-based payments	1,235	2,536
	177,828	160,272
Cost of inventories	325,368	286,377
Auditors' remuneration	2,375	1,433
License fee expenses	5,094	16,743
Depreciation of property, plant and equipment *(note 18)*	26,734	28,770
Amortisation on land use rights *(note 19)*	152	147
Amortisation of other intangible assets *(note 22)*	13,672	1,749
Operating lease charges in respect of office premises, shops, factories and warehouses		
– Minimum lease payment	29,507	27,459
– Contingent lease payment	12,110	13,489
Provision for impairment and write-off of trade and other receivables	21,336	16,299
Provision for impairment of inventories	12,570	2,365
Provision for impairment of prepaid license fee	–	5,635
Claims expense	3,518	7,597
Others	92,264	88,761
Total cost of sales, selling and distribution costs, and administration expenses	722,528	657,096

10. FINANCIAL (COSTS)/INCOME – NET

	2011	2010
	HK$'000	HK$'000
Interest on overdrafts and other borrowings	**(324)**	(23)
Interest on amounts due to a related company	**(39)**	(39)
Interest on other non-current payables	**(2,792)**	–
	(3,155)	(62)
Interest income	**451**	1,099
Net finance (costs)/income	**(2,704)**	1,037

11. RETIREMENT SCHEMES

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the ended 31 December 2011

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:

	2011	2010
	HK$'000	HK$'000
Gross retirement schemes contributions	745	727
Less: Forfeited contributions for the year	–	–
Net retirement schemes contributions	745	727

12. DIRECTORS' EMOLUMENTS

	2011	2010
	HK$'000	HK$'000
Fees	467	432
Salaries, housing benefits, other allowances and benefits in kind	3,418	2,841
Share-based payments	134	1,171
Contributions to retirement scheme	48	48
	4,067	4,492

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the ended 31 December 2011

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

	Year ended 31 December 2011				
	Fees	Salaries, allowances and benefits in kind	Share-based payments	Retirement scheme contributions	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Mr. Ngan Hei Keung	–	1,290	50	24	1,364
Madam Ngan Po Ling, Pauline	–	1,852	50	24	1,926
Mr. James S. Patterson	–	276	34	–	310
Mr. Tse Kam Fow	120	–	–	–	120
Mr. Andrew Ngan	35	–	–	–	35
Mr. Leung Shu Yin, William	96	–	–	–	96
Mr. Lo Hang Fong	96	–	–	–	96
Mr. Liu Tieh Ching, Brandon, *JP*	120	–	–	–	120
Total	467	3,418	134	48	4,067

	Year ended 31 December 2010				
	Fees	Salaries, allowances and benefits in kind	Share-based payments	Retirement scheme contributions	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Mr. Ngan Hei Keung	–	1,040	439	24	1,503
Madam Ngan Po Ling, Pauline	–	1,603	439	24	2,066
Mr. James S. Patterson	–	198	293	–	491
Mr. Tse Kam Fow	120	–	–	–	120
Mr. Leung Shu Yin, William	96	–	–	–	96
Mr. Lo Hang Fong	96	–	–	–	96
Mr. Liu Tieh Ching, Brandon, *JP*	120	–	–	–	120
Total	432	2,841	1,171	48	4,492

No director waived emoluments in respect of the years ended 31 December 2010 and 2011.

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For the ended 31 December 2011

13. FIVE HIGHEST PAID EMPLOYEES

The five highest paid individuals included two (2010: two) directors, details of whose remuneration are set out in note 12. The details of the emoluments of the remaining three (2010: three) highest paid individuals are as follows:

	2011	2010
	HK$'000	HK$'000
Salaries and allowances	4,161	3,853
Discretionary bonuses	1,992	2,695
Share-based payments	50	545
Contributions to retirement scheme	24	24
	6,227	7,117

The emoluments of these three (2010: three) employee are within the following bands:

	2011	2010
	HK$'000	HK$'000
Nil – HK$1,000,000	–	–
HK$1,000,001 – HK$2,000,000	2	2
HK$2,000,001 – HK$3,000,000	1	–
HK$3,000,001 – HK$4,000,000	–	1

14. INCOME TAX EXPENSE

	2011	2010
	HK$'000	HK$'000
Hong Kong profits tax	–	–
Overseas tax		
– Current year	5,212	6,672
– Under-provision in prior years	604	–
	5,816	6,672
Deferred income tax *(note 32)*		
– Current year	(1,452)	(1,000)
	4,364	5,672

No Hong Kong profits tax has been provided for as the Company has no assessable profit for the year (2010: nil). Taxation on overseas profits has been calculated on the estimated assessable profits for the year at the rates of taxation prevailing in the countries in which the Group operates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the ended 31 December 2011

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

	2011	2010
	HK$'000	HK$'000
Profit before income tax	25,252	11,231
Calculated at a taxation rate of 16.5% (2010: 16.5%)	4,167	1,853
Effect of different taxation rates in other countries	992	1,583
Expenses not deductible for tax purposes	3,210	3,460
Income not subject to tax	(5,906)	(517)
Tax losses for which no deferred income tax assets was recognised	2,249	–
Others	(348)	(707)
Income tax expenses	4,364	5,672

15. PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

The profit attributable to owners of the Company dealt with in the financial statements of the Company for the year amounted to HK$32,774,000 (2010: HK$38,803,000).

16. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to owners of the Company of HK$21,202,000 (2010: HK$5,670,000) and on the weighted average number of shares of 398,555,394 (2010: 377,224,643) in issue during the year.

Dilutive earnings per share is the same as basic earnings per share for the years ended 31 December 2010 and 2011 as the share options have no dilutive impact for both years.

17. DIVIDENDS

The dividends paid in 2010 and 2011 were HK$11,518,000 (3 HK cents per share) and HK$11,958,000 (3 HK cents per share) respectively. A dividend in respect of the year ended 31 December 2011 of 3 HK cents per share, amounting to a total dividend of HK$11,957,000, is to be proposed at the annual general meeting on 22 May 2012. These financial statements do not reflect this dividend payable.

	2011	2010
	HK$'000	HK$'000
Interim dividend of 1 HK cent (2010: 1 HK cent) per share	3,986	3,980
Proposed final dividend of 3 HK cents (2010: 2 HK cents) per share	11,957	7,971
	15,943	11,951

The aggregate amounts of the dividends paid and proposed during 2010 and 2011 have been disclosed in the consolidated income statement in accordance with the Hong Kong Companies Ordinance.

The amount of proposed final dividend for 2011 was based on 398,583,284 (2010: 398,003,284) shares in issue as at 31 December 2011.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the ended 31 December 2011

18. PROPERTY, PLANT AND EQUIPMENT – GROUP

	Buildings HK$'000	Furniture and equipment HK$'000	Leasehold improvement HK$'000	Machinery HK$'000	Motor vehicles HK$'000	Total HK$'000
Year ended 31 December 2010						
Opening net book amount	19,693	4,757	8,540	92,308	3,405	128,703
Additions	–	1,584	6,893	11,283	770	20,530
Disposals	–	–	–	(4,509)	(276)	(4,785)
Depreciation	(1,644)	(2,373)	(5,256)	(18,497)	(1,000)	(28,770)
Exchange differences	561	368	365	1,637	69	3,000
Closing net book amount	18,610	4,336	10,542	82,222	2,968	118,678
At 31 December 2010						
Cost	36,023	38,090	57,883	228,840	12,403	373,239
Accumulated depreciation and impairment	(17,413)	(33,754)	(47,341)	(146,618)	(9,435)	(254,561)
Net book amount	18,610	4,336	10,542	82,222	2,968	118,678
Year ended 31 December 2011						
Opening net book amount	18,610	4,336	10,542	82,222	2,968	118,678
Acquisition of subsidiaries	–	609	15	–	–	624
Additions	–	882	5,146	3,966	442	10,436
Disposals	–	(23)	(24)	(60)	(11)	(118)
Depreciation	(1,211)	(2,103)	(5,385)	(16,859)	(1,176)	(26,734)
Exchange differences	734	9	16	508	92	1,359
Closing net book amount	18,133	3,710	10,310	69,777	2,315	104,245
At 31 December 2011						
Cost	37,478	45,760	64,066	234,129	12,831	394,264
Accumulated depreciation and impairment	(19,345)	(42,050)	(53,756)	(164,352)	(10,516)	(290,019)
Net book amount	18,133	3,710	10,310	69,777	2,315	104,245

Depreciation expense of HK$18,959,000 (2010: HK$22,220,000) has been charged in cost of sales, HK$4,479,000 (2010: HK$3,571,000) in selling and distribution costs and HK$3,296,000 (2010: HK$2,979,000) in administration expenses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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19. LAND USE RIGHTS – GROUP

	2011	2010
	HK$'000	HK$'000
Opening net book amount	816	937
Amortisation	(152)	(147)
Exchange difference	31	26
Closing net book amount	695	816
Cost	3,088	2,968
Accumulated amortisation	(2,393)	(2,152)
Net book amount	695	816

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

20. INTERESTS IN SUBSIDIARIES – COMPANY

	2011	2010
	HK$'000	HK$'000
Unlisted shares, at cost	99,631	99,631
Due from subsidiaries *(note (i))*	351,707	318,561
	451,338	418,192

Notes:

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

(ii) Particulars of the Company's principal subsidiaries are set out in note 40.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the ended 31 December 2011

21. GOODWILL – GROUP

	2011	2010
	HK$'000	HK$'000
Opening net book amount	4,958	4,958
Additions	22,488	–
Closing net book amount	27,446	4,958
Cost	27,446	22,160
Accumulated impairment	–	(17,202)
Net book amount	27,446	4,958

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

	2011	2010
	HK$'000	HK$'000
Retail Business for SANRIO	4,958	4,958
Trading Business for H3	22,488	–
	27,446	4,958

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

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

	2011		2010	
	Retail Business	Trading Business	Retail Business	Trading Business
Growth rate	3%	2%	0%	N/A
Discount rate	15%	16%	15%	N/A

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For the ended 31 December 2011

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

For the year ended 31 December 2011, there is no impairment of goodwill based on the impairment assessment performed.

The accumulated impairment in 2010 represents impairment of goodwill arising from the acquisition of 北京叠翠旅遊紀念品有限責任公司 in the Retail Business in 2008. The amount was written off in 2011.

22. OTHER INTANGIBLE ASSETS

(a) Group

	Licensing rights HK$'000	Acquired customer relationship HK$'000	Total HK$'000
Year ended 31 December 2010			
Opening net book amount	–	3,790	3,790
Amortisation	–	(1,749)	(1,749)
Closing net book amount	–	2,041	2,041
At 31 December 2010			
Cost	–	3,928	3,928
Accumulated amortisation	–	(1,887)	(1,887)
Net book amount	–	2,041	2,041
Year ended 31 December 2011			
Opening net book amount	–	2,041	2,041
Acquisition of a subsidiary	–	5,829	5,829
Additions	44,086	–	44,086
Amortisation	(11,631)	(2,041)	(13,672)
Exchange difference	304	–	304
Closing net book amount	32,759	5,829	38,588
At 31 December 2011			
Cost	44,409	9,757	54,166
Accumulated amortisation	(11,650)	(3,928)	(15,578)
Net book amount	32,759	5,829	38,588

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the ended 31 December 2011

(b) Company

	Acquired customer relationship HK$'000
Year ended 31 December 2010	
Opening net book amount	3,790
Amortisation	(1,749)
Closing net book amount	2,041
At 31 December 2010	
Cost	3,928
Accumulated amortisation	(1,887)
Net book amount	2,041
Year ended 31 December 2011	
Opening net book amount	2,041
Amortisation	(2,041)
Closing net book amount	–
At 31 December 2011	
Cost	3,928
Accumulated amortisation	(3,928)
Net book amount	–

23. INVENTORIES – GROUP

	2011 HK$'000	2010 HK$'000
Raw materials	**61,163**	62,395
Work-in-progress	**22,895**	24,721
Finished goods	**53,016**	43,402
	137,074	130,518

The cost of inventories recognised as expense and included in cost of sales amounted to HK$325,368,000 (2010: HK$286,377,000).

Provision for impairment on inventory of HK$12,570,000 has been charged to cost of sales (2010: HK$2,365,000).

24. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade and bills receivables	**130,068**	116,762	**–**	–
Deposits, prepayments and other receivables	**37,023**	67,758	**–**	18,783
	167,091	184,520	**–**	18,783
Less: provision for impairment	**(8,190)**	(19,172)	**–**	(4,045)
	158,901	165,348	**–**	14,738
Less: non-current portion of other receivables	**(2,857)**	(5,023)	**–**	–
Current portion	**156,044**	160,325	**–**	14,738

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

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

	2011	2010
	HK$'000	HK$'000
0 – 30 days	**84,364**	50,700
31 – 60 days	**24,496**	31,962
61 – 90 days	**5,503**	5,947
Over 90 days	**15,705**	28,153
	130,068	116,762

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For the ended 31 December 2011

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

	2011	2010
	HK$'000	HK$'000
1 – 30 days past due	**9,679**	23,848
31 – 60 days past due	**2,266**	3,960
Over 60 days past due	**12,301**	24,057
	24,246	51,865

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

(c) Included in trade receivables is a balance past due over 60 days from a customer of HK$1,240,000. The balance bears interest at 15% per annum and is repayable in quarterly instalments of US$15,000 until the entire principal balance and interest has been paid. No collateral were held over this balance.

(d) As at 31 December 2010, the Group had an aggregate amount of HK$39,038,000 due from a customer, of which HK$25,034,000 and HK$14,004,000 were included in trade receivables and other receivables, respectively. The balance was secured by 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.

On 19 August 2011, the Group acquired 85% equity interest of the customer pursuant of the guaranty agreement above (Note 35). The directors carried out an impairment assessment before the acquisition and an impairment provision of HK$17,371,000 has been made during the year.

(e) Included in other receivables is a note receivable from a customer of HK$7,483,000 (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 31 December 2011, a provision of HK$3,965,000 was made.

(f) As of 31 December 2011, trade and other receivables of HK$8,190,000 (2010: HK$19,172,000) were fully impaired and provided for. All these receivables were overdue over 90 days.

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

	2011	2010
	HK$'000	HK$'000
At 1 January	19,172	3,273
Acquisition of a subsidiary	535	–
Impairment loss recognised	21,336	16,299
Impairment loss written back	(84)	–
Uncollectible amounts written off	(32,788)	(400)
Exchange difference	19	–
At 31 December	8,190	19,172

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

25. AMOUNTS DUE FROM/(TO) RELATED COMPANIES

The amounts due from/(to) related companies are unsecured, interest-free and repayment on demand, except for an amount due to a related company of HK$513,000 (2010: HK$564,000) which is interest bearing at 5% (2010: 5%) per annum.

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

	2011	2010
	HK$'000	HK$'000
Listed equity investments in Hong Kong	3,141	1,423
	3,141	1,423

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27. CASH AND CASH EQUIVALENTS

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash at bank and on hand	**164,813**	168,966	**8,328**	4,581
Short-term bank deposits	**24,083**	16,701	**–**	–
Cash and cash equivalents	**188,896**	185,667	**8,328**	4,581
Non-current bank deposits	**1,689**	–	**–**	–

The effective interest rate on short-term bank deposits was 0.59% (2010: 0.25%) per annum; these deposits have an average maturity of 18 days as at 31 December 2011 (2010: 23 days).

Non-current bank deposits bear interest at floating rate and maturing on 18 November 2014. These deposits have been pledged as guarantee for a licensing right contract.

28. SHARE CAPITAL

		Group and Company	
	Note	**Number of shares of HK$0.10 each**	**HK$'000**
Authorised:			
At 1 January 2010, 31 December 2010 and 31 December 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)	46,093,000	4,609
At 31 December 2010		398,003,284	39,800
Issue of shares upon exercise of share options	(b)	580,000	58
At 31 December 2011		398,583,284	39,858

Notes:

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

(b) During the year ended 31 December 2011, 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.

29 EQUITY SETTLED SHARE-BASED PAYMENT TRANSACTIONS

(1) On 23 May 2002, a share option scheme (the "Old Scheme") was adopted, whereby the Board of Directors may, at their absolute discretion, grant options to any eligible employees including directors of the Company or any of its subsidiaries or any invested entity, any suppliers of goods or services to any member of the Group or any invested entity, and any customers of the Group or any invested entity to subscribe for shares in the Company. The total number of shares which may be issued upon exercise of all options to be granted under the Old Scheme and any other share option schemes of the Group may not in aggregate exceed 30,536,058, being 10% of the shares in issue of the Company as at 23 May 2002, the date of adoption of the Old Scheme adjusted for the issue of bonus shares on 22 May 2007. The scheme mandate limit was refreshed on 28 November 2008. Upon refreshing of the scheme mandate limit, the Company may grant options 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.

ON 29 December 2011, the Old Scheme was terminated and a new share option scheme (the "New Scheme") was adopted, whereby the Board of Directors, may, at their absolute discretion, grant options to any eligible employees, including directors of the Company or any of its subsidiaries or any invested entity, any suppliers of goods or services to any member of the Group or any interested entity, and any customers of the Group or any invested entity to subscribe for shares in the Company.

The total number of shares which may be issued upon exercise of all options to be granted under the New Scheme and any other share option schemes of the Group may not in aggregate exceed 39,858,328, being 10% of the shares in issue of the Company as at 29 December 2011, the date of adoption of the New Scheme.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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(a) Movements in share options

	2011 Number of share options	2011 Weighted average exercise price	2010 Number of share options	2010 Weighted average exercise price
		HK$		HK$
At 1 January	19,600,000	0.956	19,745,000	1.12
Granted	4,000,000	0.800	2,000,000	0.92
Exercised	(580,000)	0.946	–	–
Lapsed	–	–	(2,145,000)	2.455
At 31 December	23,020,000	0.929	19,600,000	0.956
Option vested at 31 December	10,580,000	0.969	5,580,000	0.972

At the balance sheet date, the weighted average remaining contractual life of the Company's share options was 8.0 years (2010: 8.6 years).

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

Expiry date	Exercise price	Number of share options 2011	Number of share options 2010
	HK$	'000	'000
10 June 2018	1.190	1,000	1,000
22 June 2019	0.946	16,020	16,600
7 November 2020	0.920	2,000	2,000
29 December 2021	0.800	4,000	–
		23,020	19,600

(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:

	2011	2010
Weighted average share price	**HK$0.80**	HK$0.90
Weighted average exercise price	**HK$0.80**	HK$0.92
Expected volatility	**21.3%**	82.8%
Expected life	**10 years**	9.8 years
Risk free rate	**0.5%**	0.5%
Expected dividend yield	**3.5%**	6.6%

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

Under this share option scheme, HK$1,235,000 of share-based payment expense has been included in the consolidated income statement for 2011 (2010: HK$2,536,000) and the corresponding amount of which has been credited to share based compensation reserve.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the ended 31 December 2011

30 RESERVES – COMPANY

	Share premium HK$'000	Contributed surplus HK$'000	Share based compensation reserve HK$'000	Retained earnings HK$'000	Total HK$'000
At 1 January 2010	125,377	99,431	5,438	105,750	335,996
Profit for the year	–	–	–	38,803	38,803
2009 final dividend paid	–	–	–	(7,538)	(7,538)
2010 interim dividend paid	–	–	–	(3,980)	(3,980)
Exercise of share options	34,162	–	(3,289)	–	30,873
Equity settled share-based transactions	–	–	2,536	–	2,536
At 31 December 2010	159,539	99,431	4,685	133,035	396,690
Representing:					
2010 proposed final dividend				7,971	
Other retained earnings				125,064	
				133,035	
At 1 January 2011	159,539	99,431	4,685	133,035	396,690
Profit for the year	–	–	–	32,774	32,774
2010 final dividend paid	–	–	–	(7,972)	(7,972)
2011 interim dividend paid	–	–	–	(3,986)	(3,986)
Exercise of share options	691	–	(201)	–	490
Equity settled share-based transactions	–	–	1,235	–	1,235
At 31 December 2011	160,230	99,431	5,719	153,851	419,231
Representing:					
2011 proposed final dividend				11,957	
Other retained earnings				141,894	
				153,851	

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

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

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

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

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

31. BORROWINGS – GROUP

	2011	2010
	HK$'000	HK$'000
Current		
Bank borrowing	**1,831**	–

The bank borrowing is a revolving loan and bears interest at the higher of Wall Street Journal prime rate plus 2% per annum and 5.25% per annum. The bank borrowing is secured by certain assets of a subsidiary being acquired by the Group during the year. The carrying amounts of the bank borrowing approximate its fair value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the ended 31 December 2011

32 DEFERRED INCOME TAXATION – GROUP

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

	Assets		Liabilities	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Tax losses	**338**	–	**–**	–
Depreciation allowances	**198**	–	**–**	(629)
Others	**439**	152	**–**	–
Deferred income tax assets/(liabilities)	**975**	152	**–**	(629)

The Group did not recognise deferred income tax assets in respect of cumulative tax losses of HK$26,411,000 (2010: HK$19,702,000) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. Included in unused tax losses are losses of approximately HK$18,949,000 (2010: HK$14,178,000) that will be expired in 1 year to 6 years.

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

	2011	2010
	HK$'000	HK$'000
Net deferred income tax liabilities at 1 January	**(477)**	(1,446)
Exchange differences	**–**	(31)
Credited to income statement *(note 14)*	**1,452**	1,000
Net deferred income tax assets/(liabilities) at 31 December	**975**	(477)

33 TRADE AND OTHER PAYABLES

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade and bills payables	**50,075**	44,857	**–**	–
Accrued charges and other payables	**92,232**	61,591	**839**	3,324
	142,307	106,448	**839**	3,324
Less: other non-current payables	**(22,216)**	–	**–**	–
Current portion	**120,091**	106,448	**839**	3,324

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

	2011	2010
	HK$'000	HK$'000
0 – 30 days	**28,521**	24,941
31 – 60 days	**14,418**	13,768
61 – 90 days	**2,045**	2,380
Over 90 days	**5,091**	3,768
	50,075	44,857

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the ended 31 December 2011

34 NOTES TO CONSOLIDATED CASH FLOW STATEMENT

	2011	2010
	HK$'000	HK$'000
Profit before income tax	25,252	11,231
Interest income	(451)	(1,099)
Interest expenses	3,155	62
Loss on disposal of property, plant and equipment	118	350
Net gain from financial assets at fair value through profit or loss	(724)	(866)
Depreciation and amortisation	40,558	30,666
Provision for impairment of inventories	12,570	2,365
Share-based payment expenses	1,235	2,536
Provision for impairment and write-off of trade and other receivables	21,336	16,299
Provision for post-employment benefits	76	187
Changes in working capital:		
Inventories	(7,597)	(29,730)
Trade and other receivables	(25,367)	(14,003)
Trade and other payables	(38,834)	15,572
Amounts due from/(to) related companies	19	247
Cash generated from operations	31,346	33,817

35 ACQUISITION OF A SUBSIDIARY

On 19 August 2011, the Group acquired 100% equity interests of Million Soung Limited ("MSL"), which holds 85% equity interests in H3 Sportgear LLC ("H3") under the guaranty agreement entered into with former shareholder of H3 (Note 24). H3 had been a customer of the Group since 2001. H3 is principally engaged in distribution of licensed and private label headwear, apparel and accessories in the USA.

The acquisition is settled by way of capitalization of existing debt of US$5,600,000 due from H3 to the Group. Immediately before the acquisition, an impairment provision of HK$17,371,000 has been made on the outstanding debt due from H3.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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The following table summarises the consideration paid for H3, the fair value of assets acquired, liabilities assumed and the non-controlling interest at the acquisition date:

	HK$'000
Consideration:	
Capitalisation of debt	58,177
Less: Impairment provision	(17,371)
Less: Conversion of debt into debenture	(21,784)
Total consideration transferred	19,022
Recognised amounts of identifiable assets acquired and liabilities assumed	
Other intangible assets	5,829
Property, plant and equipment	624
Inventories	11,529
Trade and other receivables	8,544
Bank balances and cash	11
Trade and other payables	(5,702)
Debenture payable to the intermediate holding company	(21,784)
Borrowings	(3,129)
Total identifiable net liabilities	(4,078)
Share of identifiable net liabilities by the non-controlling interest	612
Goodwill *(Note 21)*	22,488
	19,022

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

Bank balances and cash acquired	11
Net cash inflow	11

The above goodwill is attributable to H3's license portfolio and customer portfolio in headwear and accessories business in the USA.

The subsidiary acquired contributed a revenue of approximately HK$9,678,000 and a loss of approximately HK$2,918,000 to the Group for the year.

If the acquisition had been completed on 1 January 2011, the Group's turnover would have been increased by HK$29,726,000 and profit after tax would have been decreased by HK$3,791,000 for the year ended 31 December 2011.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the ended 31 December 2011

36 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	
	2011	2010
	HK$'000	HK$'000
Within one year	**26,796**	20,831
In the second to fifth years inclusive	**21,037**	17,826
Over five year	**18,568**	18,505
	66,401	57,162

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

37 CAPITAL COMMITMENTS

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

	The Group	
	2011	2010
	HK$'000	HK$'000
Contracted for but not provided for		
– Manufacturing business	**3,672**	–
Authorised but not contracted for		
– Manufacturing business	**6,000**	10,000
– Retail business	**3,439**	1,620
	13,111	11,620

38 FINANCIAL GUARANTEE

At 31 December 2011, the Company had executed a corporate guarantee of HK$122,300,000 (2010: HK$135,300,000) to secure the general banking facilities granted to subsidiaries. Facilities utilised by the subsidiaries for bills payable amounted to HK$7,671,000 as at 31 December 2011 (2010: HK$9,974,000).

39 SIGNIFICANT RELATED PARTY TRANSACTIONS

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

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

	2011	2010
	HK$'000	HK$'000
Sales of goods to affiliated companies of a shareholder	236,665	142,790
Rental paid in respect of office premises to a company controlled by a director	960	960

Key management personnel remuneration

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

	2011	2010
	HK$'000	HK$'000
Short-term employee benefits	14,804	14,488
Share-based payments	196	1,907
Retirement scheme contributions	132	132
	15,132	16,527

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For the ended 31 December 2011

40 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
Dongguan Mainland Headwear Co., Ltd.	PRC *(note)*	PRC	HK$10,000,000	100%	Manufacture and sale of headwear
Drew Pearson International (Europe) Ltd.	The United Kingdom	The United Kingdom	£10,000	90%	Trading of headwear
Fully Point Investments Limited	The British Virgin Islands	Hong Kong	US$1	100%	Investment holding
Futureview Investment Ltd.	The British Virgin Islands	Hong Kong	US$196	75%	Investment holding
Great Champion International Co., Ltd.	The British Virgin Islands	Hong Kong	US$10,000	100%	Investment holding
Guang Zhou Jian Hao Headwear Manufacturing Ltd.	PRC *(note)*	PRC	RMB45,777,729	100%	Manufacture and sale of headwear
H3 Sportgear LLC	USA	USA	US$3,649,700	85%	Trading of headwear and apparc
H3 Holdings, Inc.	USA	USA	US$3,785,000	85%	Investment holding
Hatworld (Hong Kong) Ltd.	Hong Kong	Hong Kong	HK$1	100%	Retailing
Hatworld (Shenzhen) Ltd.	PRC *(note)*	PRC	HK$8,500,000	100%	Retailing
Jumbo Creation Investments Limited	The British Virgin Islands	Hong Kong	US$1	100%	Investment holding

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For the ended 31 December 2011

Name of company	Place of incorporation/ registration	Principal place of operation	Nominal value of issued ordinary share capital/ registered capital	Interest held	Principal activities
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
Million Soung Limited	The British Virgin Islands	Hong Kong	US$1	100%	Investment holding
PPW Asia Ltd.	Hong Kong	Hong Kong	HK$2	75%	Investment holding
Rhys Trading Ltd.	The British Virgin Islands	Hong Kong	US$10,000	100%	Investment holding
Top Super Investments	Ltd. The British Virgin Islands	Hong Kong	US$10,000	100%	Investment holding
Top Super Sportswear (Shenzhen) Co., Ltd.	PRC *(note)*	PRC	HK$52,000,000	100%	Manufacture and sale of headwear
United Crown International Macau Commercial Offshore Ltd.	Macau	Macau	MOP$100,000	100%	Trading of headwear and provision of digitizing services
上海成顏豐商貿有限公司	PRC *(note)*	PRC	RMB10,000,000	75%	Retailing

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

Note:

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

FINANCIAL SUMMARY

Results	Year ended 31 December				
	2007	2008	2009	2010	**2011**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
Turnover	539,041	610,959	515,834	678,633	**751,017**
Gross profit	173,084	170,373	113,992	188,547	**196,425**
Profit/(loss) before income tax	47,531	(26,963)	(52,548)	11,231	**25,252**
Profit/(loss) for the year attributable to:	41,591	(29,820)	(52,688)	5,559	**20,888**
Owners of the parent	41,702	(29,259)	(45,133)	5,670	**21,202**
Non-controlling interests	(111)	(561)	(7,555)	(111)	**(314)**
Basic earnings/(loss) per share (HK cents)	13.1	(9.2)	(13.4)	1.5	**5.3**
Dividends	25,472	16,423	10,390	11,951	**15,943**

Assets and liabilities	As at 31 December				
	2007	2008	2009	2010	**2011**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
Non-current assets	166,061	159,893	138,455	131,668	**176,495**
Current assets	430,587	419,680	415,811	479,478	**485,417**
Current liabilities	(70,192)	(101,182)	(94,641)	(120,940)	**140,323**
Net current assets	360,395	318,498	321,170	358,538	**345,094**
Non-current liabilities	(12,268)	(2,326)	(1,586)	(889)	**(22,552)**
Net assets	514,188	476,065	458,039	489,317	**499,037**

Notes: The information of the financial summary for two years ended 31 December 2010 and 2011 have been extracted from the audited consolidated income statement and consolidated balance sheet which are set out on page 39 to page 42 of the annual report.