Mainland Headwear Holdings Limited

(Stock code: 1100)

Annual Report **2013**

Contents

Corporate Information

Directors

Executive Directors

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

Non-executive Director

Mr. Andrew Ngan

Independent Non-executive Directors

Mr. Leung Shu Yin, William
Mr. 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

Codan Services Limited
Clarendon House,
2 Church 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.
(change to Level 22,
Hopewell Centre,
183 Queen's Road East,
Hong Kong with effect from 31 March 2014)

Company Websites

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

Chairman's Statement

Madam Pauline Ngan
Deputy Chairman and
Managing Director

Mr. Ngan Hei Keung
Chairman

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 2013.

Overview

In 2013, the Group's turnover for the year ended 31 December 2013 increased by 20.3% to HK$922,625,000, attributable to continuing steady growth in the Manufacturing Business and greater contribution from the Trading Business. Gross profit rose by 20.8% to HK$243,810,000 (2012: HK$201,784,000) and gross profit margin increased slightly by 0.1 percentage point to 26.4%. In general, the Group's successful long-term cooperative relationship with customers has facilitated a satisfactory growth in orders. The Manufacturing Business remained to be the Group's main profit source. On the other hand, production capacity of the Group's production plants has been constrained by the acute labour shortage in the PRC. To address this issue, the Group temporarily outsourced some production processes, which incurred additional manufacturing costs. The Group also announced its intention to scale down the operations of its factory in Panyu, Guangdong Province, PRC in July 2013 to cut manufacturing costs. In this regard, the Group has made a provision of approximately HK$13,700,000 for the plant, equipment, inventories and costs owing to scale down the factory. The above factors contributed to a profit attributable to shareholders of HK$7,366,000 (2012: HK$8,659,000).

Chairman's Statement

Factory outlook for Unimas

The production lines in Unimas were well set up

Leveraging its strength and brand reputation established over the years in the Manufacturing Business, the Group has maintained a solid cooperative relationship with its existing customers, including New Era, and has succeeded in expanding its customer base. However, business growth was impeded by the rising labour and material costs of the Group's production plants in the PRC, as well as by the inadequate production capacity to meet customers' orders. To overcome this predicament, the management has stepped up the development of the Bangladesh factory Unimas Sportswear Limited ("Unimas") which the Group has 80% interest. The 2nd phase of the 7-storeyed production plant construction has been completed and there are about 1,000 employees at the moment. In December 2013, it has produced approximately 600,000 pieces of headwear, representing about 16% of the Group's monthly output in that month. It is expected that Unimas will make further contributions in the future.

The Trading Business has also made significant progress during the year. H3 Sportgear and DPI have continued to help the Group's penetration in the US and European markets by signing up more English Premier League ("EPL") football clubs for the distribution rights of headwear in Europe, and expanded its product mix to other segments. Meanwhile, the Group is in the process of integrating the business of San Diego Hat Company ("SDHC"), a leading high-end designer, importer and marketer of women's hats in the US that it acquired in late 2012, into its existing business. Measures being implemented include the merging of administration departments and warehousing facilities so as to enhance operation efficiency. The management believes that the acquisition of SDHC is an important step for the Group toward the establishment and operation of its-own brand. This initiative does not only create greater synergies with the Group's Manufacturing Business, but also enables Mainland Headwear to consolidate the midstream and downstream in the industry chain, and mark another milestone in the course of its development.

Chairman's Statement

Unimas expansion project is in full swing

Madam Pauline Ngan and Bangladesh staff photo

Maintenance of profit is the Group's first priority in the Retail Business. Thanks to the flexibility in the adjustment of product sales strategy and the continuous reduction in costs of sales, the Group was successful in narrowing the operating loss.

Financial Review

Benefitting from the increased volume of orders in the Manufacturing Business and new income streams in the Trading Business, the Group's turnover increased by 20.3% to HK$922,625,000 during the period under review (2012: HK$767,152,000). Gross profit increased by 20.8% year-on-year to HK$243,810,000 (2012: HK$201,784,000). Although the Group continued to face challenges including rising staff and rental costs, the overall gross profit margin increased slightly by 0.1 percentage point to 26.4% during the year, thanks to continued implementation of stringent cost control measures.

On the other hand, taking into account of the provision of about HK$13,700,000 for the plant and equipment, inventories and the related costs as a result of scaling down the operation of the Group's production plant in Panyu, PRC during the year, the Group recorded a profit attributable to shareholders of HK$7,366,000 (2012: HK$8,659,000). Excluding the provision, the Group's profit would have been similar to that of the previous year.

Chairman's Statement

To boost staff morale and maintain healthy lifestyle, the Company organized a picnic day which over a thousand Bangladesh staff participated

Manufacturing Business

During the period under review, customers' demand for the Group's products continued to be keen, spurring a rapid growth in orders. Turnover from the Manufacturing Business grew by 11.9% year-on-year to HK$670,080,000, accounting for 67.5% of the Group's total turnover. However, the overall production capacity of the Group's Mainland plants has been constrained by continuously rising labour costs and the high staff turnover in the PRC. Despite completing the acquisition of the Unimas factory in Bangladesh during the year, the production scale of the factory is yet to be fully realised, as the factory is still in an initial stage of operation. To fill its rising volume of orders, the Group has outsourced some production processes to other factories during the year, which has incurred additional costs for the Group. The outsourcing together with the impact of increasing material costs have led to the decline of gross profit of this segment by 6.3% to HK$103,072,000. Moreover, as a result of scaling down its Panyu factory in the first half of the year, the Group had to make a provision of HK$13,700,000 for the plant, equipment, inventories and the related costs, thus reducing the operating profit of the Manufacturing Business to HK$30,294,000 (2012: an operating profit of HK$50,124,000).

As the Group scales down the operations of its Panyu factory, all of the workers from the factory will be relocated to another nearby factory with smaller scale, while the existing factory will be leased out to broaden the Group's income stream. To strike a balance between increased orders and rising costs, the Group will expedite the development of its Bangladesh production plant. Currently, the factory has hired more than 1,000 workers. As its staff cost is just one-eighth of that of the PRC factories, it will help balance the impact of the soaring costs in the PRC. In the future, the Group will focus its resources in the development of its factories in Shenzhen and Bangladesh and will assign orders to different factories for production according to different specifications, with the aim to enhance the Group's overall efficiency through a clear division of labour.

The Group continued to maintain close collaboration with its strategic partner New Era. During the year, the Group received orders amounting to approximately US$40,000,000 from New Era, which met the minimum order value stated in the manufacturing agreement.

Trading Business

Turnover from the Trading Business has surged by 101.7% to HK$191,532,000, attributable to new income streams from Trading Business for the Group during the year. The Group strived to consolidate operation of the Trading Business to cut costs and enhance efficiency through restructuring and integrating its administration departments and warehousing facilities. SDHC, which was acquired by the Group in late 2012, is still in an initial stage of investment and not much profit contribution was recorded. Moreover, the Group has invested substantial resources in product development and marketing for SDHC. The Trading Business recorded a loss attributable to shareholders of HK$4,159,000 (2012: a profit attributable to shareholders of HK$472,000).

During the year, the Group has signed up more English Premier League ("EPL") soccer clubs for the headwear distribution right in Europe. The Group has also further diversified its brand development, changing from focusing on design sports and men's headwear in the past to expanding into diverse high-end markets currently encompassing women and children's collection and accessories.

In late 2012, the Group completed the acquisition of SDHC, a leading high-end designer, importer and marketer of women's hats in the US. It has been about a year after the acquisition and the progress has been gratifying. SDHC's customer base has extended from the US to Russia and Asia. The acquisition of SDHC represented an important step for the Group to enter the downstream market, enabling the Group to set foot on its own brand business, consolidating the mid-and down-stream of the industry chain. The Group last year has devoted substantial resources to research and development of products and the development of online sales tools. It plans to enrich its product mix to include clothing and accessories such as handbags and scarves, with a aim to broaden the Group's customer base in the high-end market and further diversify Mainland Headwear's variety of products.

Retail Business

During the year under review, the Group has proactively adjusted its product sales strategy and pushed forward cost control measures to maintain profit. Consequently, turnover of the Retail Business increased by 2.2% year-on-year to HK$129,750,000 and gross profit margin rose by 7.7 percentage point to 61.3%. Operating loss dropped substantially to HK$5,778,000 (2012: HK$26,097,000).

Chairman's Statement

Sanrio

The sharp rises in rentals for retail outlets and staff costs in the PRC have also exerted pressure on the operation of the Sanrio Business. Nevertheless, the introduction of the online sales platform for the Sanrio business last year has driven the turnover of this business segment to HK$96,031,000 (2012: HK$95,898,000). The Group has managed to boost gross profit margin to 54.6% (2012: 50.5%) and narrow the operating loss significantly by 93.3% to HK$1,196,000 (2012: HK$17,733,000), thanks to the stringent cost control measures.

The Group has decided to close those self-owned stores with unsatisfactory performances for cost reduction, and followed the strategy of expanding Sanrio business through addition of franchise stores. As at 31 December 2013, the Group operated a total of 31 self-owned stores and 97 franchise stores. (2012: 50 self-owned stores and 74 franchise stores).

Headwear Sales

The business segment of Headwear Sales comprises "LIDS" and "NOP" self-owned stores and franchise stores in the PRC, and "LIDS," "NOP" and "New Era" self-owned stores in Hong Kong. Turnover of the Headwear Sales Business rose by 8.5% from HK$31,064,000 in 2012 to HK$33,719,000 during the year. The Group was able to narrow the operating loss of this segment to HK$4,582,000 (2012: HK$7,831,000), attributable to its close monitoring of sales performances of all retail stores and its flexible adjustment of operational strategies.

As at 31 December 2013, the Group operated a total of 7 self-owned "LIDS" stores, 2 of which were in the PRC with 5 in Hong Kong, and 1 "LIDS" franchise store in the PRC. Besides, the Group had 14 self-owned "NOP" stores, 9 of which were in the PRC with the remaining 5 in Hong Kong, and 9 "NOP" franchise stores in the PRC. The Group also operated 2 "New Era" retail stores in Hong Kong (2012: 21 "LIDS" self-owned stores and 6 "LIDS" franchise stores, 10 "NOP" self-owned stores and 12 "NOP" franchise stores as well as 1 self-owned "New Era" retail store).

Propsects

The Group expects to face a range of intractable challenges in the PRC, most notably the labour shortage and the rising salaries and rentals. It will continue to closely monitor the market trends and developments so as to formulate appropriate measures to enhance business efficiency and to drive sustainable business growth.

As for the Manufacturing Business, the Group believes that its orders should continue to be satisfactory in the future, thanks to its long term solid cooperative relationship with customers. To this end, the Group plans to emphasize on the development of the Bangladesh factory in order to reduce its reliance on PRC production plants; thereby alleviating the problem of labour shortage and rising labour costs in the PRC. The Group will increase the number of staff at the Bangladesh factory from the current 1,000 to 2,000 staff by the end of 2014. By then, at which time the production capacity of the Bangladesh factory is expected to be similar to that of the Shenzhen plant. The Group has defined clear responsibility guidelines for all of its production plants. As the staff in factories in the PRC are more experienced and efficient, they will be responsible for the production of high value-added products that call for complicated production skills. Whereas the factories in Bangladesh will be mainly responsible for manufacturing products with simpler specifications requiring less complex production processes.

The production plants will coordinate with each other, for not only in complementing each other in respect of their respective advantages but also in the improvement of overall efficiency. Lastly, after the scaling down the operation of the Panyu factory in the first half of this year, the Group will rent out the plant site to broaden its income stream.

The Group believes that European and US markets still have enormous development potential and therefore will divert more resources to the Trading Business and hopes to generate more powerful synergies with the Manufacturing Business. H3 Sportgear has made a significant contribution by securing more orders from the famous retailers in the US, which has helped the Group's products enter the U.S. department store market. The sales team in Europe, DPI, will also strive to secure more licenses for distribution rights of headwear from EPL soccer clubs, and develop other business in "football and children's headwear". The performance of SDHC has met the Group's expectations. On top of exploring development opportunities in European and US markets, it will also strive to develop emerging markets in Asia with an aim to expand the Group's customer base. Regarding the Retail Business, the Group will retain its hybrid operation model with self-owned and franchise stores in the development of the Sanrio operation. Faced with the intense competition in the PRC's retail market, the Group will enrich its product mix by introducing products with higher quality, and in particular, will increase the direct import of fine products from Japan. We believe the unique position as the exclusive distributor of Sanrio products in the PRC enables us to capture the demand for high-end, fashionable and quality products. In the Headwear Sales Business, the Group has determined to follow the strategy of gradually changing "LIDS" retail stores to "NOP" retail stores, owing to the remarkable performance of "NOP" retail store and its popularity among customers. The Group has established an extensive sales network in Hong Kong. In the future, we will maintain the number of stores at the current level, and stay away from the blind pursuit of growth by adding the number of stores.

Acknowledgement

Looking ahead, the Group will adopt a variety of measures to reduce cost pressures, expand sales networks and diversify business development in order to generate better returns for shareholders. On behalf of Mainland Headwear, I would like to express my sincere gratitude to our shareholders, staff, customers and suppliers for their unwavering support to the Group.

Ngan Hei Keung
Chairman

Hong Kong
18 March 2014

Management Discussion and Analysis

Liquidity and Financial Resources

As at 31 December 2013, the Group had cash, bank balances and a portfolio of liquid investments totaling HK$148.9 million (2012: HK$149.5 million). About 45% and 32% of these liquid funds were denominated in US dollars and Renminbi respectively and the remainder mainly in HK dollars and Pound Sterling.

As at 31 December 2013, the Group had banking facilities of HK$241.1 million (2012: HK$172.9 million), of which HK$210.3 million (2012: HK$119.9 million) was not utilised.

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

Acquisition of Unimas Sportswear Ltd.

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

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

Management Discussion and Analysis

Capital Expenditure

During the year, the Group spent approximately HK$21.5 million (2012: HK$7.1 million) on additions to plant and equipment to upgrade its manufacturing capability and expansion in the Bangladesh factory. The Group had also spent HK$3.7 million (2012: HK$5.4 million) on the retail systems and opening of new retail stores in 2013, and HK$2.3 million (2012: HK$1.9 million) on equipments and systems of trading business. The group also spent HK$12.9 million to acquire two houses in the US for investment purpose.

For the year 2013, the Group has budgeted HK$26.3 million for capital expenditure. Under Manufacturing business, HK$23.3 million is for the expansion in the Bangladesh factory. The remaining HK$3.0 million is for opening of new shops under Retail business and acquisition of equipment under Trading business.

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

Exchange Risk

Most assets and liabilities of the Group are denominated either in HK dollars, US dollars, Renminbi or Bangladesh Taka. The Group estimates that any 1% appreciation of the Renminbi is expected to reduce the gross margin of the Manufacturing Business by about 0.5%. However, as the Retail businesses in the PRC market grow, the expected positive contribution will provide a hedge against the adverse effect of any appreciation of Renminbi to the manufacturing costs.

Employees and Remuneration Policies

At 31 December 2013, the Group employed 113 (2012: 117) employees in Hong Kong and Macau, 2,740 (2012: 2,799) employees in the PRC and 959 (2012: nil) employees in Bangladesh and a total of 48 (2012: 43) employees in the US and UK. The expenditures for employees during the year were approximately HK$251.5 million (2012: HK$202.1 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 58, is the Chairman of the Company and co-founder of the Group. Mr. Ngan is responsible for the production activities of the Group. Mr. Ngan obtained a bachelor degree from 福建農業學院 (Fujian Agricultural College) (now known as 福建農林大學 (Fujian Agricultural University, the "FA University")) in 1982 and currently is a guest professor of the FA University. Mr. Ngan has over 20 years of experience in the headwear industry. He is presently a member of Fujian Committee of The Chinese People's Political Consultative Conference and the Honorary Adviser and Fellowship of the Asian College of Knowledge Management. Mr. Ngan was a director of Yan Oi Tong in 2007. Mr. Ngan is the husband of Madam Ngan Po Ling, Pauline.

Madam Ngan Po Ling, Pauline

aged 54, is the Deputy Chairman and Managing Director of the Company and co-founder of the Group. She is responsible for the marketing activities of the Manufacturing Business. She has over 20 years of experience in the headwear industry. Madam Ngan is the wife of Mr. Ngan Hei Keung. She was the chairman of Po Leung Kuk and Yan Oi Tong, and the president of Hong Kong Young Industrialists Council. She is also the Hong Kong Deputy to the 12th National People's Congress, People's Republic of China, the standing committee member of The Chinese General Chamber of Commerce, the standing director of Hong Kong Federation of Overseas Chinese Association, the Vice President of All-China Women's Federation Hong Kong Delegates Association, the executive committee member of All-China Women's Federation, the standing committee member of All-China Federation of Returned Overseas Chinese, the vice chairman of the Youth Committee of the All-China Federation of Returned Overseas Chinese and the vice chairman of Hubei Province Federation of Returned Overseas Chinese. Madam Ngan is the winner of Young Industrialist Awards of Hongkong 2001 and also won an Executive Director Award in the "Directors of the Year Awards 2004" organised by the Hong Kong Institute of Directors, and the Owner-Operator Award in the DHL/SCMP Hong Kong Business Awards 2004. She was awarded the Bronze Bauhinia Star in the Hong Kong Special Administrative Region 2009 Honours List and JP (Justice of the Peace) Title in 2013.

Mr. James S. Patterson

aged 42, was appointed as Executive Director of the Company in April 2009. Mr. Patterson graduated from the State University of New York at Buffalo, Buffalo, NY, USA and completed a Bachelor Degree in Economics. Mr. Patterson has been employed for the past 16 years with New Era Cap Co., Inc. ("New Era"), a US based company which is engaged in the global marketing, sale, and manufacturing of headwear and apparel. Mr. Patterson is holding the position of chief operating officer and senior vice president of New Era.

Biographical Details of Directors and Senior Management

Ms. Maggie Gu

aged 36, first joined the Company during May 2003 to May 2008 and rejoined as Sales and Marketing Director in February 2009. Ms. Gu was appointed as the Executive Director of the Company in February 2012 and as the Chief Operating Officer of the Company in September 2012. She studied in United States of America, and graduated from the California State University Fullerton, with the degree of Bachelor of Arts in Communications. She managed the global marketing department with a reputable media company in US before she resumed to Hong Kong. She is now responsible for the strategy formulation and direction of global marketing and business development of the Group and oversees the Company's daily operations.

Non-Executive Director

Mr. Andrew Ngan

aged 26, 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 64, was appointed as an Independent Non-executive Director of the Company in March 2000. Mr. Leung graduated from the Department of Accountancy of Hong Kong Polytechnic (now known as the Hong Kong Polytechnic University). He is a fellow member of the Hong Kong Institute of Certified Public Accountants, the Association of Chartered Certified Accountants and the Taxation Institute of Hong Kong. He is also a member of the Hong Kong Securities and Investment Institute and the Society of Chinese Accountants and Auditors. Mr. Leung is currently a practising director of two certified public accountants firms in Hong Kong. He is also presently independent non-executive directors of Lai Sun Garment (International) Limited, Lai Sun Development Company Limited and Crocodile Garments Limited, which are listed in the main board of the Stock Exchange.

Biographical Details of Directors and Senior Management

Mr. Lo Hang Fong

aged 50, 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 68, was appointed as an Independent Non-executive Director of the Company in August 2006. Mr. Liu is a merchant. He is an Advisory Member of Pacific Economic Cooperation Council, China National Committee of Pacific Economic Cooperation Business Forum, the Honorary President of the Hong Kong Commerce and Industry Association, the Standing Committee Member of The Chinese General Chamber of Commerce and Chairman of YRD Committee, the Chairman, Energy & Power of Federation of Hong Kong Industries, Honorary Member of the Court of the Hong Kong Baptist University, Member and Board of Governors of Hong Kong Baptist University Foundation.

Senior Management

Mr. Lai Man Sing, Thomas

aged 46, firstly joined the Company during July 1999 to May 2001 and rejoined the Company in March 2008. He is the Chief Financial Officer of the Company and in charge of the finance department. Mr. Lai obtained his first degree from London School of Economics and Political Science, University of London, UK and earned a Master degree in Business Administration from University of Western Sydney, Australia. He is a fellow member of the Hong Kong Institute of Certified Public Accountants, also a fellow member of The Australian Society of Certified Practising Accountants. He took senior financial position for sizable listed companies and worked in international accounting field for many years.

Mr. Raj Kapoor

aged 53, is the managing director of the Group's Europe operations. Mr. Kapoor obtained a bachelor degree from the University of Newcastle Upon Tyne in the United Kingdom ("UK") and has over 20 years of experience in the headwear industry in Europe. He joined the Group in March 2005 when the Group set up its subsidiary in the UK.

Biographical Details of Directors and Senior Management

Mr. John Astleford

aged 44, is the Managing Director of San Diego Hat Company. He has 23 years of experience in the apparel and accessory industry. He has served on the Executive Committee and/or Board of 5 different companies. Mr. Astleford has previously held Business Unit Leadership positions in sales, marketing, merchandising, and licensing in both private and public companies. He has a BBA in Marketing from Texas Christian University.

Mr. Scott Hines

aged 50, is the president and CEO of H3 Sportgear. Mr. Hines has served as president and CEO at H3 since founding the company in 1995. He has more than 20 years experience in the headwear and licensed apparel business in the United States. Mr. Hines graduated with a Bachelors Degree in Business Marketing from Ball State University in the US prior to starting his career.

Mr. Michael Ball

aged 45, joined the Company in 2010. He is the sales director of the Group's Europe operations. He has more than 20 years experience in the sales and marketing of headwear products.

Ms. Chow Pi Hua, Joan

aged 49, joined the Company in 2011. She is the Deputy General Manager of the Shenzhen factory. She graduated from Fu Jen Catholic University in Taiwan with a Bachelor degree in Business. Before she joined with us, she took senior position and managed sizable production facilities, including the shoe factory under Pou Chen Group for 13 years.

Mr. Lau Ka Fai, Edward

aged 47, joined the Company in February 2009 and is the Product Development Director. Mr. Lau graduated from the Hong Kong Polytechnic (now known as Hong Kong Polytechnic University) with a Bachelor of Arts in Fashion Design (with commendation). He holds a Master Degree in Business Administration in Management from Southeastern University Washington, DC. He is also a Diploma Member of the Chartered Society of Designers London. He has worked in creative and design areas within several global buying offices for more than 20 years and is now responsible for design and product development in the US and Asia.

Ms. Leung Ka Pik, Ada

aged 52, 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.

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

Corporate Governance Principles and the Company's Practices

A. Directors

A.1. Board of Directors

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

Regular Board meetings are held at quarterly intervals. In addition, special Board meetings will be held when necessary. Attendance of individual Directors at shareholders' meetings and board meetings in 2013 are as follows:

		Shareholders' Meeting	Board Meeting
Number of meetings		1	5
Executive Directors			
Mr. Ngan Hei Keung	*(Chairman)*	1/1	3/5
Madam Ngan Po Ling, Pauline	*(Deputy Chairman and Managing Director)*	1/1	5/5
Mr. James S. Patterson		1/1	2/5
Mr. Maggie Gu	*(Chief Operating Officer)*	0/1	5/5
Non-executive Directors			
Mr. Tse Kam Fow	(resigned on 22 May 2013)	0/1	1/1
Mr. Andrew Ngan		1/1	4/5
Independent Non-executive Directors			
Mr. Leung Shu Yin, William		1/1	4/5
Mr. Lo Hang Fong		0/1	1/5
Mr. Liu Tieh Ching, Brandon, *JP*		1/1	3/5

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

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

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

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

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

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

A.2. Chairman and Chief Executive Officer

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

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

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

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

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

A.3. Board Composition

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

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

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

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

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

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

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

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

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

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

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

All Directors of the Company have a specific term of appointment and all the Non-executive Director and Independent Non-executive Directors of the Company are subject to retirement by rotation and re-election in accordance with the Company's bye-law No. 87.

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

No nomination committee was formed prior to March 2012. The work in connection with the nomination and appointment of new Directors prior to March 2012 included reviewing the Board composition and reviewing and making recommendation to the Board on appointment of new Directors. The nomination committee was formed in March 2012 with specific written terms of reference in compliance with the Code. This Committee is chaired by Mr. Liu Tieh Ching, Brandon JP. The other members are Mr. Ngan Hei Keung, Mr. Leung Shu Yin, William and Mr. Lo Hang Fong. During the year of 2013, one nomination committee meeting was held, which was attended by all members of the Committee.

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

A.5. Responsibilities of Directors

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

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

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

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

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules. All Directors have confirmed, following enquiry by the Company, that they have complied with the required standard set out in Model Code throughout the year ended 31 December 2013.

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. Lo Hang Fong. The other members were Madam Ngan Po Ling, Pauline and Mr. Leung Shu Yin, William.

The meeting of the Committee is held at least once a year or when necessary. The Remuneration Committee held one meeting in 2013, which was attended by all members of the Committee. The Committee had considered the following proposals for the remuneration of Directors and senior management and made recommendation to the Board:

1. Annual salary review policy;

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

3. Performance related bonus.

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

Details of the amount of Directors' emoluments for 2013 are set out in note 11 to the financial statements. Details of the share option schemes of the Company are set out in the Report of the Director and note 31 to the financial statements.

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

	2013	2012
HK$500,001 – HK$1,000,000	**4**	3
HK$1,000,001 – HK$1,500,000	**1**	1
HK$1,500,001 – HK$2,000,000	**2**	2
HK$2,000,001 – HK$3,000,000	**–**	–
HK$3,000,001 – HK$3,500,000	**–**	1
HK$3,500,001 – HK$4,000,000	**1**	–

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

C. Accountability and audit

C.1. Financial Reporting

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

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

The Directors acknowledge their responsibility to keep proper accounting records and prepare financial statements of each financial period, which shall give a true and fair view of the state of affairs of the Group and of the results and cash flow for that period. In preparing the financial statements for the year ended 31 December 2013, 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 Auditor's Report on pages 40 to 41 of the annual report for the year ended 31 December 2013.

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 one Non-executive Director and three Independent Non-executive Directors of the Company and is chaired by Mr. Leung Shu Yin, William. This Committee held 3 meetings in 2013 which were attended by all members of the Committee except Mr. Lo Hang Fong attended 2 meetings. All meetings have been attended by external auditors.

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 2013;

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 2014;

4. Reviewed and approved the Group's internal audit plan for 2014;

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 2012; and

7. Reviewed the Interim Report and the interim results announcement for the six months ended 30 June 2013.

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 2014.

The remuneration of the Group's external auditors is HK$2,030,000 for statutory audit fees.

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

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

The Audit Committee is provided with sufficient resources, including the advice of external 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. Company Secretary

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

F. Communication with shareholders

F.1. Effective Communication

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

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

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

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

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

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

F.3. Voting by Poll

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

Report of the Directors

The directors of the Company (the "Directors") have pleasure in submitting their annual report together with the audited financial statements for the year ended 31 December 2013.

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 42 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 (2012: 2 HK cent) per share, totaling HK$3,986,000 was paid on 18 October 2013. The Directors now recommend the payment of a final dividend of 1 HK cent (2012: 2 HK cents) per share in respect of the year ended 31 December 2013. Subject to the approval at the forthcoming annual general meeting, the final dividend will be payable on or after 13 June 2014 to the shareholders whose names appear on the register of members at the close of the business on 23 May 2014.

To determine the identity of members who are entitled to attend and vote at the forthcoming Annual General Meeting which will be held on 15 May 2014, the register of members of the Company will be closed from 13 May 2014 to 15 May 2014 (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 (change to Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong with effect from 31 March 2014) for registration not later than 4:30 p.m. on 12 May 2014.

To determine the identity of members who are entitled to the final dividend of the Company for the year ended 31 December 2013, the register of members of the Company will be closed from 21 May 2014 to 23 May 2014 (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 (change to Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong with effect from 31 March 2014) for registration not later than 4:30 p.m. on 20 May 2014.

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 114.

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	–	33.1%
Five largest customers in aggregate	–	56.3%
The largest supplier	13.6%	–
Five largest suppliers in aggregate	41.5%	–

As at 31 December 2013, New Era Cap Co., Inc., New Era Cap Company Ltd and New Era Japan GK, major customers of the Group, were affiliated companies of New Era Cap Hong Kong LLC ("NEHK"). NEHK holds 19.97% equity interest in the Company. Mr. Christopher Koch owns 75% of the issued share capital of NEHK.

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

Property, Plant and Equipment

During the year, the Group spent HK$27,542,000 (2012: HK$13,174,000) on additions to property, plant and equipment to upgrade its manufacturing capabilities, and on opening of retail stores. Details of movements in property, plant and equipment are set out in note 17 to the financial statements.

Share Capital

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

Report of the Directors

Reserves

Details of movements in the reserves of the Company during the year are set out in note 32 to the financial statements.

As at 31 December 2013, the Company's reserves available for cash distribution amounted to HK$240,705,000 (2012: HK$270,799,000) as computed in accordance with the Companies Act 1981 of Bermuda. In addition, the Company's share premium account of HK$160,230,000 (2012: HK$160,230,000) as at 31 December 2013 may be distributed in the form of fully paid bonus shares.

Donations

No charitable and other donations made by the Group during the year (2012: Nil).

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
Ms. Maggie Gu *(Chief Operating Officer)*

Non-executive directors

Mr. Tse Kam Fow (resigned on 22 May 2013)
Mr. Andrew Ngan

Independent non-executive directors

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

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

All the Directors 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, Madam Ngan Po Ling, Pauline, Mr. James S. Patterson and Mr. Lo Hang Fong shall retire by rotation at the forthcoming annual general meeting. All of the retiring Directors, being eligible, offer themselves for re-election.

Directors' Service Contracts

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

Each of Mr. James S. Patterson, Mr. Andrew Ngan, Mr. Leung Shu Yin, William, Mr. 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 40 to the financial statements and in the section "Connected Transaction" below, no contract of significance to which the Company or its subsidiaries was a party, and in which a Director of the Company had a material interest 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 22 November 2011, the Company entered into a manufacturing agreement (the "Manufacturing Agreement") with New Era Cap Hong Kong LLC ("NEHK"), pursuant to which NEHK agreed to purchase products from the Company with minimum purchase commitments for the three financial years ending 31 December 2014. Under the Contingent Purchase Deed, NEHK is entitled to require Mr. Ngan Hei Keung ("Mr. Ngan") and Madam Ngan Po Ling, Pauline, ("Madam Ngan") who are executive directors and controlling shareholders of the Company to purchase up to 39,800,000 shares of the Company from subscription and exercise of the option and owned by NEHK over a six months period after a notice is served by NEHK, if NEHK have agreed to give purchase commitment under the Manufacturing Agreement on the occurrence of several events.

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

During 2013, affiliated companies of NE purchased goods totalling HK$305,140,000 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 2013, the interests of the Directors in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), which had been notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

Long positions in the shares and underlying shares of the Company

	Number of shares				
	Personal interest	Other direct interest	Underlying shares	Total	Percentage of interest
Mr. Ngan Hei Keung	–	217,250,000 *(notes 1, 2)*	45,800,000 *(notes 3, 4)*	263,050,000	65.60%
Madam Ngan Po Ling, Pauline	33,550,000 *(note 2)*	183,700,000 *(note 1)*	45,800,000 *(notes 3, 4)*	263,050,000	65.60%
Mr. James S. Patterson	–	–	2,000,000 *(note 5)*	2,000,000	0.50%
Ms. Maggie Gu	–	–	500,000 *(note 5)*	500,000	0.13%

Notes:

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

(2) The 33,550,000 shares are beneficially owned by Madam Ngan, the spouse of Mr. Ngan.

(3) Pursuant to the contingent purchase deed dated 22 November 2011 between Mr. Ngan, Madam Ngan and NEHK, NEHK is entitled to require Mr. Ngan and Madam Ngan to purchase up to 39,800,000 shares on the terms and conditions of the said deed.

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

(5) Mr. Patterson and Ms. Gu have been granted share options under the Company's share option scheme to subscribe for 2,000,000 shares and 500,000 shares of the Company on 23 June 2009 respectively.

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.

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

As at the date of annual report, the total number of shares available for issue, save for those granted but yet to be exercised, under the New Scheme was 35,858,328 shares, which represented 9% of the issued share capital of the Company as at 31 March 2014.

At 31 December 2013, 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$0.73 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 HK$	Outstanding at 1.1.2013	Re-classification	Outstanding at 31.12.2013	Market value per share at date of grant HK$
Director	23.06.2009	23.06.2010 – 22.06.2019	0.946	8,500,000	–	8,500,000	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	6,270,000	–	6,270,000	0.93
	08.11.2010	08.11.2011 – 07.11.2020	0.92	900,000	–	900,000	0.92
	30.12.2011	30.12.2012 – 29.12.2021	0.80	2,000,000	2,000,000	4,000,000	0.80
				10,170,000	2,000,000	12,170,000	
Customers and suppliers	30.12.2011	30.12.2012 – 29.12.2021	0.80	2,000,000	(2,000,000)	–	0.80

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 2013, 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. 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 22 November 2011 between Mr. Ngan, Madam Ngan and NEHK, NEHK is entitled to sell up to 39,800,000 shares to Mr. Ngan and Madam Ngan on the terms and conditions of the said deed. In view of Mr. Koch's 75% shareholding interest in NEHK, Mr. Koch is also taken to have interest in short position of 39,800,000 underlying shares.

Save as disclosed above, as at 31 December 2013, the Company had not been notified by any persons (other than Directors) who had interests in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

Retirement Schemes

Particulars of retirement schemes operated by the Group are set out in note 10 to the financial statements.

Pre-Emptive Rights

There are no provisions for pre-emptive rights under the Company's bye-laws 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 2013, 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 18 March 2014, being the date of this report.

Auditors

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

By order of the Board

Ngan Hei Keung
Chairman

Hong Kong, 18 March 2014

Independent Auditor's Report

羅兵咸永道

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

We have audited the consolidated financial statements of Mainland Headwear Holdings Limited (the "Company") and its subsidiaries (together, "the Group") set out on pages 42 to 113, which comprise the consolidated and company balance sheets as at 31 December 2013, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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 2013, 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, 18 March 2014

Consolidated Income Statement

For the year ended 31 December 2013

	Note	2013 HK$'000	2012 HK$'000
Revenue	5	**922,625**	767,152
Cost of sales	8	**(678,815)**	(565,368)
Gross profit		**243,810**	201,784
Other income	6	**3,858**	1,350
Other gains – net	7	**1,130**	874
Selling and distribution costs	8	**(110,592)**	(82,800)
Administration expenses	8	**(126,794)**	(106,794)
Profit from operations		**11,412**	14,414
Finance income	9	**1,976**	1,427
Finance costs	9	**(3,177)**	(3,367)
Profit before income tax		**10,211**	12,474
Income tax expense	13	**(3,993)**	(4,841)
Profit for the year		**6,218**	7,633
Attributable to:			
Owners of the Company		**7,366**	8,659
Non-controlling interests		**(1,148)**	(1,026)
		6,218	7,633
Earnings per share attributable to owners of the Company	15		
Basic		**1.8 HK cents**	2.2 HK cents
Diluted		**1.8 HK cents**	2.2 HK cents
Dividends	16	**7,972**	15,944

The notes on pages 50 to 113 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2013

	2013 HK$'000	2012 HK$'000
Profit for the year	**6,218**	7,633
Other comprehensive income		
– Items that may be reclassified to profit or loss:		
Exchange differences on translation of financial statements of foreign operations	**3,611**	3,423
Total comprehensive income for the year, net of tax	**9,829**	11,056
Attributable to:		
Owners of the Company	**11,194**	12,088
Non-controlling interests	**(1,365)**	(1,032)
Total comprehensive income for the year	**9,829**	11,056

The notes on pages 50 to 113 are an integral part of these consolidated financial statements.

Consolidated Balance Sheet

As at 31 December 2013

	Note	2013 HK$'000	2012 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment	17	**126,040**	93,802
Investment properties	18	**12,889**	–
Land use rights	19	**402**	545
Goodwill	21	**33,798**	31,342
Other intangible assets	22	**28,775**	40,301
Available-for-sale financial assets	23	**222**	–
Deferred income tax assets	24	**3,023**	1,416
Other non-current receivables	26	**21,157**	25,268
Pledged bank deposits	29	**1,750**	1,750
		228,056	194,424
Current assets			
Inventories	25	**163,711**	161,455
Trade and other receivables	26	**179,591**	204,645
Amount due from a related party	27	**–**	1,321
Financial assets at fair value through profit or loss	28	**2,657**	3,083
Derivative financial instruments		**42**	601
Cash and cash equivalents	29	**146,209**	146,382
		492,210	517,487
Total assets		**720,266**	711,911
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company			
Share capital	30	**39,858**	39,858
Other reserves		**228,297**	224,583
Retained earnings			
– Proposed final dividend		**3,986**	7,972
– Others		**218,552**	219,158
		490,693	491,571
Non-controlling interests		**(734)**	(361)
Total equity		**489,959**	491,210
LIABILITIES			
Non-current liabilities			
Other non-current payables	33	**4,695**	7,847
Long service payment payable		**440**	367
		5,135	8,214

Consolidated Balance Sheet

As at 31 December 2013

	Note	2013 HK$'000	2012 HK$'000
Current liabilities			
Trade and other payables	33	**171,019**	152,423
Amounts due to related parties	27	**1,885**	517
Derivative financial instruments		**–**	135
Current income tax liabilities		**25,268**	19,412
Borrowings	34	**27,000**	40,000
		225,172	212,487
Total liabilities		**230,307**	220,701
Total equity and liabilities		**720,266**	711,911
Net current assets		**267,038**	305,000
Total assets less current liabilities		**495,094**	499,424

Ngan Hei Keung
Director

Ngan Po Ling, Pauline
Director

The notes on pages 50 to 113 are an integral part of these consolidated financial statements.

Balance Sheet

As at 31 December 2013

	Note	2013 HK$'000	2012 HK$'000
ASSETS			
Non-current assets			
Interests in subsidiaries	20	**449,790**	473,525
		449,790	473,525
Current assets			
Other receivables	26	**262**	262
Cash and cash equivalents	29	**1,140**	9,095
		1,402	9,357
Total assets		**451,192**	482,882
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company			
Share capital	30	**39,858**	39,858
Other reserves	32	**266,147**	266,019
Retained earnings			
– Proposed final dividend		**3,986**	7,972
– Others		**137,288**	163,396
		447,279	477,245
LIABILITIES			
Current liabilities			
Accrued charges and other payables	33	**3,913**	5,637
		3,913	5,637
Total equity and liabilities		**451,192**	482,882

Ngan Hei Keung
Director

Ngan Po Ling, Pauline
Director

The notes on pages 50 to 113 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity
For the year ended 31 December 2013

	Attributable to owners of the Company								
	Share capital HK$'000	**Share premium** HK$'000	**Contributed surplus** HK$'000	**Share based compensation reserve** HK$'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 2012	39,858	160,230	25,878	5,719	28,688	237,863	498,236	801	499,037
Profit for the year	–	–	–	–	–	8,659	8,659	(1,026)	7,633
Other comprehensive income:									
– Exchange differences on translation of financial statements of foreign operations	–	–	–	–	3,429	–	3,429	(6)	3,423
Total comprehensive income for the year	–	–	–	–	3,429	8,659	12,088	(1,032)	11,056
Reduction of share capital of a subsidiary	–	–	–	–	–	–	–	(624)	(624)
Capital contribution from non-controlling shareholder	–	–	–	–	–	–	–	494	494
2011 final dividend paid	–	–	–	–	–	(11,957)	(11,957)	–	(11,957)
2012 interim dividend paid	–	–	–	–	–	(7,972)	(7,972)	–	(7,972)
Share options lapsed	–	–	–	(537)	–	537	–	–	–
Equity settled share-based transactions	–	–	–	1,176	–	–	1,176	–	1,176
Total contribution by and distribution to owners of the Company	–	–	–	639	–	(19,392)	(18,753)	(130)	(18,883)
Balance at 31 December 2012	39,858	160,230	25,878	6,358	32,117	227,130	491,571	(361)	491,210
Representing:									
2012 proposed final dividend						7,972			
Other retained earnings						219,158			
						227,130			

The notes on pages 50 to 113 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2013

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

The 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.

Consolidated Cash Flow Statement

For the year ended 31 December 2013

	Note	2013 HK$'000	2012 HK$'000
Cash flows from operating activities			
Cash generated from operations	35	**71,329**	15,714
Income tax paid		**(413)**	(1,096)
Income tax refund		**288**	–
Interest paid		**(1,613)**	(803)
Net cash generated from operating activities		**69,591**	13,815
Cash flows from investing activities			
Interest received		**1,976**	1,427
Acquisition of a subsidiary, net of cash acquired	36	**(5,099)**	(49,637)
Distribution upon liquidation of a subsidiary		**(475)**	–
Disposal of a subsidiary	35	**(1,234)**	–
Reduction of share capital of a subsidiary		**–**	(624)
Capital contribution from non-controlling shareholder		**–**	494
Purchase of investment properties		**(12,889)**	–
Purchase of property, plant and equipment		**(27,542)**	(13,174)
Loan advanced to a customer		**–**	(15,560)
Net acquisition of financial assets at fair value through profit or loss and derivative financial instruments		**–**	(650)
Increase in non-current bank deposits		**–**	(61)
Net cash used in investing activities		**(45,263)**	(77,785)
Cash flows from financing activities			
Dividends paid		**(11,958)**	(19,929)
Repayment of bank borrowings		**(13,000)**	(1,831)
Proceeds from bank borrowings		**–**	40,000
Net cash (used in)/generated from financing activities		**(24,958)**	18,240
Net (decrease)/increase in cash and cash equivalents		**(630)**	(45,730)
Cash and cash equivalents at beginning of year		**146,382**	188,896
Effect of foreign exchange rate changes		**457**	3,216
Cash and cash equivalents at end of year	29	**146,209**	146,382

The notes on pages 50 to 113 are an integral part of these consolidated financial statements.

1. GENERAL INFORMATION

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

The principal activity of the Company is investment holding. The principal activities of the subsidiaries are set out in note 42 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 18 March 2014.

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 available-for-sale financial assets, financial assets at fair value through profit or loss, derivative financial instruments and investment properties which are carried at fair value.

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

Changes in accounting policy and disclosures

(i) New and amended standards adopted by the Group

The following new and amendments to standards and interpretations are mandatory for accounting periods beginning on or after 1 January 2013. The adoption of these new and amendments to standards and interpretations does not have any significant impact to the results and financial position of the Group.

HKFRS 1 (Amendment)	Government loans
HKFRS 7 (Amendment)	Financial instruments: Disclosures – Offsetting financial assets and financial liabilities
HKFRS 10	Consolidated financial statements
HKFRS 11	Joint arrangements
HKFRS 12	Disclosures of interests in other entities
HKFRS 13	Fair value measurement
HKFRS 10, HKFRS 11 and HKFRS 12 (Amendment)	Consolidated financial statements, Joint arrangements and Disclosure of interests in other Entities: Transition Guidance
HKAS 1 (Amendment)	Presentation of financial statements
HKAS 19 (2011)	Employee benefits
HKAS 27 (2011)	Separate financial statements
HKAS 28 (2011)	Investments in associates and joint ventures
HK(IFRIC) – Int 20	Stripping costs in the production phase of a surface mine
Forth 2011 annual improvement project	

(ii) New and amended standards have been issued but are not effective for the financial year beginning 1 January 2013 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 2013 and have not been early adopted by the Group:

HKFRS 7 and HKFRS 9 (Amendment)	Financial instruments: Disclosures – Mandatory effective date of HKFRS 9 and transition disclosures(2)
HKFRS 9	Financial instruments(3)
HKFRS 10, HKFRS 12 and HKAS 27 (2011) (Amendment)	Investment entities(1)
HKFRS 14	Regulatory deferral accounts(2)
HKAS 32 (Amendment)	Offsetting financial assets and financial liabilities(1)
HKAS 36 (Amendment)	Impairment of assets(1)
HKAS 39 (Amendment)	Novation of derivatives(1)
HK(IFRIC) – Int 21	Levies(1)

(1) Effective for the Group for annual period beginning on 1 January 2014.

(2) Effective for the Group for annual period beginning on 1 January 2016.

(3) Effective date to be determined.

The Group anticipates that the application of the above new or amended standards and interpretations have no material impact on the results and the financial position of the Group.

(b) Subsidiaries

(i) Consolidation

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

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

(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.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the income statement (note 2(i)).

(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.

(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 other comprehensive income.

(iv) Disposal of foreign operation and partial disposal

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

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

(f) Property, plant and equipment

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

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

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%

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

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

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

(g) Investment property

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

(h) Land use right

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

(i) Intangible assets

(i) Goodwill

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

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

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

(ii) Contractual customer relationships

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

(iii) Trademarks and licensing rights

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

(j) Financial assets

(i) Classification

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

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

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

(b) Loans and receivables

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

(c) Available-for-sale financial assets

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

(ii) Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

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

Changes in the fair value of monetary and non-monetary securities classified as available for sale are recognised in other comprehensive income.

When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as `gains and losses from investment securities'.

Dividends on available-for-sale equity instruments are recognised in the income statement as part of other income when the Group's right to receive payments is established.

(iii) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

(k) Inventories

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

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

(l) Trade and other receivables

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

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

(m) Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand, demand deposits with banks and short-term highly liquid investments with original maturities of three months or less that are readily convertible into known amounts of cash and which are subject to an insignificant risk of change in value, net of bank overdrafts. In the consolidated balance sheet, bank overdrafts are shown within borrowings in current liabilities.

(n) Impairment of assets

(i) Assets carried at amortised cost

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

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

– Significant financial difficulty of the debtor;

– A breach of contract, such as a default or delinquency in interest or principal payments;

– It becomes probable that the debtor will enter bankruptcy or other financial reorganisation;

– The disappearance of an active market for that financial asset because of financial difficulties; or

– Observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:

  (i) adverse changes in the payment status of borrowers in the portfolio;

  (ii) national or local economic conditions that correlate with defaults on the assets in the portfolio.

The Group first assesses whether objective evidence of impairment exists.

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

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

(ii) Assets classified as available for sale

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. For equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss. Impairment losses recognised in the consolidated income statement on equity instruments are not reversed through the consolidated income statement.

(iii) Impairment of non-financial assets

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

(o) Share capital

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

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

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.

(ii) Profit-sharing and bonus plans

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

(t) Share-based payments

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

- including any market performance conditions (for example, an entity's share price);

- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and

- including the impact of any non-vesting conditions (for example, the requirement for employees to save).

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

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

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

(u) Provisions

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

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

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

(v) Revenue recognition

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

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

(i) Sales of goods – wholesale and trading

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

(ii) Sales of goods – retail

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

(iii) Interest income

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

(w) Leases

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

(x) Dividend distribution

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

(y) Financial guarantees

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

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

3. FINANCIAL RISK MANAGEMENT

(a) Categories of financial instruments

	Group		Company	
	2013	2012	**2013**	2012
	HK$'000	HK$'000	**HK$'000**	HK$'000
Financial assets				
Loans and receivables (include cash and cash equivalents):				
– Trade and other receivables	**179,634**	209,530	**262**	262
– Amount due from a related company	**–**	1,321	**–**	–
– Bank balances and cash	**147,959**	148,132	**1,140**	9,095
	327,593	358,983	**1,402**	9,357
Financial assets at fair value through profit or loss	**2,657**	3,083	**–**	–
Available-for-sale financial assets	**222**	–	**–**	–
Derivative financial instruments	**42**	601	**–**	–
	330,514	362,667	**1,402**	9,357
Financial liabilities				
Amortised cost:				
– Borrowings	**27,000**	40,000	**–**	–
– Trade and other payables	**133,403**	121,908	**–**	–
– Amounts due to related companies	**1,885**	517	**–**	–
Derivative financial instruments	**–**	135	**–**	–
	162,288	162,560	**–**	–

(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, Chinese Renminbi and Bangladesh Taka.

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 0.5%. However, as the Retail business in the PRC market grow, the expected positive contribution will provide a hedge against the adverse effect of any appreciation of Renminbi to the manufacturing costs.

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

(b) Interest rate risk

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

At 31 December 2013, it is estimated that a general increase/decrease of 50 basis points (2012: 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$603,000 (2012: increase/decrease the Group's post-tax profit for the year by approximately HK$532,000). The 50 basis points increase/decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next annual balance sheet date.

(c) Price risk

The Group is exposed to equity price risk through its financial assets at fair value through profit or loss. If the market bid prices of the investments had been 10% higher, with all other variables held constants, the Group's post-tax profit for the year would increase by approximately HK$222,000 for the year ended 31 December 2013 (2012: HK$257,000). A 10% change is used when reporting the price risk internally to the management.

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

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

(ii) Credit risk

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

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

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

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 28% (2012: 42%) and 52% (2012: 61%) of the total trade and other receivables was due from the Group's largest customer and the five largest customers respectively.

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

(iii) Liquidity risk

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

The Group's gearing ratio (being the Group's net borrowings over total equity) is at 5.5% (2012: 8%) and the Group will have sufficient financial resources and banking facilities to meet its commitments and working capital requirements.

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

31 December 2013

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

31 December 2012

	Group	
	Within one year	In the second to fifth years inclusive
Trade and other payables	100,969	–
Minimum license fee payables	13,092	7,847
Bank borrowings	40,917	–
Amounts due to a related company	517	–
Total	155,495	7,847

(c) Capital management

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

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings, and makes adjustments to the capital structure in light of changes in economic conditions. The Group's strategy, which was unchanged from 2012, was to maintain its gearing ratio at a low level.

(d) Fair value

The Group's financial assets and liabilities are carried at amounts not materially different from their fair values as at 31 December 2012 and 2013 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).

	2013 – Group			
	Level 1	**Level 2**	**Level 3**	**Total**
	HK$'000	**HK$'000**	**HK$'000**	**HK$'000**
Assets				
Available-for-sale financial assets	**–**	**–**	**222**	**222**
Derivatives financial instruments	**–**	**42**	**–**	**42**
Financial assets at fair value through profit or loss	**2,657**	**–**	**–**	**2,657**
Total financial assets	**2,657**	**42**	**222**	**2,921**

	2012 – Group			
	Level 1	Level 2	Level 3	Total
	HK$'000	HK$'000	HK$'000	HK$'000
Assets				
Derivatives financial instruments	–	601	–	601
Financial assets at fair value through profit or loss	3,083	–	–	3,083
Total financial assets	3,083	601	–	3,684
Liabilities				
Derivatives financial instruments	–	135	–	135
Total liabilities	–	135	–	135

There were no transfers between levels 1 and 2 during the year.

(i) Financial instruments in level 1

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

(ii) Financial instruments in level 2

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

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

The forward foreign exchange contracts held by the Group and included as level 2 have been fair valued using forward exchange rates that are quoted in an active market.

(iii) Financial instruments in level 3

Changes in level 3 instruments for the year ended 31 March 2013 are set out in Note 23.

There was no transfer of financial instruments into or out of level 3 during the year.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

(a) Impairment of goodwill

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

Estimating the value in use requires an estimate of the expected future cash flows from the cash-generating unit and also a suitable discount rate in order to calculate the present value of those cash flows. Judgement is required to determine key assumptions adopted in the cash flow projections and changes to key assumptions could affect these cash flow projections and therefore the results of the impairment review.

(b) Provision for impairment of receivables

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

(c) Net realisable value of inventories

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

(d) Income taxes

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

(e) Useful lives 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.

(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 31. 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 and Bangladesh. Customers are mainly located in the USA and Europe.

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

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

Segment assets exclude investment properties, available-for-sale financial assets, deferred income tax assets, financial assets at fair value through profit or loss, derivative financial instruments and cash and cash equivalents. In addition, corporate assets which are not directly attributable to the business activities of any operating segment are not allocated to a segment, which primarily applies to the Group's headquarters.

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

	Manufacturing		Trading		Retail		Total	
	2013 HK$'000	2012 HK$'000	2013 HK$'000	2012 HK$'000	2013 HK$'000	2012 HK$'000	2013 HK$'000	2012 HK$'000
Revenue from external customers	602,144	545,197	190,731	94,982	129,750	126,973	922,625	767,152
Inter-segment revenue	67,936	53,807	801	–	–	–	68,737	53,807
Reportable segment revenue	670,080	599,004	191,532	94,982	129,750	126,973	991,362	820,959
Reportable segment profit/(loss)	30,294	50,124	(4,159)	472	(5,778)	(26,097)	20,357	24,499
Gain from disposal of financial assets at fair value through profit or loss							–	179
Financial assets at fair value through profit or loss and derivative financial instruments – fair value (loss)/gain							(850)	879
Gain on settlement of derivative financial instruments							1,146	658
Share-based payment expense							(128)	(1,176)
Unallocated corporate expenses							(9,113)	(10,625)
Profit from operations							11,412	14,414
Finance income							1,976	1,427
Finance costs							(3,177)	(3,367)
Income tax expense							(3,993)	(4,841)
Profit for the year							6,218	7,633
Depreciation of property, plant and equipment and amortisation of land use rights	19,727	20,109	927	511	4,721	4,726	25,375	25,346
Amortisation of other intangible assets	–	–	8,117	7,472	7,113	6,937	15,230	14,409
Impairment loss on goodwill	–	–	–	–	–	4,958	–	4,958
Loss on disposal of property, plant and equipment	–	–	166	–	281	381	447	381
Gain on disposal of a subsidiary	–	–	–	–	(1,626)	–	(1,626)	–
Provision/(reversal of provision) for slow-moving and obsolete inventories	15,257	4,600	(123)	131	(2,194)	4,406	12,940	9,137
Provision for impairment and write-off of trade and other receivables	89	772	1	–	–	–	90	772
Provision for impairment of property, plant and equipment	1,873	–	–	–	487	–	2,360	–
Reportable segment assets	349,933	333,525	137,726	142,593	63,480	77,770	551,139	553,888
Investment properties							12,889	–
Available-for-sale financial assets							222	–
Deferred income tax assets							3,023	1,416
Financial assets at fair value through profit or loss							2,657	3,083
Derivative financial instruments							42	601
Cash and cash equivalents							146,209	146,382
Other corporate assets							4,085	6,541
Total assets							720,266	711,911
Reportable segment liabilities	117,105	78,870	22,342	26,652	35,242	49,994	174,689	155,516
Current income tax liabilities							25,268	19,412
Derivative financial instruments							–	135
Bank borrowings							27,000	40,000
Other corporate liabilities							3,350	5,638
Total liabilities							230,307	220,701
Capital expenditure incurred during the year	51,171	7,108	2,328	26,471	3,730	5,413	57,229	38,992

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

(i) Revenue from external customers

	2013 HK$'000	2012 HK$'000
Hong Kong	**25,622**	28,762
USA	**561,355**	488,537
PRC	**118,299**	109,121
Europe	**141,348**	89,076
Others	**76,001**	51,656
Total	**922,625**	767,152

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

(ii) Non-current assets

	2013 HK$'000	2012 HK$'000
Hong Kong	**25,708**	23,798
PRC	**71,676**	93,468
Bangladesh	**46,953**	–
Europe	**1,868**	2,152
USA	**50,053**	33,289
	196,258	152,707
Other intangible assets	**28,775**	40,301
Deferred income tax assets	**3,023**	1,416
	228,056	194,424

During 2013, revenue derived from the Group's largest customer amounted to HK$305,140,000 or 33.1% of the Group's revenue (2012: HK$267,246,000 or 34.8%). Revenue derived from the second largest customer amounted to HK$93,780,000 or 10.2% (2012: HK$69,870,000 or 9.1%).

6. OTHER INCOME

	2013 HK$'000	2012 HK$'000
Freight income	**1,581**	–
Sundry income	**2,277**	1,350
	3,858	1,350

7. OTHER GAINS – NET

	2013 HK$'000	2012 HK$'000
Gain from disposal of financial assets at fair value through profit or loss	**–**	179
Financial assets at fair value through profit or loss and derivative financial instruments – fair value (loss)/gain	**(850)**	879
Gain on settlement of derivative financial instruments	**1,146**	658
Net foreign exchange loss	**(345)**	(461)
Loss on disposal of property, plant and equipment	**(447)**	(381)
Gain on disposal of a subsidiary *(note)*	**1,626**	–
	1,130	874

Note:

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

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

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

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

8. EXPENSES BY NATURE

	2013 **HK$'000**	2012 HK$'000
Employee remuneration (including directors' emoluments and retirement benefit costs)		
– Salaries and allowances	**245,335**	197,381
– Contribution to retirement scheme	**6,068**	3,560
– Share-based payments	**128**	1,176
	251,531	202,117
Cost of inventories	**400,135**	318,344
Auditors' remuneration	**3,320**	2,915
License fee expenses	**4,132**	3,779
Acquisition-related costs *(note 36)*	**208**	4,578
Depreciation of property, plant and equipment *(note 17)*	**25,215**	25,190
Amortisation on land use rights *(note 19)*	**160**	156
Amortisation of other intangible assets *(note 22)*	**15,230**	14,409
Operating lease charges in respect of office premises, shops, factories and warehouses		
– Minimum lease payment	**41,188**	37,096
– Contingent lease payment	**11,498**	10,681
Provision for impairment and write-off of trade and other receivables	**90**	772
Provision for slow-moving and obsolete inventories	**12,940**	9,137
Provision for impairment of property, plant and equipment	**2,360**	–
Claims expense	**2,786**	3,434
Impairment loss on goodwill	**–**	4,958
Others	**145,408**	117,396
Total cost of sales, selling and distribution costs, and administration expenses	**916,201**	754,962

9. FINANCIAL (COSTS)/INCOME – NET

	2013 HK$'000	2012 HK$'000
Interest on overdrafts and other borrowings	**(1,588)**	(792)
Interest on amounts due to a related company	**(25)**	(11)
Interest on other non-current payables	**(1,564)**	(2,564)
Interest costs	**(3,177)**	(3,367)
Interest income	**1,976**	1,427
Net finance costs	**(1,201)**	(1,940)

10. RETIREMENT SCHEMES

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

The Group also operates a MPF Scheme under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance and not previously covered by the ORSO Scheme. Under the MPF Scheme, the employer and the employees are each required to make contributions to the scheme at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$25,000 and contributions to the MPF Scheme vested immediately. The cap of monthly relevant income was HK$20,000 prior to June 2012.

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

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

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

	2013 HK$'000	2012 HK$'000
Gross retirement schemes contributions	**981**	862
Less: Forfeited contributions for the year	**–**	–
Net retirement schemes contributions	**981**	862

11. DIRECTORS' EMOLUMENTS

	2013 HK$'000	2012 HK$'000
Fees	**442**	512
Salaries, housing benefits, other allowances and benefits in kind	**6,305**	4,811
Share-based payments	**–**	499
Contributions to retirement scheme	**78**	77
	6,825	5,899

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

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

	Year ended 31 December 2012				
	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Share-based payments HK$'000	Retirement scheme contributions HK$'000	Total HK$'000
Mr. Ngan Hei Keung	–	1,040	176	24	1,240
Madam Ngan Po Ling, Pauline	–	1,611	176	24	1,811
Mr. James S. Patterson	–	198	118	–	316
Ms. Maggie Gu (appointed on 1 February 2012)	–	1,623	29	14	1,666
Mr. Tse Kam Fow	120	–	–	–	120
Mr. Andrew Ngan	80	339	–	15	434
Mr. Leung Shu Yin, William	96	–	–	–	96
Mr. Lo Hang Fong	96	–	–	–	96
Mr. Liu Tieh Ching, Brandon, *JP*	120	–	–	–	120
Total	512	4,811	499	77	5,899

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

No director waived emoluments in respect of the years ended 31 December 2012 and 2013.

12. FIVE HIGHEST PAID EMPLOYEES AND SENIOR MANAGEMENT REMUNERATION

The five highest paid individuals included two (2012: two) directors, details of whose remuneration are set out in note 11. The details of the emoluments of the remaining three (2012: three) highest paid individuals are as follows:

	2013	2012
	HK$'000	HK$'000
Salaries and allowances	**4,908**	4,758
Discretionary bonuses	**2,388**	1,983
Share-based payments	**40**	220
Contributions to retirement scheme	**15**	14
	7,351	6,975

The emoluments of these three (2012: three) employee are within the following bands:

	2013	2012
Nil – HK$1,000,000	**–**	–
HK$1,000,001 – HK$1,500,000	**–**	1
HK$1,500,001 – HK$2,000,000	**2**	1
HK$2,000,001 – HK$2,500,000	**–**	1
HK$2,500,001 – HK$3,000,000	**–**	–
HK$3,000,001 – HK$3,500,000	**–**	–
HK$3,500,001 – HK$4,000,000	**1**	–

13. INCOME TAX EXPENSE

	2013 HK$'000	2012 HK$'000
Hong Kong profits tax		
– Current year	**1,030**	719
– Over-provision in prior years	**(319)**	–
	711	719
Overseas tax		
– Current year	**4,887**	4,258
– Under-provision in prior years	**–**	299
	5,598	5,276
Deferred income tax *(note 24)*	**(1,605)**	(435)
	3,993	4,841

Hong Kong profits tax has been provided at the rate of 16.5% (2012: 16.5%) on the estimated assessable profits for the year ended 31 December 2013.

Taxation on overseas profits has been calculated on the estimated assessable profits for the year at the rates of taxation prevailing in the countries in which the Group operates.

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

	2013 HK$'000	2012 HK$'000
Profit before income tax	**10,211**	12,474
Calculated at a taxation rate of 16.5% (2012: 16.5%)	**1,685**	2,058
Effect of different taxation rates in other countries	**748**	1,303
Expenses not deductible for tax purposes	**4,046**	2,583
Income not subject to tax	**(5,627)**	(8,763)
Tax losses for which no deferred income tax assets was recognised	**5,455**	7,729
Recognition of previously unrecognised tax losses	**(833)**	–
Over-provision in prior years	**(319)**	–
Temporary differences for which no deferred income tax asset was recognised	**(1,498)**	–
Others	**336**	(69)
Income tax expense	**3,993**	4,841

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

The loss attributable to owners of the Company dealt with in the financial statements of the Company for the year amounted to HK$18,136,000 (2012: profit of HK$36,909,000).

15. EARNINGS PER SHARE

(a) Basic

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

	2013	2012
Profit attributable to owners of the Company (HK$'000)	**7,366**	8,659
Weighted average number of ordinary shares in issue	**398,583,284**	398,583,284

(b) Diluted

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

	2013	2012
Profit attributable to owners of the Company (HK$'000)	**7,366**	8,659
Weighted average number of ordinary shares in issue	**398,583,284**	398,583,284
Adjustment for share options	**152,747**	173,280
Weighted average number of ordinary shares for diluted earnings per share	**398,736,031**	398,756,564
Diluted earnings per share (HK cent)	**1.8**	2.2

16. DIVIDENDS

A final dividend in respect of the year ended 31 December 2013 of 1 HK cent per share, amounting to a total dividend of HK$3,986,000, is to be proposed at the upcoming annual general meeting. These financial statements do not reflect this dividend payable. The amount of proposed final dividend for 2013 was based on 398,583,284 (2012: 398,583,284) shares in issue as at 31 December 2013.

	2013	2012
	HK$'000	HK$'000
Interim dividend of 1 HK cent (2012: 2 HK cents) per share	**3,986**	7,972
Proposed final dividend of 1 HK cent (2012: 2 HK cents) per share	**3,986**	7,972
	7,972	15,944

The aggregate amounts of the dividends paid and proposed during 2012 and 2013 have been disclosed in the consolidated income statement in accordance with the Hong Kong Companies Ordinance.

17. PROPERTY, PLANT AND EQUIPMENT – GROUP

	Construction in Progress HK$'000	Land and buildings HK$'000	Furniture and equipment HK$'000	Leasehold improvements HK$'000	Machinery HK$'000	Motor vehicles HK$'000	Total HK$'000
Year ended 31 December 2012							
Opening net book amount	–	18,133	3,710	10,310	69,777	2,315	104,245
Acquisition of a subsidiary	–	–	1,215	–	–	–	1,215
Additions	–	963	1,979	5,146	3,575	1,511	13,174
Disposals	–	–	(5)	(148)	–	(228)	(381)
Depreciation	–	(1,860)	(1,680)	(4,984)	(15,772)	(894)	(25,190)
Exchange differences	–	155	62	52	459	11	739
Closing net book amount	–	17,391	5,281	10,376	58,039	2,715	93,802
At 31 December 2012							
Cost	–	38,764	51,431	52,060	238,555	13,658	394,468
Accumulated depreciation and impairment	–	(21,373)	(46,150)	(41,684)	(180,516)	(10,943)	(300,666)
Net book amount	–	17,391	5,281	10,376	58,039	2,715	93,802
Year ended 31 December 2013							
Opening net book amount	–	17,391	5,281	10,376	58,039	2,715	93,802
Acquisition of a subsidiary	9,009	14,369	1,551	–	4,234	524	29,687
Additions	10,930	7,982	3,849	2,880	1,121	780	27,542
Disposals	–	–	(149)	(132)	–	(166)	(447)
Impairment	–	(606)	(339)	(810)	(204)	(401)	(2,360)
Depreciation	–	(2,887)	(2,278)	(5,017)	(14,066)	(967)	(25,215)
Exchange differences	351	559	15	194	1,846	66	3,031
Closing net book amount	20,290	36,808	7,930	7,491	50,970	2,551	126,040
At 31 December 2013							
Cost	20,290	62,363	47,446	40,104	215,695	13,237	399,135
Accumulated depreciation and impairment	–	(25,555)	(39,516)	(32,613)	(164,725)	(10,686)	(273,095)
Net book amount	20,290	36,808	7,930	7,491	50,970	2,551	126,040

Depreciation expense of HK$16,941,000 (2012: HK$18,350,000) has been charged in cost of sales, HK$4,285,000 (2012: HK$3,823,000) in selling and distribution costs and HK$3,989,000 (2012: HK$3,017,000) in administration expenses.

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

18. INVESTMENT PROPERTIES – GROUP

	2013 HK$'000	2012 HK$'000
At fair value		
Opening balance at 1 January	–	–
Additions	12,889	–
Closing balance at 31 December	12,889	–

The following table analyses the investment properties carried at fair value, by valuation method:

	Fair value measurements at 31 December 2013 using		
Description	**Quoted prices in active markets for identical assets (Level 1)** HK$'000	**Significant other observable inputs (Level 2)** HK$'000	**Significant unobservable inputs (Level 3)** HK$'000
Recurring fair value measurements			
Investment properties:			
– Residential units – USA	–	–	12,889

The Group's policy is to recognise transfers into and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer.

There were no transfers between Levels 1, 2 and 3 during the year.

The Group's investment properties were valued at 31 December 2013 by independent professionally qualified valuers who hold a recognised relevant professional qualification and have recent experience in the locations and segments of the investment properties valued. For all investment properties, their current use equates to the highest and best use.

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

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

As at 31 December 2013, the fair values of the properties have been determined by Stirling Appraisals Limited.

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

19. LAND USE RIGHTS – GROUP

	2013 HK$'000	2012 HK$'000
Opening net book amount	**545**	695
Amortisation	**(160)**	(156)
Exchange difference	**17**	6
Closing net book amount	**402**	545
Cost	**3,235**	3,115
Accumulated amortisation	**(2,833)**	(2,570)
Net book amount	**402**	545

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

20. INTERESTS IN SUBSIDIARIES – COMPANY

	2013 HK$'000	2012 HK$'000
Unlisted shares, at cost	**99,631**	99,631
Due from subsidiaries *(note (i))*	**350,159**	373,894
	449,790	473,525

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 42.

21. GOODWILL – GROUP

	2013 HK$'000	2012 HK$'000
Opening net book amount	**31,342**	27,446
Acquisition of a subsidiary	**–**	8,854
Adjustment on provisional goodwill	**2,456**	–
Impairment	**–**	(4,958)
Closing net book amount	**33,798**	31,342
Cost	**38,756**	36,300
Accumulated impairment	**(4,958)**	(4,958)
Net book amount	**33,798**	31,342

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

	2013 HK$'000	2012 HK$'000
Trading Business – H3	**22,488**	22,488
Trading Business – SDHC	**11,310**	8,854
	33,798	31,342

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:

	2013 Trading Business	2012 Trading Business
Growth rate	**2%**	2%
Discount rate	**16%**	16%

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

For the year ended 31 December 2012, an impairment loss of HK$4,958,000 was recognised on the goodwill related to SANRIO due to recurring losses in the business and uncertainties in the market environment. There is no impairment of goodwill on the trading business for the year ended 31 December 2013 based on the impairment assessment performed.

22. OTHER INTANGIBLE ASSETS – GROUP

	Trademark	Licensing rights	Acquired customer relationship	Total
	HK$'000	HK$'000	HK$'000	HK$'000
Year ended 31 December 2012				
Opening net book amount	–	32,759	5,829	38,588
Acquisition of a subsidiary	6,495	–	9,254	15,749
Additions	–	8,234	–	8,234
Write off	–	(7,994)	–	(7,994)
Amortisation	–	(13,826)	(583)	(14,409)
Exchange difference	–	133	–	133
Closing net book amount	6,495	19,306	14,500	40,301
At 31 December 2012				
Cost	6,495	36,846	15,083	58,424
Accumulated amortisation	–	(17,540)	(583)	(18,123)
Net book amount	6,495	19,306	14,500	40,301
Year ended 31 December 2013				
Opening net book amount	6,495	19,306	14,500	40,301
Additions	–	5,263	–	5,263
Write off	–	(1,778)	–	(1,778)
Amortisation	(1,083)	(12,696)	(1,451)	(15,230)
Exchange difference	–	219	–	219
Closing net book amount	5,412	10,314	13,049	28,775
At 31 December 2013				
Cost	6,495	18,285	15,083	39,863
Accumulated amortisation	(1,083)	(7,971)	(2,034)	(11,088)
Net book amount	5,412	10,314	13,049	28,775

23. AVAILABLE-FOR-SALE FINANCIAL ASSETS – GROUP

	2013 HK$'000	2012 HK$'000
Opening balance at 1 January	–	–
Additions	222	–
Closing balance at 31 December	222	–

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

24. DEFERRED INCOME TAXATION – GROUP

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

	Assets		Liabilities	
	2013 HK$'000	2012 HK$'000	2013 HK$'000	2012 HK$'000
Tax losses	833	–	–	–
Depreciation allowances	(303)	(204)	–	–
Provisions for inventories and trade receivables	1,600	1,335	–	–
Others	893	285	–	–
Deferred income tax assets	3,023	1,416	–	–

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

	2013 HK$'000	2012 HK$'000
Net deferred income tax assets at 1 January	**1,416**	975
Exchange differences	**2**	6
Credited to income statement *(note 13)*	**1,605**	435
Net deferred income tax assets at 31 December	**3,023**	1,416

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

Deferred income assets/(liabilities)	**Tax losses** HK$'000	**Depreciation allowances** HK$'000	**Provisions for inventories and trade receivables** HK$'000	**Others** HK$'000	**Total** HK$'000
At 1 January 2012	338	198	–	439	975
(Charged)/credited to the income statement	(338)	(402)	1,335	(160)	435
Exchange differences	–	–	–	6	6
At 31 December 2012	–	(204)	1,335	285	1,416
Credited/(charged) to the income statement	833	(99)	265	606	1,605
Exchange differences	–	–	–	2	2
At 31 December 2013	833	(303)	1,600	893	3,023

The Group did not recognise deferred income tax assets in respect of cumulative tax losses of HK$54,330,000 (2012: HK$39,415,000) 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$24,970,000 (2012: HK$31,953,000) that will expire in 1 year to 6 years.

25. INVENTORIES – GROUP

	2013 HK$'000	2012 HK$'000
Raw materials	**57,086**	51,268
Work-in-progress	**30,142**	34,556
Finished goods	**76,483**	75,631
	163,711	161,455

The cost of inventories recognised as expense and included in cost of sales amounted to HK$400,135,000 (2012: HK$318,344,000).

Provision for impairment on inventories of HK$12,940,000 has been charged to cost of sales (2012: HK$9,137,000).

26. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2013 HK$'000	2012 HK$'000	2013 HK$'000	2012 HK$'000
Trade and bills receivables	**142,214**	154,234	**–**	–
Deposits, prepayments and other receivables	**68,302**	86,121	**262**	262
	210,516	240,355	**262**	262
Less: provision for impairment	**(7,475)**	(8,178)	**–**	–
Less: provision for sales return	**(2,293)**	(2,264)	**–**	–
	200,748	229,913	**262**	262
Less: non-current portion of other receivables	**(21,157)**	(25,268)	**–**	–
Current portion	**179,591**	204,645	**262**	262

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

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

	2013 HK$'000	2012 HK$'000
0 – 30 days	**86,431**	63,210
31 – 60 days	**31,545**	37,484
61 – 90 days	**8,259**	19,569
Over 90 days	**15,979**	33,971
	142,214	154,234

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

	2013 HK$'000	2012 HK$'000
1 – 30 days past due	**16,217**	24,135
31 – 60 days past due	**4,496**	8,036
Over 60 days past due	**9,812**	20,715
	30,525	52,886

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$434,000 (2012: HK$808,000). 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) Included in other receivables are two note receivables from two customers of HK$18,996,000 (2012: HK$21,012,000).

One note receivable of HK$3,436,000 (2012: HK$5,452,000) is interest bearing at 7% per annum and is repayable by 26 monthly instalments up to July 2015. The note is secured by a second mortgage over a property. As at 31 December 2013, provision was made against the note receivable to the extent of HK$3,436,000 (2012: HK$3,965,000).

Another note receivable of HK$15,560,000 (2012: 15,560,000) is interest bearing at 5% per annum and is repayable by 12 quarterly instalments from January 2015 to October 2017. The note is secured by all the assets of the customer but the Group's interest in the collaterals is subordinated to the customer's major lender. The customer has also committed to place purchase orders with the Group with a minimum amount no less than US$16 million each year for three years or the duration of the loan, whichever is shorter.

(e) During the year, the Group completed its acquisition of Unimas Sportswear Ltd. ("Unimas"), a company incorporated in Bangladesh. As at 31 December 2012, the Group had advanced HK$14,300,000 to Unimas for expansion of production facilities. The advance was unsecured, interest-free, and repayable on demand.

(f) As of 31 December 2013, trade and other receivables of HK$7,475,000 (2012: HK$8,178,000) 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:

	2013	2012
	HK$'000	HK$'000
At 1 January	**8,178**	8,112
Acquisition of a subsidiary	**–**	325
Impairment loss recognised	**90**	772
Impairment loss written back	**(105)**	(81)
Uncollectible amounts written off	**(698)**	(953)
Exchange difference	**10**	3
At 31 December	**7,475**	8,178

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

27. AMOUNTS DUE FROM/(TO) RELATED PARTIES – GROUP

(a) Amount due from a related company (an affiliate of a non-controlling shareholder of a subsidiary) is unsecured and has been settled during the year. Interest is fixed at 10% of the advances made to the affiliate for the year ended 31 December 2012.

(b) The amounts due to related parties are due to non-controlling shareholders of certain subsidiaries. The amounts are unsecured and repayable on demand. Of the total balance, HK$518,000 (2012: HK$517,000) is interest bearing at 5% (2012: 5%) per annum; the remaining balance is non-interest bearing.

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

	2013	2012
	HK$'000	HK$'000
Listed equity investments in Hong Kong	**2,657**	3,083
	2,657	3,083

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

29. CASH AND CASH EQUIVALENTS

	Group		**Company**	
	2013	2012	**2013**	2012
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash at bank and on hand	**129,583**	125,617	**1,140**	9,095
Short-term bank deposits	**16,626**	20,765	**–**	–
Cash and cash equivalents	**146,209**	146,382	**1,140**	9,095
Pledged bank deposits	**1,750**	1,750	**–**	–

The effective interest rate on short-term bank deposits was 2.55% (2012: 2.18%) per annum; these deposits have an average maturity of 90 days as at 31 December 2013 (2012: 70 days).

Non-current bank deposits bear interest at floating rate and mature on 18 November 2014 and expect to be renewed for no longer than twelve months. These deposits have been pledged as guarantee for a licensing right contract.

30. SHARE CAPITAL

	Group and Company	
	Number of shares of HK$0.10 each	HK$'000
Authorised:		
At 1 January 2012, 31 December 2012 and 31 December 2013	1,000,000,000	100,000
Issued and fully paid:		
At 31 December 2012 and 2013	398,583,284	39,858

31. EQUITY SETTLED SHARE-BASED PAYMENT TRANSACTIONS

(1) On 23 May 2002, a share option scheme (the "Old Scheme") was adopted whereby the Board of Directors may, at their absolute discretion, grant options to any eligible employee including directors of the Company or any of its subsidiaries or any investee entity, any suppliers of goods or services to any member of the Group or any investee entity, or any customer of the Group or any invested entity to subscribe for shares in the Company. The total number of shares which may be issued upon exercise of all options to be granted under the Old Scheme and any other share option schemes of the Group may not in aggregate exceed 30,536,058, being 10% of the shares in issue of the Company as at 23 May 2002, the date of adoption of the Old Scheme adjusted for the issue of bonus shares on 22 May 2007. The scheme mandate limit was refreshed on 28 November 2008. Upon refreshing of the scheme mandate limit, the Company may grant options entitling holders thereof to subscribe for up to a maximum of 31,840,228 shares, representing 10% of the shares in issue of the Company as at 28 November 2008.

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

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

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

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

(a) Movements in share options

	2013		2012	
	Number of share options	**Weighted average exercise price HK$**	Number of share options	Weighted average exercise price HK$
At 1 January	**20,670,000**	**0.928**	23,020,000	0.929
Lapsed	**–**	**–**	(2,350,000)	(0.934)
At 31 December	**20,670,000**	**0.928**	20,670,000	0.928
Option vested at 31 December	**20,040,000**	**0.929**	17,950,000	0.943

At the balance sheet date, the weighted average remaining contractual life of the Company's share options was 6 years (2012: 7 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 2013	2012
	HK$	**'000**	'000
10 June 2018	1.190	**1,000**	1,000
22 June 2019	0.946	**14,770**	14,770
7 November 2020	0.920	**900**	900
29 December 2021	0.800	**4,000**	4,000
		20,670	20,670

(b) Fair value of share options and assumptions

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted in 2011 was measured based on a Black-Scholes pricing model. The inputs into the model were as follows:

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

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

Under this share option scheme, HK$128,000 of share-based payment expense has been included in the consolidated income statement for 2013 (2012: HK$1,176,000) and a corresponding amount has been credited to share based compensation reserve.

32. 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 2012	160,230	99,431	5,719	153,851	419,231
Profit for the year	–	–	–	36,909	36,909
2011 final dividend paid	–	–	–	(11,957)	(11,957)
2012 interim dividend paid	–	–	–	(7,972)	(7,972)
Share options lapsed	–	–	(537)	537	–
Equity settled share-based transactions	–	–	1,176	–	1,176
At 31 December 2012	160,230	99,431	6,358	171,368	437,387
Representing:					
2012 proposed final dividend				7,972	
Other retained earnings				163,396	
				171,368	
At 1 January 2013	160,230	99,431	6,358	171,368	437,387
Loss for the year	–	–	–	(18,136)	(18,136)
2012 final dividend paid	–	–	–	(7,972)	(7,972)
2013 interim dividend paid	–	–	–	(3,986)	(3,986)
Equity settled share-based transactions	–	–	128	–	128
At 31 December 2013	160,230	99,431	6,486	141,274	407,421
Representing:					
2013 proposed final dividend				3,986	
Other retained earnings				137,288	
				141,274	

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

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

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

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

33. TRADE AND OTHER PAYABLES

	Group		Company	
	2013	2012	**2013**	2012
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade and bills payables	**79,171**	69,571	**–**	–
Accrued charges and other payables	**96,543**	90,699	**3,913**	5,637
	175,714	160,270	**3,913**	5,637
Less: other non-current payables	**(4,695)**	(7,847)	**–**	–
Current portion	**171,019**	152,423	**3,913**	5,637

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

	2013	2012
	HK$'000	HK$'000
0 – 30 days	**41,587**	32,814
31 – 60 days	**27,057**	25,013
61 – 90 days	**4,656**	4,916
Over 90 days	**5,871**	6,828
	79,171	69,571

34. BORROWINGS – GROUP

	2013 HK$'000	2012 HK$'000
Current:		
Bank borrowings	**27,000**	40,000
Total borrowings	**27,000**	40,000

The weighted average effective interest rate per annum for bank borrowings was 2.21% (2012: 2.39%).

The bank borrowings as at 31 December 2013 are unsecured (2012: unsecured).

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

35. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

	2013 HK$'000	2012 HK$'000
Profit before income tax	**10,211**	12,474
Interest income	**(1,976)**	(1,427)
Interest expenses	**3,177**	3,367
Loss on disposal of property, plant and equipment	**447**	381
Impairment loss on goodwill	**–**	4,958
Net loss/(gain) from financial assets at fair value through profit or loss and derivative financial instruments	**850**	(1,058)
Gain on disposal of a subsidiary	**(1,626)**	–
Depreciation and amortisation	**40,605**	39,755
Provision for impairment of inventories	**12,940**	9,137
Provision for impairment of property, plant and equipment	**2,360**	–
Share-based payment expenses	**128**	1,176
Provision for impairment and write-off of trade and other receivables	**90**	772
Provision for post-employment benefits	**73**	31
Changes in working capital:		
Inventories	**(9,755)**	(14,211)
Trade and other receivables	**25,845**	(42,829)
Trade and other payables	**(14,729)**	4,505
Amounts due from/(to) related parties	**2,689**	(1,317)
Cash generated from operations	**71,329**	15,714

36. ACQUISITION OF SUBSIDIARIES

(a) Acquisition of Unimas Sportswear Ltd.

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

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

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

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

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

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

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

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

(b) **Acquisition of San Diego Hat Company**

On 28 December 2012, the Group acquired 100% equity interests of San Diego Hat Company ("SDHC"). SDHC is principally engaged in distribution of women's, men's and kids' headwear and other accessories in the USA.

The consideration for the acquisition is US$5,000,000 (HK$38,834,000) in cash and advances of US$1,500,000 (HK$11,650,000) for repayment of SDHC's bank borrowings. The consideration is subject to adjustments as provided in the sales and purchase agreement and may be adjusted by certain of the vendors' and SDHC's obligations. During the year, the Group and the vendors have reached an agreement to adjust the consideration to US$5,964,000 (HK$46,399,000).

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

	HK$'000
Consideration:	
– Cash	50,484
– Less: adjustments on consideration	(4,085)
Total consideration	46,399
Recognised amounts of identifiable assets acquired and liabilities assumed	
Trademark and acquired customer relationship	15,749
Property, plant and equipment	1,215
Inventories	19,307
Trade and other receivables	6,596
Bank balances and cash	847
Trade and other payables	(8,625)
Total identifiable net assets	35,089
Goodwill *(Note 21)*	11,310
	46,399

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

	HK$'000
Consideration paid in cash at time of acquisition	(50,484)
Bank balances and cash acquired	847
Net cash outflow for the year ended 31 December 2012	(49,637)
Add: adjustments on consideration	4,085
Total net cash outflow	(45,552)

The above goodwill is attributable to SDHC's well-established and strongly recognised brand in headwear and accessories business worldwide, especially in the USA.

Acquisition-related costs of HK$4,578,000 have been charged to administrative expenses in the consolidated income statement for the year ended 31 December 2012.

The subsidiary acquired did not contribute any revenue nor profit to the Group for the year ended 31 December 2012.

If the acquisition had been completed on 1 January 2012, the Group's turnover would have been increased by HK$65,700,000 and profit after tax would have been decreased by HK$7,725,000 for the year ended 31 December 2012.

37. OPERATING LEASE COMMITMENTS

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

	The Group	
	2013	2012
	HK$'000	HK$'000
Within one year	**21,831**	30,520
In the second to fifth years inclusive	**14,641**	19,092
Over five year	**18,161**	18,133
	54,633	67,745

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.

38. CAPITAL COMMITMENTS

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

	The Group	
	2013	2012
	HK$'000	HK$'000
Contracted for but not provided for		
– Manufacturing business	**–**	11,794
Authorised but not contracted for		
– Manufacturing business	**23,340**	32,347
– Trading business	**1,000**	12,448
– Retail business	**2,000**	3,500
	26,340	60,089

39. FINANCIAL GUARANTEE

At 31 December 2013, the Company had executed a corporate guarantee of HK$232,300,000 (2012: HK$202,300,000) to secure the general banking facilities granted to subsidiaries. Facilities utilised by the subsidiaries amounted to HK$30,771,000 as at 31 December 2013 (2012: HK$47,951,000).

40. SIGNIFICANT RELATED PARTY TRANSACTIONS

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

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

(a) Sale and purchase of goods and services

	2013	2012
	HK$'000	HK$'000
Sales of goods to affiliated companies of a shareholder	**305,140**	267,246
Rental paid in respect of office premises to a company controlled by a director	**960**	960
Commission income from an affiliate of a non-controlling shareholder of a subsidiary	**–**	430
Royalty income from a related company	**354**	–

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

	2013 HK$'000	2012 HK$'000
Trade receivables from affiliated companies of a shareholder	**51,546**	72,462

(c) Key management personnel remuneration

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

	2013 HK$'000	2012 HK$'000
Short-term employee benefits	**22,185**	17,216
Share-based payments	**81**	760
Retirement scheme contributions	**153**	145
	22,419	18,121

41. EVENT AFTER THE BALANCE SHEET DATE

Subsequent to the year-end, the Group has entered into a tenancy agreement to lease out the factory in Panyu, PRC to third parties for a monthly rent of RMB400,000. The factory, which has a carrying amount of HK$12,800,000 and classified within property, plant and equipment on the consolidated balance sheet as at 31 December 2013, will be reclassified as investment properties and carried at fair value upon the commencement of the tenancy.

42. 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

Name of company	Place of incorporation/ registration	Principal place of operation	Nominal value of issued ordinary share capital/ registered capital	Interest held	Principal activities
Great Champion International Co., Ltd.	The British Virgin Islands	Hong Kong	US$10,000	100%	Investment holding
Guang Zhou Jian Hao Headwear Manufacturing Ltd.	PRC *(note)*	PRC	RMB45,777,729	100%	Manufacture and sale of headwear
H3 Sportgear LLC	USA	USA	US$3,649,700	85%	Trading of headwear and apparel
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
Kingdom Wood Investments Limited	The British Virgin Islands	Hong Kong	US$1	100%	Investment holding
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
San Diego Hat Company	USA	USA	US$10,000	100%	Trading of headwear and accessories
Top Super Investments Ltd.	The British Virgin Islands	Hong Kong	US$10,000	100%	Investment holding
Top Super Sportswear (Shenzhen) Co., Ltd./ Top Super Sports (Shenzhen) Ltd.	PRC *(note)*	PRC	HK$52,000,000	100%	Manufacture and sale of headwear
United Crown International Macao Commercial Offshore Ltd.	Macau	Macau	MOP$100,000	100%	Trading of headwear and provision of digitizing services
Unimas Sportswear Ltd.	Bangladesh	Bangladesh	BDT84,109,700	80%	Manufacture and sale of headwear
Wintax Caps (Shenzhen) Co., Ltd.	PRC *(note)*	PRC	HK$20,000,000	100%	Manufacture and sale of headwear
上海成顏豐商貿有限公司	PRC *(note)*	PRC	RMB10,000,000	75%	Retailing

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

Note:

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

Financial Summary

Results	Year ended 31 December				
	2009	2010	2011	2012	**2013**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
Turnover	515,834	678,633	751,017	767,152	**922,625**
Gross profit	113,992	188,547	196,425	201,784	**243,810**
Profit/(loss) before income tax	(52,548)	11,231	25,252	12,474	**10,211**
Profit/(loss) for the year attributable to:	(52,688)	5,559	20,888	7,633	**6,218**
Owners of the Company	(45,133)	5,670	21,202	8,659	**7,366**
Non-controlling interests	(7,555)	(111)	(314)	(1,026)	**(1,148)**
Basic earnings/(loss) per share (HK cents)	(13.4)	1.5	5.3	2.2	**1.8**
Dividends	10,390	11,951	15,943	15,944	**7,972**

Assets and liabilities	As at 31 December				
	2009	2010	2011	2012	**2013**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
Non-current assets	138,455	131,668	176,495	194,424	**228,056**
Current assets	415,811	479,478	485,417	517,487	**492,210**
Current liabilities	(94,641)	(120,940)	(140,323)	(212,487)	**(225,172)**
Net current assets	321,170	358,538	345,094	305,000	**267,038**
Non-current liabilities	(1,586)	(889)	(22,552)	(8,214)	**(5,135)**
Net assets	458,039	489,317	499,037	491,210	**489,959**

Notes: The information of the financial summary for two years ended 31 December 2012 and 2013 have been extracted from the audited consolidated income statement and consolidated balance sheet which are set out on page 42 to page 45 of the annual report.