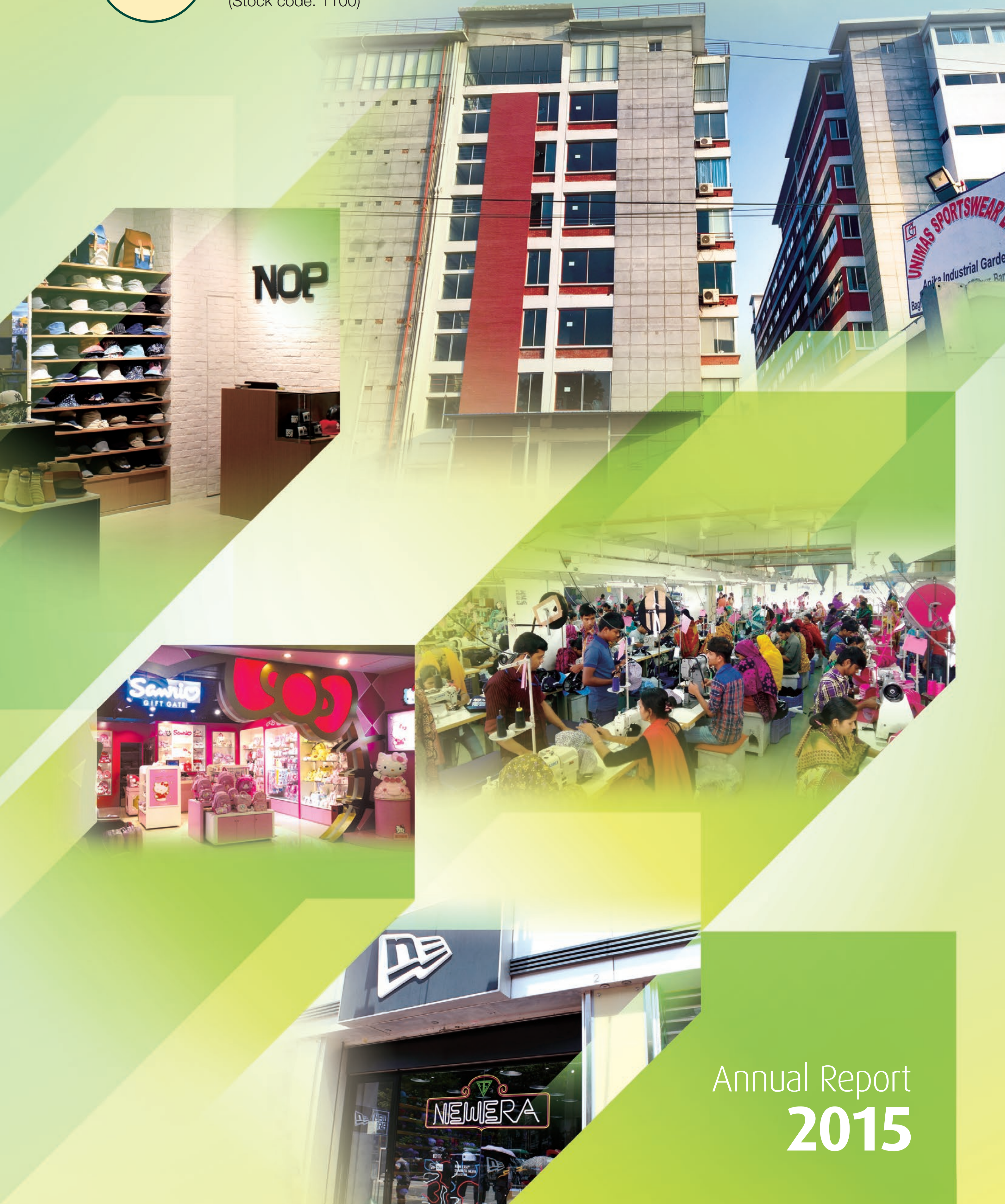
Mainland Headwear Holdings Limited

(Stock code: 1100)



Annual Report

2015

Contents

Corporate Information

Directors

Executive Directors

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

Non-executive Director

Mr. Andrew Ngan

Independent Non-executive Directors

Mr. Leung Shu Yin, William
Mr. Liu Tieh Ching, Brandon, *JP*
Mr. Gordon Ng

Company Secretary

Ms. Chan Hoi Ying

Auditors

PricewaterhouseCoopers
Certified Public Accountants

Principal Banker

Hang Seng Bank Limited
The Hongkong and Shanghai Banking Corporation 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.

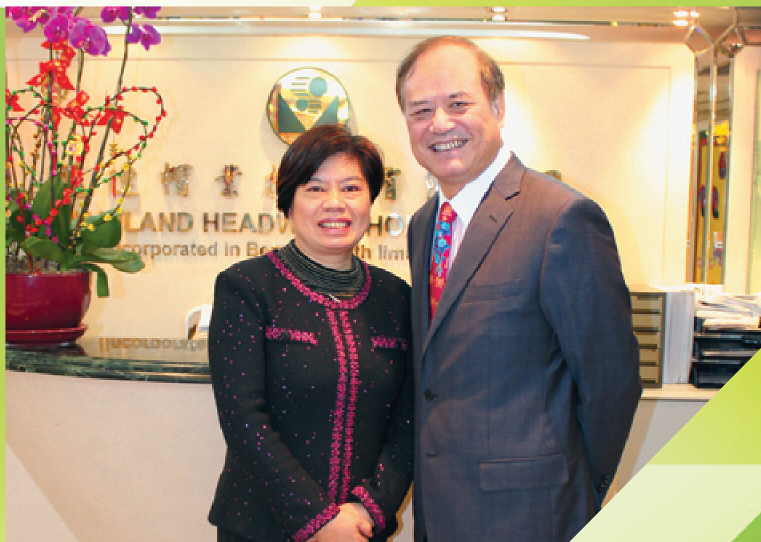
Hong Kong Branch Share Registrar

Tricor Tengis Limited
Level 22,
Hopewell Centre,
183 Queen's Road East,
Hong Kong

Company Websites

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

Chairman's Statement



Madam Ngan Po Ling, Pauline ***BBS, JP***
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 2015.

Overview

Guided by the Group's strategic planning in the set-up of its factory in Bangladesh in 2013, our investment and two years of efforts committed to our Bangladesh factory have started to bear fruit. The Group has subsequently transferred its labour-intensive processes to the factory and continuously expanding the production capacity, while its Shenzhen factory focuses on the product development, design and manufacturing of high-end products. During the year, market demand for the Group's headwear products continued to increase. However, the fast-expanding capacity of the Bangladesh factory still could not fully satisfy the increasing volume of orders, so the Group has proactively adjusted its production plan to ensure the timely delivery of products.

The Manufacturing Business remained as our main income source and the greater contribution made by the Bangladesh factory led to the Group's outstanding performance, while the trading and retail businesses enjoyed steady performances. However, the production capacity of the Shenzhen office slightly decreased due to reduced workforce, so the Group has not been able to produce the increasing order volume despite expansion of the Bangladesh factory, hence turnover slightly dropped by 5.1% to HK$870,998,000 (2014: HK$917,533,000). Nevertheless, the Group's gross profit notably increased by 6.1% to HK$265,112,000 (2014: HK$249,753,000), benefitting from the contribution of the Bangladesh factory and cost control measures. Gross profit margin also grew by 3.2 ppt from last year to 30.4%. Thanks to stronger production efficiency and the lower production costs of the Bangladesh factory, profit attributable to shareholders surged by 59.1% to HK$52,554,000. It was indeed gratifying to see another fruitful year for the Group.

Chairman's Statement

Regarding the Manufacturing Business, the Group has established a long-term business relationship with existing customers, which clearly demonstrates that our excellent quality has earned the trust of customers. During the year, the accelerated expansion of the Bangladesh factory's production capacity has enhanced the Group's operational efficiency and productivity. This in turn has contributed to its improved profitability as the facility has become an essential pillar to support our future sustainable development. The Shenzhen factory can create obvious synergies with the Bangladesh factory as it continues to focus on product development and design, manufacturing high value-added products and it can be consigned orders with a shorter delivery period involving more complicated processes.

The Trading Business has remained stable during the year. Riding on our product diversification strategy with a focus of tapping into more diversified markets, the business of this segment has continued expanding, and has continuously generated profit for the Group. During the year, the Group has actively developed the business of San Diego Hat Company ("SDHC") by further expanding the trading business' product mix with the introduction of new accessories in an effort to enlarge market share. The new products have managed to generate more income for the Group and improve the profitability of this segment.

As the global retail market was weak and slowed down during the year, the Group adopted a pragmatic business development strategy and continued to strengthen the business development of franchise stores, with the aim to minimise the impact of external adverse factors.

Chairman's Statement

Financial Review

While market demand for our headwear products continued to rise strongly during the year, the expanded production capacity of the Group's Bangladesh factory could not fulfill the increasing orders entirely because of the slightly lower production capacity of the Shenzhen factory resulting from reduced workforce, thus our turnover slightly dropped by 5.1% to HK$870,998,000 (2014: HK$917,533,000). Nonetheless overall gross profit rose notably by 6.1% to HK$265,112,000, attributable to the Group's continued implementation of stringent cost reduction measures and the contribution from the Bangladesh factory.

In addition, after the Group improved the production efficiency of its Bangladesh factory in the year, and reduced production costs through effective cost management measures, profit attributable to shareholders of the Company soared to HK$52,554,000 (2014: HK$33,042,000), representing a significant increase of 59.1% over the previous year. Overall gross profit margin rose by 3.2 ppt to 30.4%.

Chairman's Statement

Manufacturing Business

During the year, the Manufacturing Business remained as our main income source, accounting for 65.0% of the Group's total turnover. Despite the global economy remaining weak and the retail sector in many markets being adversely affected, we nonetheless continued to attract more orders with our quality headwear products. However, with the slightly lower production capacity of the Shenzhen office resulting from reduced workforce, the Bangladesh factory's expanded capacity could not yet fully satisfy the strong demand from the rapidly-increasing order volume, so the turnover of the manufacturing business was slightly reduced by 5% to HK$616,305,000 (2014: HK$649,696,000).

During the year, the Bangladesh factory's rapid development is perhaps most evident in its headcount rising from 85 when it opened to around 3,100 now (2014: 2,500 staff). Its monthly production capacity increased to 1.8 million pieces of headwear. As the skill set of local staff advances and they acquired the capability to manufacture mid-range-to-high-end headwear products, accompanied by enhanced production efficiency, the factory has started to generate a profit for the Group last year. Gross profit of this operation has increased by 24% to HK$139,223,000 (2014: HK$111,982,000), and operating profit surged by 66% to HK$65,927,000 (2014: HK$39,784,000). Currently, the Bangladesh factory accounts for around 60% of the Group's total production capacity, making it an engine for profit growth. Hence, the Group is speeding up the development of this factory so it can satisfy the rapidly rising order volume and generate an even bigger revenue and profit contribution. As for the factory in Shenzhen, it still has 1,500 staff and remains as the Group's R&D center. It focuses on producing high-end headwear products and handling orders with a tighter delivery period. These two factories complement each other to maximize economies of scale and facilitate asset optimisation, thus helping the Group to stand out from other industry players.

Trading Business

During the year, our Trading Business developed steadily. Turnover of H3, DPI and SDHC all recorded an increase, leading to a 2% growth in turnover to HK$218,811,000 in this segment (2014: HK$214,620,000). As the Group continued to enrich its product mix and expand its customer base, operating profit of the Trading Business amounted to HK$322,000 (2014: HK$185,000). To improve profitability, the Group has strived to expand the SDHC business by enriching the product mix with accessories, boosting its competitiveness, expanding its customer base and enlarging its market share. Our strong confidence in its brand development and prospects can be proved by our acquisition of a property in San Diego, USA during the period to serve as the headquarters of SDHC. We have also optimised trading strategies and accelerated product development to complement its business growth. The Group expects this segment will soon enter a stage where it can reap a return on its efforts.

Based on the above operating strategies and the synergies generated among our businesses the Group believes that the Trading Business will achieve stable growth in the long term and make a greater revenue contribution.

Chairman's Statement

Retail Business

During the year, the slowdown in China's economic growth has hit the nationwide retail market hard. Although we have made flexible adjustment to retail business' sales strategies, enhanced the business development of franchise stores and strategically decreased the proportion of self-owned stores to lower operating costs, the conservative consumption sentiment in Mainland China has inevitably affected business in this segment. Turnover declined by 14.8% to HK$112,547,000 (2014: HK$132,114,000) and the operating loss was HK$5,280,000 (2014: Operating profit of HK$2,389,000).

Sanrio

Turnover of the Sanrio business was adversely affected by the unstable retail market in Mainland China and amounted to HK$88,267,000 (2014: HK$97,439,000). Despite this, the Group has been actively promoting the business development of Sanrio franchise stores and adopted a prudent strategy on its self-owned stores, enabling it to record an operating profit of HK$69,000 (2014: Operating profit: HK$3,538,000) during the year. Achieving profit despite the challenging market conditions has demonstrated the success of the Group's strategic plans. The Group plans to promote the innovative customer experiential retail stores in the coming year and offer a new shopping experience to customers as well as generating new income sources.

As at 31 December 2015, the Group operated a total of 33 self-owned stores and 115 franchise stores (2014: 31 self-owned stores and 117 franchise stores). It will continue to focus on the development of the franchise stores in the future.

Headwear Sales

Hong Kong's retail market has been weakened since last year, and our headwear sales were inevitably affected with an operating loss of HK$5,349,000 (2014: Operating loss of HK$1,149,000). To further improve headwear sales, the Group is focusing on developing the franchise stores business in the coming year and continuing to expand into second- and third-tier cities in Mainland China, with an aim to improve business performance.

Currently, the Group's headwear sales includes "NOP" and "New Era" self-owned stores in Hong Kong, as well as "NOP" franchise stores in the PRC. As of 31 December 2015, the Group operated a total of 9 "NOP" self-owned stores and 19 franchise stores, and 1 "New Era" retail store (2014: 8 "NOP" self-owned stores and 20 franchise stores, and 1 "New Era" retail store).

Chairman's Statement

Prospects

Under the "One Belt One Road" initiative, Bangladesh has implemented a series of infrastructure construction projects in recent years including the building of highways, railways and deep water docks. The completion of a series of infrastructure projects is set to accelerate economic growth in Bangladesh and as one of the first batch of beneficiaries under the "One Belt One Road" initiative, the Group will also continue to benefit from these policies.

In 2016, the Group will increasingly focus on its Bangladesh factory for production and will continue to expand the production capacity of the factory. It aims to enhance the scale of the sample room from more than 10 staff to 80 staff. The Group also plans to improve product quality and produce mid-range to high end products, as well as boosting production efficiency by 15% to 20% and increasing production capacity to 2 million units each month. These efforts are intended to address the problem of excess demand. Besides, the Group will recruit more local staff and optimise their production skills and efficiency through training. The Shenzhen factory has accumulated extensive experience in product development and production over the years. Thus, the facility there can continue to handle orders with a shorter delivery schedule and more complicated designs, as well as conducting R&D and design work.

As for the Trading Business, the Group is striving to enhance its product mix to meet the demand from different customers and address the fast-changing market trends. Looking ahead, the Group will actively expand the SDHC business. The new headquarter established during the year will help promote the exploration of new markets and lead the way to broaden the Group's marketing network and further increase market penetration as well as supporting overall long-term business growth.

Amidst the major challenge arising from the continuously sluggish retail market, the Group will continue to strengthen its franchise strategy, pursue innovation by opening retail stores as it implements a new business model, and expand to second- and third-tier cities in the PRC. Regarding the Sanrio business, the Group plans to more actively introduce franchise stores offering an innovative customer experience such as café, juice bar, ice cream bar, etc., to broaden its customer base and boost its business performance.

Acknowledgement

With clearly defined and long-term development directions set for different business segments in place, the Group believes this will help drive its sustainable business growth. Looking ahead, the management will continue to strive for better business performance and to deliver greater value 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
23 March 2016

Management Discussion and Analysis

Liquidity and Financial Resources

As at 31 December 2015, the Group had cash and bank balances, short-term deposits and a portfolio of liquid investments totaling Hong Kong dollars ("HK$") HK$179.0 million (2014: HK$126.4 million). About 55% and 19% of these liquid funds were denominated in United States dollars and Renminbi respectively and the remaining were mainly in Hong Kong dollars and Pound Sterling.

As at 31 December 2015, the Group had banking facilities of HK$340.8 million (2014: HK$243.1 million), of which HK$265.0 million (2014: HK$205.2 million) was not utilised.

The gearing ratio (being the Group's borrowings over equity) of the Group was 12.3% (2014: 6.4%). In view of the strong financial and liquidity position, the Group have sufficient financial resources to meet its commitments and working capital requirements.

Capital Expenditure

During the year, the Group spent HK$53.4 million to acquire an industrial building in the United States (the "US") as the office and warehouse for the trading business in the US. The Group spent approximately HK$9.1 million (2014: HK$41.2 million) on additions to plant and equipment to upgrade its manufacturing capability and expansion in the Bangladesh factory. The Group also spent HK$2.4 million (2014: HK$3.4 million) on the retail systems and opening of new retail stores in 2015 and HK$1.9 million (2014: HK$0.7 million) on equipments and systems of trading business.

For the year 2015, the Group budgeted HK$40.4 million for capital expenditure. Under Manufacturing business, HK$20.0 million is for the expansion in the Bangladesh factory and equipment upgrade in the Shenzhen factory. The Group also authorised a capital commitment of HK$18.4 million in respect of acquisition of an office in the United Kingdom and renovation of office and warehouse in the US. In addition, the Group authorised a capital commitment of HK$2.0 million for the opening of new retail outlets.

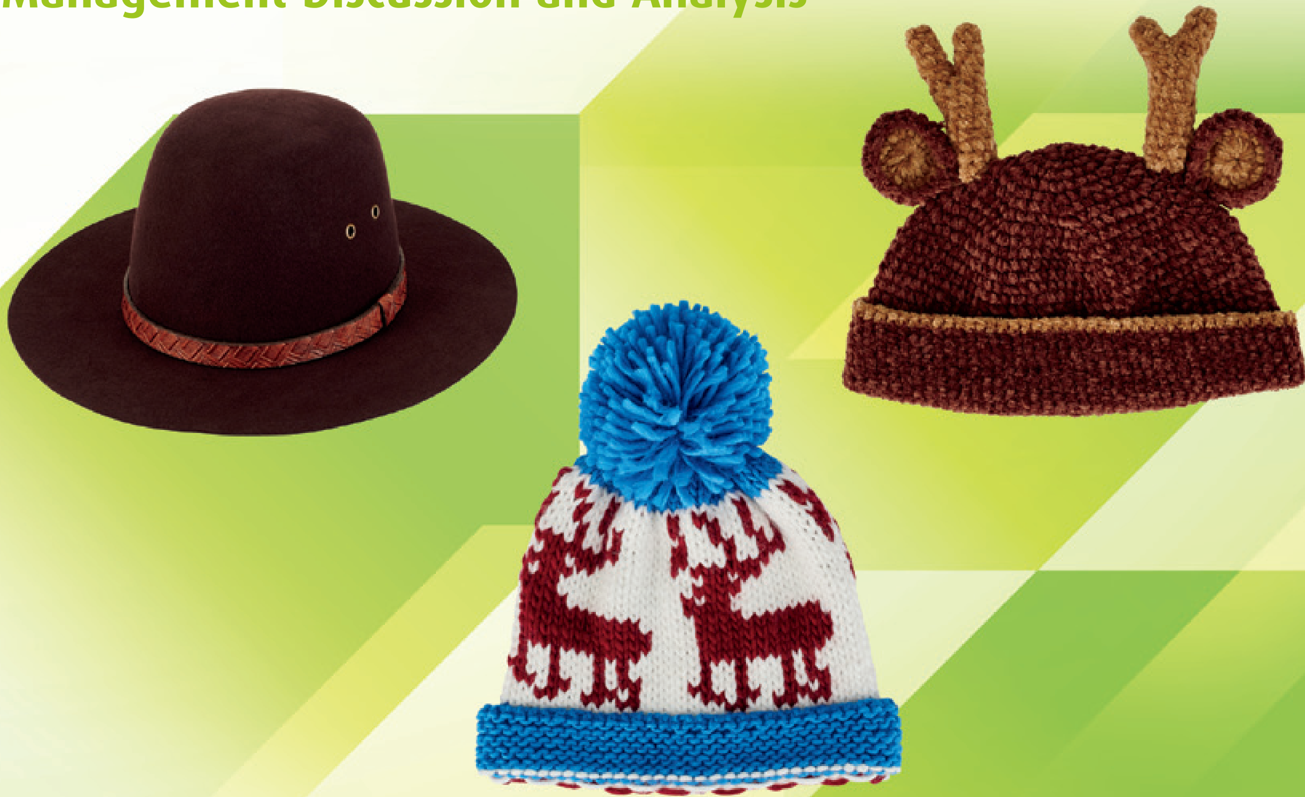
The above capital expenditure is expected to be financed by internal resources of the Group and banking facilities.

Management Discussion and Analysis

Exchange Risk

Most assets and liabilities of the Group are denominated either in Hong Kong dollars, United States 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 0.4%. 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. The Group estimated that any 1% appreciation of the Bangladesh Taka is not expected to have material impact on the gross margin.

Management Discussion and Analysis



Employees and Remuneration Policies

At 31 December 2015, the Group employed 108 (2014: 108) employees in Hong Kong and Macau, 1,686 (2014: 1,829) employees in the PRC and 3,117 (2014: 2,452) employees in Bangladesh and a total of 44 (2014: 45) employees in the US and the United Kingdom. The expenditures for employees during the year were approximately HK$239.2 million (2014: HK$230.0 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 60, 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 about 30 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*, BBS, JP* and the father of Mr. Andrew Ngan and Mr. Ngan Siu Hon Alexander.

Madam Ngan Po Ling, Pauline, *BBS, JP*

aged 56, 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 about 30 years of experience in the headwear industry. Madam Ngan is the wife of Mr. Ngan Hei Keung and the mother of Mr. Andrew Ngan and Mr. Ngan Siu Hon Alexander. 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 45, 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 38, 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 returned 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.

Mr. Ngan Siu Hon Alexander

aged 25, joined the Company in November 2014 and appointed as the Executive Director of the Company in December 2015. He graduated from Purdue University, West Lafayette, Indiana, USA in 2013 with a Bachelor of Science degree in Economics. Prior to joining the Company, Mr. Ngan worked at a well-known investment bank in Hong Kong. He is the son of Mr. Ngan Hei Keung and Madam Ngan Po Ling, Pauline, *BBS, JP*, and the brother of Mr. Andrew Ngan.

Non-Executive Director

Mr. Andrew Ngan

aged 28, 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*, BBS, JP,* and the brother of Mr. Ngan Siu Hon, Alexander.

Independent Non-Executive Directors

Mr. Leung Shu Yin, William

aged 66, 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 on the main board of the Stock Exchange.

Biographical Details of Directors and Senior Management

Mr. Liu Tieh Ching, Brandon, *JP*

aged 70, 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 the Business Forum of China National Committee for Pacific Economic Corporation of Pacific Economic Cooperation Council, the honorary President of Hong Kong Commerce and Industry Associations, the Standing Committee Member of The Chinese General Chamber of Commerce and the Chairman, Energy & Power of Federation of Hong Kong Industries.

Mr. Gordon Ng

aged 51, obtained his Bachelor's degree in Microbiology and Biochemistry and Master's degree in Intellectual Property from University of London. He was qualified as a solicitor in England and Wales in 1993 and Hong Kong in 1994. He has been the Head of Corporate Finance/Capital Market, Asia of the Hong Kong Office of an international law firm since July 2013. Prior to that, he had been a partner of a number of international law firms. Mr. Ng is presently an independent non-executive director of China Energine International (Holdings) Limited which is listed on the main board of the Stock Exchange.

Senior Management

Mr. Lai Man Sing, Thomas

aged 48, 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 55, 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 46, is the Managing Director of San Diego Hat Company. He has more than 20 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 52, 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 47, 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.

Mr. Lau Ka Fai, Edward

aged 49, 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 54, joined the Company in December 2007 and is the Human Resources and Administrative Director. She holds a Master Degree in Business Administration from University of Canberra, Australia. She had worked in two listed apparel companies and international accounting firm for many years.

Corporate Governance Report

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

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 2015 are as follows:

		Shareholders' Meeting	Board Meeting
Number of meetings		1	4
Executive Directors			
Mr. Ngan Hei Keung	*(Chairman)*	1/1	4/4
Madam Ngan Po Ling, Pauline, *BBS, JP*	*(Deputy Chairman and Managing Director)*	1/1	3/4
Mr. James S. Patterson		0/1	1/4
Ms. Maggie Gu	*(Chief Operating Officer)*	1/1	4/4
Mr. Ngan Siu Hon, Alexander	*(appointed on 21 December 2015)*	0/0	0/0
Non-executive Director			
Mr. Andrew Ngan		1/1	3/4
Independent Non-executive Directors			
Mr. Leung Shu Yin, William		1/1	4/4
Mr. Liu Tieh Ching, Brandon, *JP*		0/1	4/4
Mr. Gordon Ng		0/1	3/4

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

Corporate Governance Report

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*, BBS, JP*.

Madam Ngan Po Ling, Pauline*, BBS, JP* 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 five Executive Directors, namely Mr. Ngan Hei Keung, Madam Ngan Po Ling, Pauline*, BBS, JP*, Mr. James S. Patterson, Ms. Maggie Gu and Mr. Ngan Siu Hon, Alexander; one Non-executive Director, Mr. Andrew Ngan, and three Independent Non-executive Directors, namely Mr. Leung Shu Yin, William, Mr. Liu Tieh Ching, Brandon, *JP* and Mr. Gordon Ng. 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. Liu Tieh Ching, Brandon, *JP* have been appointed as independent non-executive directors for more than nine years. The Company has received from Mr. Leung and Mr. Liu confirmations of independence according to Rule 3.13 of the Listing Rules. Mr. Leung and Mr. Liu 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. Liu to be independent under the Listing Rules despite the fact that they have served the Company for more than nine years. The Board believes that Mr. Leung's and Mr. Liu's continued tenure brings considerable stability to the Board and the Board has benefited greatly from the contribution of Mr. Leung and Mr. Liu in relation to their extensive experience in accounting and finance fields, and commercial business field respectively.

Biographies which include relationships of Directors are set out in pages 12 to 15 of the annual report, which demonstrate a diversity of skills, expertise, experience and qualifications among members of the Board.

Corporate Governance Report

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.

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, Mr. Gordon Ng and Mr. Ngan Siu Hon, Alexander (appointed on 21 December 2015). During the year of 2015, two nomination committee meetings were held, which were 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.

Corporate Governance Report

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 2015.

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.

Corporate Governance Report

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. Gordon Ng. The other members were Madam Ngan Po Ling, Pauline*, BBS, JP*, Mr. Leung Shu Yin, William, Mr. Liu Tieh Ching, Brandon, *JP* and Mr. Ngan Siu Hon, Alexander (appointed on 21 December 2015).

The meeting of the Committee is held at least once a year or when necessary. The Remuneration Committee held one meeting in 2015, 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 2015 are set out in note 35 to the financial statements. Details of the share option schemes of the Company are set out in the Report of the Director and note 35 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:

	2015	2014
HK$500,001 – HK$1,000,000	**4**	2
HK$1,000,001 – HK$1,500,000	**–**	–
HK$1,500,001 – HK$2,000,000	**3**	3
HK$2,000,001 – HK$3,000,000	**1**	1
HK$3,000,001 – HK$3,500,000	**–**	–
HK$3,500,001 – HK$4,000,000	**–**	–
HK$4,000,001 – HK$4,500,000	**1**	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 2015, the Directors have made judgements and estimates that are prudent and reasonable and prepared the financial statements on a going concern basis.

Corporate Governance Report

A statement by the auditor about his reporting responsibilities is included in the Independent Auditor's Report on pages 39 to 40 of the annual report for the year ended 31 December 2015.

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 auditor. 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 two meetings in 2015 which were attended by all members of the Committee, except for Mr. Andrew Ngan who attended one meeting in 2015. All meetings have been attended by the external auditor.

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

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

2. Reviewed and recommended to the Board approval of the audit fee proposal for 2015;

3. Considered and recommended to the Board that the shareholders be asked to re-appoint the existing auditor as the Company's external auditor for 2016;

4. Reviewed and approved the Group's internal audit plan for 2016;

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 2014; and

7. Reviewed the Interim Report and the interim results announcement for the six months ended 30 June 2015.

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 auditor as the Company's external auditor for 2016.

The remuneration of the Group's external auditor is HK$2,236,000 for audit fees and HK$593,000 for other non-assurance services.

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 auditor, to discharge its duties.

Corporate Governance Report

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.

Corporate Governance Report

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 2015 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 2016 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 2015.

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 17 to the financial statements.

Segmental Information

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

Results and Appropriations

An interim dividend of 1 HK cent (2014: 1 HK cent) per share, totaling HK$3,986,000 was paid on 9 October 2015. The Directors recommend the payment of a final dividend of 2 HK cents (2014: 2 HK cents) per share in respect of the year ended 31 December 2015. Subject to the approval at the forthcoming annual general meeting, the final dividend will be payable on or after 10 June 2016 to the shareholders whose names appear on the register of members at the close of the business on 19 May 2016.

To determine the identity of members who are entitled to attend and vote at the forthcoming Annual General Meeting which will be held on 10 May 2016, the register of members of the Company will be closed from 6 May 2016 to 10 May 2016 (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 Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on 5 May 2016.

To determine the identity of members who are entitled to the final dividend of the Company for the year ended 31 December 2015, the register of members of the Company will be closed from 17 May 2016 to 19 May 2016 (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 Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on 16 May 2016.

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 112.

Report of the Directors

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	–	34.7%
Five largest customers in aggregate	–	59.9%
The largest supplier	12.3%	–
Five largest suppliers in aggregate	40.2%	–

As at 31 December 2015, 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, none of 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 an interest in these major customers or suppliers.

Property, Plant and Equipment

During the year, the Group spent HK$66,798,000 (2014: HK$45,322,000) on additions to an industrial building in the US, 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 14 to the financial statements.

Share Capital issued in the year

Details of the shares issued in the year ended 31 December 2015 are set out in note 25 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 34 to the financial statements.

As at 31 December 2015, the Company's reserves available for cash distribution amounted to HK$339,973,000 (2014: HK$263,703,000) as computed in accordance with the Companies Act 1981 of Bermuda. In addition, the Company's share premium account of HK$160,230,000 (2014: HK$160,230,000) as at 31 December 2015 may be distributed in the form of fully paid bonus shares.

Equity linked agreements

Share options granted to directors and selected employee

Details of the share options granted in prior years and current year is set out in note 26 of the financial statements and "Share Options" section in this Report of the Directors. For the shares granted during the year ended 31 December 2015, no shares were issued during the year.

Donations

No charitable and other donations made by the Group during the year (2014: Nil).

Directors

The Directors during the year and up to the date of this report were:

Executive directors

Mr. Ngan Hei Keung *(Chairman)*
Madam Ngan Po Ling, Pauline*, BBS, JP (Deputy Chairman and Managing Director)*
Mr. James S. Patterson
Ms. Maggie Gu *(Chief Operating Officer)*
Mr. Ngan Siu Hon, Alexander (appointed on 21 December 2015)

Non-executive director

Mr. Andrew Ngan

Independent non-executive directors

Mr. Leung Shu Yin, William
Mr. Liu Tieh Ching, Brandon, *JP*
Mr. Gordon Ng

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

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

In accordance with the Company's Bye-Law No. 87, Mr. James S. Patterson, Mr. Leung Shu Yin, William, and Mr. Liu Tieh Ching, Brandon, *JP* shall retire by rotation at the forthcoming annual general meeting. Mr. Ngan Siu Hon, Alexander, being Director appointed by the Board after the Company's annual general meeting held on 13 May 2015, will hold office until the forthcoming annual general meeting pursuant to the Company's Bye-Law No. 86(2). All of the retiring Directors, being eligible, offer themselves for re-election.

Directors' Service Contracts

Each of Mr. Ngan Hei Keung, Madam Ngan Po Ling, Pauline, *BBS, JP* 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. Liu Tieh Ching, Brandon, *JP* and Mr. Gordon Ng 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' Material Interests in Transactions, Arrangements and Contracts that are Significant in Relation to the Company's Business

Save as disclosed in note 33 to the financial statements and in the section "Connected Transaction" below, no other transactions, arrangements and contracts of significance to which the Company's subsidiaries or its parent company was a party and in which a Director of the Company and the Director's connected party had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year. The Company has complied with the disclosure requirements set out in Chapter 14A of the Listing Rule.

Connected Transactions

(i) During the year, the Group paid rental totaling HK$1,440,000 and HK$144,000 under operating lease in respect of office premises to a company beneficially owned by Mr. Ngan Hei Keung, and in respect of office premises jointly owned by Mr. Ngan Hei Keung and Madam Ngan Po Ling, Pauline, *BBS, JP* respectively.

Report of the Directors

(ii) On 30 September 2014, the Company renewed 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 five financial years ended 31 December 2019. Under the Contingent Purchase Deed, NEHK is entitled to require Mr. Ngan Hei Keung ("Mr. Ngan") and Madam Ngan Po Ling, Pauline*, BBS, JP*, ("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 10 December 2014, independent shareholders of the Company approved the Manufacturing Agreement and the maximum aggregate annual value of supply transactions for the three years ended 31 December 2017 are HK$538,615,000, HK$562,553,000 and HK$586,492,000 respectively.

During 2015, affiliated companies of NE purchased goods totalling HK$302,947,000 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 an 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.56 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

Report of the Directors

Permitted Indemnity Provision

At no time during the financial year and up to the date of this Report of the Directors, there was or is, any permitted indemnity provision being in force for the benefit of any of the directors of the Company (whether made by the Company or otherwise) or an associated company (if made by the Company).

The Company has taken out and maintained directors' liability insurance throughout the year, which provides appropriate cover for the Directors of the Group.

Directors' and Chief Executives Interests in Shares and Underlying Shares and Debentures of the Company or Any Specified Undertaking of the Company or Any other Associated Corporation

As at 31 December 2015, 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	66.00%
Madam Ngan Po Ling, Pauline, *BBS, JP*	33,550,000 *(note 2)*	183,700,000 *(note 1)*	45,800,000 *(notes 3, 4)*	263,050,000	66.00%
Mr. James S. Patterson	–	–	2,000,000 *(note 5)*	2,000,000	0.50%
Ms. Maggie Gu	–	–	2,000,000 *(note 5, 6)*	2,000,000	0.50%
Mr. Ngan Siu Hon, Alexander	–	–	1,000,000 *(note 6)*	1,000,000	0.25%

Report of the Directors

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*, BBS, JP* as to 40% and 60% respectively.

(2) The 33,550,000 shares are beneficially owned by Madam Ngan Po Ling, Pauline*, BBS, JP* the spouse of Mr. Ngan.

(3) Pursuant to the contingent purchase deed dated 30 September 2014 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.

(6) Ms. Gu and Mr. Ngan have been granted share options under the Company's share option scheme to subscribe for 1,500,000 and 1,000,000 shares of the Company on 15 July 2015 respectively.

Save as disclosed above, none of the Directors or chief executives of the Company (including their spouse and children under 18 years of age) had any interests in the shares or short positions in the shares or underlying shares in, or debentures of, the Company or its specified undertaking 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 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 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.

Report of the Directors

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 23,958,328 shares, which represented 6% of the issued share capital of the Company.

At 31 December 2015, 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$1.42 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:

Report of the Directors

	Date of grant	Period during which options exercisable	Exercise price HK$	Outstanding at 1.1.2015 and 31.12.2015	Number of shares Granted during the year	Reclassification (Note)	Outstanding at 31.12.2015	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
	15.07.2015	15.07.2016 – 14.07.2025	1.12	–	1,500,000	1,000,000	2,500,000	1.12
				8,500,000	1,500,000	1,000,000	11,000,000	
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	4,000,000	–	–	4,000,000	0.80
	15.07.2015	15.07.2016 – 14.07.2025	1.12	–	10,400,000	(1,000,000)	9,400,000	1.12
				12,170,000	10,400,000	(1,000,000)	21,570,000	

Note: Mr. Ngan Siu Hon, Alexander has been granted share options under the Company's share options scheme to subscribe for 1,000,000 shares of the Company in July 2015. Mr. Ngan was appointed as Director of the Company in December 2015.

Apart from the foregoing, at no time during the year was the Company, its subsidiaries, its parent company or its associated corporations a party to any arrangement to enable the Directors and chief executives of the Company (including their spouses or children under eighteen years of age) to hold any interests or short positions in the shares or underlying shares in, or debentures, of the Company or its specified undertakings or other associated corporation.

Report of the Directors

Substantial shareholders' interests and/or short positions in the shares, underlying shares of the Company

So far as is known to the Directors or chief executives of the Company, as at 31 December 2015, 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%
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*, BBS, JP* as to 40% and 60% respectively. The interests of Mr. Ngan Hei Keung and Madam Ngan Po Ling, Pauline*, BBS, JP* in Successful Years International Co., Ltd. are also disclosed in the section headed "Directors' and Chief Executives Interests in Shares and Underlying Shares and Debentures of the Company or Any Specified Undertaking of the Company or Any other Associated Corporation" 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%
NEHK	39,800,000 *(note)*	9.99%

Report of the Directors

Note:

Pursuant to the contingent purchase deed renewed on 30 September 2014 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 2015, 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.

Pre-Emptive Rights

There are no provisions for pre-emptive rights under the Company's bye-laws and there was no restriction against such rights under 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 2015, the Company has not redeemed any of its shares. 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 of at least 25% of the Company's issued shares as at 23 March 2016, being the date of this report.

Report of the Directors

Auditors

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

On behalf of the Board

Ngan Hei Keung
Chairman

Hong Kong, 23 March 2016

Independent Auditor's Report

pwc

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 set out on pages 41 to 111, which comprise the consolidated balance sheet as at 31 December 2015, 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.

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Independent Auditor's Report

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

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Company and its subsidiaries as at 31 December 2015, and of their financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 23 March 2016

Consolidated Income Statement

For the year ended 31 December 2015

	Note	2015 HK$'000	2014 HK$'000
Revenue	5	**870,998**	917,533
Cost of sales	8	**(605,886)**	(667,780)
Gross profit		**265,112**	249,753
Other income	6	**12,184**	9,010
Other losses – net	7	**(1,240)**	(578)
Selling and distribution costs	8	**(85,947)**	(95,216)
Administration expenses	8	**(134,202)**	(127,720)
Profit from operations		**55,907**	35,249
Finance income	9	**1,413**	1,959
Finance costs	9	**(1,270)**	(1,256)
Profit before income tax		**56,050**	35,952
Income tax expense	11	**(4,674)**	(5,532)
Profit for the year		**51,376**	30,420
Attributable to:			
Owners of the Company		**52,554**	33,042
Non-controlling interests		**(1,178)**	(2,622)
		51,376	30,420
Earnings per share attributable to owners of the Company	12		
Basic		**13.2 HK cents per share**	8.3 HK cents per share
Diluted		**13.0 HK cents per share**	8.3 HK cents per share

The notes on pages 48 to 111 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2015

	2015 HK$'000	2014 HK$'000
Profit for the year	**51,376**	30,420
Other comprehensive income		
– Item that may be reclassified to profit or loss:		
Exchange differences on translation of financial statements of foreign operations	**(2,798)**	(5,914)
– Items that will not be reclassified to profit or loss:		
Revaluation surplus upon transfer of land use rights and buildings to investment properties	**–**	10,723
Deferred tax arising from revaluation surplus upon transfer of land use rights and buildings to investment properties	**–**	(2,681)
Total comprehensive income for the year, net of tax	**48,578**	32,548
Attributable to:		
Owners of the Company	**49,996**	35,167
Non-controlling interests	**(1,418)**	(2,619)
Total comprehensive income for the year	**48,578**	32,548

The notes on pages 48 to 111 are an integral part of these consolidated financial statements.

Consolidated Balance Sheet

As at 31 December 2015

	Note	2015 HK$'000	2014 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment	14	**171,359**	129,785
Investment properties	15	**38,522**	38,764
Goodwill	18	**33,798**	33,798
Other intangible assets	19	**16,834**	21,593
Available-for-sale financial asset		**–**	218
Deferred income tax assets	20	**2,323**	3,385
Other non-current receivables	22	**6,550**	14,654
		269,386	242,197
Current assets			
Inventories	21	**166,830**	201,453
Trade and other receivables	22	**163,625**	176,705
Financial assets at fair value through profit or loss	23	**1,314**	2,563
Pledged bank deposits	24	**–**	1,750
Short-term bank deposits	24	**3,175**	–
Cash and cash equivalents	24	**174,510**	123,862
		509,454	506,333
Total assets		**778,840**	748,530
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company			
Share capital	25	**39,858**	39,858
Other reserves		**228,069**	230,458
Retained earnings		**288,204**	247,608
		556,131	517,924
Non-controlling interests		**(5,421)**	(4,003)
Total equity		**550,710**	513,921
LIABILITIES			
Non-current liabilities			
Other non-current payables	27	**1,075**	1,112
Long service payment payable		**457**	457
Deferred income tax liabilities	20	**3,059**	2,681
		4,591	4,250

Consolidated Balance Sheet

As at 31 December 2015

	Note	2015 HK$'000	2014 HK$'000
Current liabilities			
Trade and other payables	27	**132,779**	168,712
Amounts due to related parties	28	**1,003**	943
Current income tax liabilities		**22,161**	27,814
Borrowings	29	**67,596**	32,890
		223,539	230,359
Total liabilities		**228,130**	234,609
Total equity and liabilities		**778,840**	748,530
Net current assets		**285,915**	275,974
Total assets less current liabilities		**555,301**	518,171

The financial statements on pages 41 to 111 were approved by the Board of Directors on 23 March 2016 and were signed on its behalf.

Ngan Hei Keung
Director

Ngan Po Ling, Pauline, *BBS, JP*
Director

The notes on pages 48 to 111 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2015

	Attributable to owners of the Company									
	Share capital HK$'000	Share premium HK$'000	Capital reserve HK$'000	Share based compensation reserve HK$'000	Revaluation 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 2014	39,858	160,230	25,878	6,486	–	35,703	222,538	490,693	(734)	489,959
Profit for the year	–	–	–	–	–	–	33,042	33,042	(2,622)	30,420
Other comprehensive income:										
– Exchange differences on translation of financial statements of foreign operations	–	–	–	–	–	(5,917)	–	(5,917)	3	(5,914)
– Revaluation surplus upon transfer of land use rights and buildings to investment properties	–	–	–	–	10,723	–	–	10,723	–	10,723
– Deferred tax arising from revaluation surplus upon transfer of land use rights and building to investment properties	–	–	–	–	(2,681)	–	–	(2,681)	–	(2,681)
Total comprehensive income for the year net of tax	–	–	–	–	8,042	(5,917)	33,042	35,167	(2,619)	32,548
Dividend paid by a subsidiary	–	–	–	–	–	–	–	–	(650)	(650)
2013 final dividend paid	–	–	–	–	–	–	(3,986)	(3,986)	–	(3,986)
2014 interim dividend paid	–	–	–	–	–	–	(3,986)	(3,986)	–	(3,986)
Equity settled share-based transactions	–	–	–	36	–	–	–	36	–	36
Total contribution by and distribution to owners of the Company	–	–	–	36	–	–	(7,972)	(7,936)	(650)	(8,586)
Balance at 31 December 2014	39,858	160,230	25,878	6,522	8,042	29,786	247,608	517,924	(4,003)	513,921
Representing:										
2014 proposed final dividend							7,972			
Other retained earnings							239,636			
							247,608			

The notes on pages 48 to 111 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2015

	Attributable to owners of the Company									
	Share capital HK$'000	Share premium HK$'000	Capital reserve HK$'000	Share based compensation reserve HK$'000	Revaluation 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 2015	39,858	160,230	25,878	6,522	8,042	29,786	247,608	517,924	(4,003)	513,921
Profit for the year	–	–	–	–	–	–	52,554	52,554	(1,178)	51,376
Other comprehensive income:										
– Exchange differences on translation of financial statements of foreign operations	–	–	–	–	–	(2,558)	–	(2,558)	(240)	(2,798)
Total comprehensive income for the year net of tax	–	–	–	–	–	(2,558)	52,554	49,996	(1,418)	48,578
2014 final dividend paid	–	–	–	–	–	–	(7,972)	(7,972)	–	(7,972)
2015 interim dividend paid	–	–	–	–	–	–	(3,986)	(3,986)	–	(3,986)
Equity settled share-based transactions	–	–	–	169	–	–	–	169	–	169
Total contribution by and distribution to owners of the Company	–	–	–	169	–	–	(11,958)	(11,789)	–	(11,789)
Balance at 31 December 2015	39,858	160,230	25,878	6,691	8,042	27,228	288,204	556,131	(5,421)	550,710
Representing:										
2015 proposed final dividend							7,972			
Other retained earnings							280,232			
							288,204			

The capital reserve 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 2015

	Note	2015 HK$'000	2014 HK$'000
Cash flows from operating activities			
Cash generated from operations	30	**102,444**	32,894
Income tax paid		**(4,029)**	(3,568)
Income tax refund		**–**	226
Interest paid		**(1,270)**	(1,256)
Net cash generated from operating activities		**97,145**	28,296
Cash flows from investing activities			
Interest received		**1,413**	1,959
Proceeds from disposals of subsidiaries		**150**	–
Proceeds from disposals of property, plant and equipment		**246**	–
Purchases of property, plant and equipment		**(66,798)**	(45,322)
Net cash used in investing activities		**(64,989)**	(43,363)
Cash flows from financing activities			
Dividend paid to non-controlling interests		**–**	(650)
Dividends paid		**(11,958)**	(7,972)
Repayment of bank borrowings		**(25,750)**	(20,780)
Proceeds from bank borrowings		**60,456**	26,670
Short-term deposits		**(3,175)**	–
Net cash generated from/(used in) financing activities		**19,573**	(2,732)
Net increase/(decrease) in cash and cash equivalents		**51,729**	(17,799)
Cash and cash equivalents at beginning of year		**123,862**	146,209
Effect of foreign exchange rate changes		**(1,081)**	(4,548)
Cash and cash equivalents at end of year	24	**174,510**	123,862

The notes on pages 48 to 111 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

1. GENERAL INFORMATION

Mainland Headwear Holdings Limited ("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 17 to the financial statements.

These financial statements are presented in Hong Kong dollars ("HK$"), unless otherwise stated.

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 and its subsidiaries (together "the Group") have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRS"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss and investment properties which are carried at fair values.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

Changes in accounting policy and disclosures

(i) New and amended standards adopted by the Group

The following amendments to standards are mandatory for accounting periods beginning on or after 1 January 2015. The adoption of these amendments to standards does not have any significant impact to the results and financial position of the Group.

HKAS 19 (2011) (Amendment)	Defined benefit plans: employee contributions
Annual improvements project	Annual improvements 2010-2012 cycle
Annual improvements project	Annual improvements 2011-2013 cycle

The adoption of the improvements made in the 2010-2012 Cycle has required additional disclosures in the segment note. Other than that, the remaining amendments are not material to the Group.

(ii) New Hong Kong Companies Ordinance (Cap.622)

In addition, the requirements of Part 9 Accounts and Audit of the new Hong Kong Companies Ordinance (Cap. 622) come into operation during the financial year, as a result, there are changes to presentation and disclosures of certain information in the consolidated financial statements.

(iii) New and amended standards have been issued but are not effective for the financial year beginning 1 January 2015 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 2015 and have not been early adopted by the Group:

HKAS 1 (Amendment)	Disclosure initiative[1]
HKAS 16 and 38 (Amendments)	Clarification of acceptance methods of depreciation and amortisation[1]
HKAS 16 and HKAS 41 (Amendments)	Agriculture: bearer plants[1]
HKAS 27 (Amendment)	Equity method in separate financial statements[1]
HKFRS 9	Financial instruments[2]
HKFRS 10, HKFRS 12 and HKAS 28 (Amendments)	Investment entities: applying the consolidation exception[1]
HKFRS 11 (Amendments)	Accounting for acquisitions of interests in joint operations[1]
HKFRS 14	Regulatory deferred accounts[1]
HKFRS 15	Revenue from contracts with customers[2]
Annual improvements project	Annual improvements 2012 – 2014 cycle[1]

(1) Effective for annual periods beginning on or after 1 January 2016
(2) Effective for annual periods beginning on or after 1 January 2018

There are no other HKFRS or HK(IFRIC) interpretations that are not yet effective that would be expected to have a material impact on 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.

(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. Non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or the present ownership interests' proportionate share in the recognised amounts of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by HKFRS.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in 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. 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 consolidated income statement.

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

(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 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 Hong Kong dollars, which is the Company's functional and the Group's presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges.

Foreign exchange gains and losses are presented in the consolidated income statement within 'other losses – net'.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available-for-sale, are included in other comprehensive income.

(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. Currency translation 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 currency translation differences accumulated in equity in respect of that operation attributable to the owners 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

(f) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the consolidated income statement during the financial period in which they are incurred.

Freehold land with indefinite useful life is not amortised.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate cost to their residual values over their estimated useful lives, as follows:

Buildings	5% to 10%
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)).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'other losses – net' in the consolidated income statement.

(g) Investment properties

Investment properties, principally comprising land and buildings, are 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 values, 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 consolidated income statement as part of a valuation gain or loss in 'other losses – 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 consolidated income statement.

(i) Intangible assets

(i) Goodwill

Goodwill arises on the acquisition of subsidiaries and represents 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 identified net assets acquired.

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 the CGU containing the 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 values at the acquisition date. The contractual customer relations have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated on straight-line basis over their estimated useful life (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 values at the acquisition date. Trademarks and licensing rights have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated on a straight line basis over their estimated useful life (2-10 years).

(j) Financial assets and liabilities

(i) ***Classification***

The Group classifies its financial assets and liabilities in the following categories: at fair value through profit or loss, loans and receivables and financial liabilities at amortised cost. The classification depends on the purpose for which the financial assets and liabilities were acquired. Management determines the classification of its financial assets and liabilities 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', 'pledged bank deposits', 'short-term deposits' and 'cash and cash equivalents' in the consolidated balance sheet.

(c) Other financial liabilities at amortised cost

Other financial liabilities at amortised cost are initially measured at fair value and subsequently measured at amortised cost, using the effective interest method. The Group's other financial liabilities at amortised cost comprise 'trade and other payables', 'amounts due to related parties' and 'borrowings' the consolidated balance sheet.

(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 values 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 consolidated 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. Financial assets at fair value through profit or loss are subsequently carried at cost and fair value respectively. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

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

(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. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Group or the counterparty.

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For the year ended 31 December 2015

(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.

A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments are considered indicators that the receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognised in the consolidated income statement within administrative expenses. When a receivable is uncollectible, it is written off against the allowance account for receivables. Subsequent recoveries of amounts previously written off are credited against administrative expenses in the consolidated income statement.

(m) Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand, deposits held at call with banks and short-term highly liquid investments with original maturities of three months or less.

(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.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

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

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

(ii) Impairment of non-financial assets

Assets that have an indefinite useful life or intangible assets not ready to use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation 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 (CGUs). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

(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.

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 consolidated 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.

(i) Current income tax

The current income tax is calculated on the basis of the tax law enacted or substantively enacted at 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.

(ii) Deferred income tax

Inside basis differences

Deferred income tax is recognised, using the liability method, on 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 is determined using the tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. 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.

Outside basis differences

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 are recognised on deductible temporary differences arising from investments in subsidiaries only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

(iii) Offsetting

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 or hold shares for a specified period of time).

At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-marketing performance and service conditions. It recognises the impact of the revision to original estimates, if any, in the consolidated 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 and share premium.

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 is measured at 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

(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) Services fees

Income from consultancy services are recognised in the consolidated income statement on a straight-line basis over the term of contract.

(iv) Rental income

Rental income from investment property is recognised in the consolidated income statement on a straight-line basis over the term of the lease.

(v) Interest income

Interest income is recognised using the effective interest method.

(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 consolidated 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

3. FINANCIAL RISK MANAGEMENT

(a) Categories of financial instruments

	2015 HK$'000	2014 HK$'000
Financial assets		
Loans and receivables:		
– Trade and other receivables	**173,489**	170,166
– Pledged bank deposits	**–**	1,750
– Short-term bank deposits	**3,175**	–
– Cash and cash equivalents	**174,510**	123,862
	351,174	295,778
Financial assets at fair value through profit or loss	**1,314**	2,563
Available-for-sale financial asset	**–**	218
	352,488	298,559
Financial liabilities		
Amortised cost:		
– Trade and other payables	**84,196**	120,601
– Amounts due to related companies	**1,003**	943
– Borrowings	**67,596**	32,890
	152,795	154,434

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

(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 objectives focus on the unpredictability of financial markets and seek to minimise potential adverse effects on the Group's financial performance.

In light of the simplicity of the structure, 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 ("US$"), Renminbi ("RMB") and Bangladesh Taka.

The Group does not hedge its foreign currency risks with United States dollars as Hong Kong dollars is pegged to the United States dollars.

At 31 December 2015, if RMB had weakened/strengthened by 5% against the HK$ with all other variables held constant, post-tax profit for the year would have been approximately HK$10,600,000 (2014: HK$11,100,000) lower/higher, mainly as a result of the foreign exchange difference on translation of RMB denominated current account with group companies.

(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 2015, it is estimated that a general increase/decrease of 50 basis points (2014: 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$460,000 (2014: HK$382,000). 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/lower, with all other variables held constants, the Group's post-tax profit for the year would increase/decrease by approximately HK$110,000 (2014: HK$214,000). A 10% change is used when reporting the price risk internally to the management.

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

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 46% (2014: 47%) and 64% (2014: 65%) 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 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. Balances due within 12 months equal their carrying values as the impact of discounting is not significant.

31 December 2015

	Within one year HK$'000	**In the second to fifth years inclusive HK$'000**
Trade and other payables	83,121	1,075
Bank borrowings	69,855	–
Amounts due to related companies	1,003	–
Total	153,979	1,075

Specifically, for term loans which contain a repayment on demand clause which can be exercised at the bank's sole discretion, the analysis shows the cash outflow based on the earliest period in which the entity can be required to pay, that is if the lenders were to invoke their unconditional rights to call the loans with immediate effect. The maturity analysis for other bank borrowings is prepared based on the scheduled repayment dates.

The table that follows summaries the maturity analysis of term loans with a repayment on demand clause based on agreed scheduled repayments set out in the loan agreements. The amounts include interest payments computed using contractual rates. As a result, these amounts were greater than the amounts disclosed in the "on demand" time band in the maturity analysis above. Taking into account the Group's financial position, the directors do not consider that it is probable that the bank will exercise its discretion to immediate repayment. The directors believe that such term loans will be repaid in accordance with the scheduled repayment dates set out in the loan agreements.

	Due on demand or within 1 year HK$'000	**More than 1 year but less than 2 years HK$'000**	**More than 2 year but less than 5 years HK$'000**	**More than 5 years HK$'000**
31 December 2015	**5,000**	**30,342**	**30,114**	**–**
31 December 2014	4,000	10,000	–	–

31 December 2014

	Within one year HK$'000	**In the second to fifth years inclusive HK$'000**
Trade and other payables	119,489	1,112
Bank borrowings	33,409	–
Amounts due to related companies	943	–
Total	153,841	1,112

(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 monitors capital on the basis of the gearing ratio and the Group will have sufficient financial resources and banking facilities to meet its commitments and working capital requirements. The Group's gearing ratio (being the Group's net borrowings over total equity) is as follows.

	2015	2014
	HK$'000	HK$'000
Borrowings	**67,596**	32,890
Equity	**550,710**	513,921
Gearing ratio (%)	**12.3**	6.4

(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 2014 and 2015 because of the immediate or short term maturities of these financial assets and liabilities.

The following table presents financial assets and liabilities measured at fair values in the consolidated 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 (i.e. observable inputs).

	2015			
	Level 1	**Level 2**	**Level 3**	**Total**
	HK$'000	**HK$'000**	**HK$'000**	**HK$'000**
Assets				
Financial assets at fair value through profit or loss	**1,314**	**–**	**–**	**1,314**
Total financial assets	**1,314**	**–**	**–**	**1,314**

	2014			
	Level 1	Level 2	Level 3	Total
	HK$'000	HK$'000	HK$'000	HK$'000
Assets				
Financial assets at fair value through profit or loss	2,563	–	–	2,563
Total financial assets	2,563	–	–	2,563

There were no transfers between levels 1 and 2 or into or out of level 3 during the year.

There were no other changes in valuation techniques 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.

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For the year ended 31 December 2015

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 CGUs 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. 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.

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 principal manufacturing facilities are located in Shenzhen, the People’s Republic of China (“PRC”) and Bangladesh. Customers are mainly located in the United States of America (“USA”).

(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 United States (“US”) market.

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

Segment assets exclude investment properties, available-for-sale financial asset, deferred income tax assets, financial assets at fair value through profit or loss, pledged bank deposits, short-term bank deposits 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, bank borrowings and corporate liabilities which are not directly attributable to the business activities of any operating segment.

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	Manufacturing		Trading		Retail		Total	
	2015 HK$'000	2014 HK$'000	**2015 HK$'000**	2014 HK$'000	**2015 HK$'000**	2014 HK$'000	**2015 HK$'000**	2014 HK$'000
Revenue from external customers	**539,834**	571,276	**218,617**	214,143	**112,547**	132,114	**870,998**	917,533
Inter-segment revenue	**76,471**	78,420	**194**	477	**–**	–	**76,665**	78,897
Reportable segment revenue	**616,305**	649,696	**218,811**	214,620	**112,547**	132,114	**947,663**	996,430
Reportable segment profit/(loss)	**65,927**	39,784	**322**	185	**(5,280)**	2,389	**60,969**	42,358
Financial assets at fair value through profit or loss and derivative financial instruments – fair value loss							**(751)**	(136)
Gain on disposal of a financial asset at fair value through profit or loss							**210**	–
Gain on settlement of derivative financial instruments							**–**	42
Unallocated corporate income							**6,765**	5,593
Unallocated corporate expenses							**(11,286)**	(12,608)
Profit from operations							**55,907**	35,249
Finance income							**1,413**	1,959
Finance costs							**(1,270)**	(1,256)
Income tax expense							**(4,674)**	(5,532)
Profit for the year							**51,376**	30,420
Depreciation of property, plant and equipment and amortisation of land use rights	**18,136**	19,765	**1,021**	982	**3,462**	4,587	**22,619**	25,334
Amortisation of other intangible assets	**–**	–	**6,685**	8,531	**–**	–	**6,685**	8,531
Reportable segment assets	**317,910**	369,153	**185,859**	136,276	**55,227**	72,360	**558,996**	577,789
Investment properties							**38,522**	38,764
Available-for-sale financial asset							**–**	218
Deferred income tax assets							**2,323**	3,385
Financial assets at fair value through profit or loss							**1,314**	2,563
Pledged bank deposits							**–**	1,750
Short-term deposits							**3,175**	–
Cash and cash equivalents							**174,510**	123,862
Other corporate assets							**–**	199
Total assets							**778,840**	748,530
Reportable segment liabilities	**91,479**	109,463	**14,542**	21,231	**26,359**	36,384	**132,380**	167,078
Deferred income tax liabilities							**3,059**	2,681
Current income tax liabilities							**22,161**	27,814
Bank borrowings							**67,596**	32,890
Other corporate liabilities							**2,934**	4,146
Total liabilities							**228,130**	234,609
Capital expenditure incurred during the year	**9,143**	41,256	**55,252**	686	**2,403**	3,380	**66,798**	45,322

(i) Revenue from external customers

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

	2015 HK$'000	2014 HK$'000
USA	**534,487**	537,957
Europe	**147,606**	167,192
PRC	**88,541**	116,125
Hong Kong	**36,768**	29,888
Others	**63,596**	66,371
Total	**870,998**	917,533

During 2015, revenue derived from the Group's largest customer (who are affiliated companies of a shareholder) amounted to HK$302,947,000 or 34.8% of the Group's revenue (2014: HK$295,072,000 or 32.2%). This revenue was attributable to the Manufacturing Business.

(ii) Non-current assets

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

	2015 HK$'000	2014 HK$'000
USA	**104,024**	49,765
Bangladesh	**71,692**	72,291
PRC	**64,893**	76,348
Hong Kong	**9,543**	18,706
Europe	**77**	109
	250,229	217,219
Other intangible assets	**16,834**	21,593
Deferred income tax assets	**2,323**	3,385
	269,386	242,197

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6. OTHER INCOME

	2015 HK$'000	2014 HK$'000
Rental and service fee income	**6,679**	5,593
Freight income	**1,346**	1,533
Royalty income	**855**	900
Sundry income	**3,304**	984
	12,184	9,010

7. OTHER LOSSES – NET

	2015 HK$'000	2014 HK$'000
Financial assets at fair value through profit or loss and derivative financial instruments – fair value loss	**(751)**	(136)
Gain on disposal of a financial asset at fair value through profit or loss	**210**	–
Gain on settlement of derivative financial instruments	**–**	42
Net foreign exchange loss	**(1,829)**	(359)
Revaluation gains on investment properties *(note 15)*	**911**	–
Gain on disposals of property, plant and equipment	**220**	(125)
Loss on disposals of subsidiaries *(note 30)*	**(1)**	–
	(1,240)	(578)

8. EXPENSES BY NATURE

	2015 HK$'000	2014 HK$'000
Employee benefit expense *(note 10)*	**239,246**	229,962
Cost of inventories	**380,299**	425,549
Auditors' remuneration		
– Audit services	**3,196**	3,035
– Non-audit services	**593**	–
License fees	**1,904**	3,307
Depreciation of property, plant and equipment *(note 14)*	**22,619**	25,303
Amortisation on land use rights *(note 16)*	**–**	31
Amortisation of other intangible assets *(note 19)*	**6,685**	8,531
Operating lease charges in respect of office premises, shops, factories and warehouses	**42,670**	43,556
Net provision for impairment of trade and other receivables *(note 22)*	**35**	203
Net provision for slow-moving and obsolete inventories *(note 21)*	**7,965**	350
Claims expense	**5,551**	14,919
Delivery expenses	**21,787**	24,784
Others	**93,485**	111,186
Total cost of sales, selling and distribution costs, and administration expenses	**826,035**	890,716

9. FINANCIAL INCOME – NET

	2015 HK$'000	2014 HK$'000
Interest on bank loans, overdrafts and other borrowings	**(982)**	(670)
Interest on amounts due to a related company	**(25)**	(25)
Interest accretion on license fee payables	**(263)**	(561)
Interest costs	**(1,270)**	(1,256)
Interest income	**1,413**	1,959
Net finance income	**143**	703

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10. EMPLOYEE BENEFIT EXPENSE

	2015	2014
	HK$'000	HK$'000
Employee remuneration (including directors' emoluments and retirement benefit costs)		
– Salaries and allowances	**232,236**	224,677
– Contribution to retirement scheme	**6,841**	5,249
– Share-based payments expenses	**169**	36
	239,246	229,962

(a) Five highest paid individuals

The five highest paid individuals included three (2014: two) directors whose emoluments are reflected in the analysis shown in note 36. The details of the emoluments of the remaining two (2014: three) highest paid individuals are as follows:

	2015	2014
	HK$'000	HK$'000
Basic salaries, housing allowances, other allowances and benefits in kind	**3,436**	7,477
Discretionary bonuses	**3,084**	490
Contributions to retirement scheme	**18**	17
	6,538	7,984

The emoluments of these two (2014: three) employees are within the following bands:

	2015	2014
Nil – HK$1,000,000	**–**	–
HK$1,000,001 – HK$1,500,000	**–**	–
HK$1,500,001 – HK$2,000,000	**–**	1
HK$2,000,001 – HK$2,500,000	**1**	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	**–**	–
HK$4,000,001 – HK$4,500,000	**1**	1

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11. INCOME TAX EXPENSE

	2015 HK$'000	2014 HK$'000
Hong Kong profits tax		
– Current year	**1,301**	2,614
– Over-provision in prior years	**(874)**	(998)
	427	1,616
Overseas tax		
– Current year	**5,775**	6,695
– Over-provision in prior years	**(3,096)**	(2,417)
	3,106	5,894
Deferred income tax *(note 20)*	**1,568**	(362)
	4,674	5,532

Hong Kong profits tax has been provided at the rate of 16.5% (2014: 16.5%) on the estimated assessable profits for the year.

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.

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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:

	2015 HK$'000	2014 HK$'000
Profit before income tax	**56,050**	35,952
Calculated at a taxation rate of 16.5% (2014: 16.5%)	**9,248**	5,932
Effect of different taxation rates in other countries	**(2,338)**	745
Expenses not deductible for tax purposes	**5,381**	3,833
Income not subject to tax	**(5,257)**	(5,440)
Tax losses for which no deferred income tax assets was recognised	**1,996**	5,038
Recognition of previously unrecognised tax losses	**–**	(974)
Net over-provision in prior years	**(3,970)**	(3,415)
Temporary differences for which no deferred income tax asset was recognised	**(643)**	(346)
Others	**257**	159
Income tax expense	**4,674**	5,532

12. 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.

	2015	2014
Profit attributable to owners of the Company (HK$'000)	**52,554**	33,042
Weighted average number of ordinary shares in issue	**398,583,284**	398,583,284
Basic earnings per share (HK cent)	**13.2 per share**	8.3 per share

(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.

	2015	2014
Profit attributable to owners of the Company (HK$'000)	**52,554**	33,042
Weighted average number of ordinary shares in issue	**398,583,284**	398,583,284
Adjustment for share options	**4,219,732**	244,417
Weighted average number of ordinary shares for diluted earnings per share	**402,803,016**	398,827,701
Diluted earnings per share (HK cent)	**13.0 per share**	8.3 per share

13. DIVIDENDS

A final dividend in respect of the year ended 31 December 2015 of 2 HK cents per share, amounting to a total dividend of HK$7,972,000, 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 2015 was based on 398,583,284 (2014: 398,583,284) shares in issue as at 31 December 2015.

	2015 HK$'000	2014 HK$'000
Interim dividend of 1 HK cent (2014: 1 HK cent) per share	**3,986**	3,986
Proposed final dividend of 2 HK cents (2014: 2 HK cents) per share	**7,972**	7,972
	11,958	11,958

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14. PROPERTY, PLANT AND EQUIPMENT

	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 2014							
Opening net book amount	20,290	36,808	7,930	7,491	50,970	2,551	126,040
Transfer to investment properties	–	(15,120)	–	–	–	–	(15,120)
Transfer upon completion	(18,774)	18,774	–	–	–	–	–
Additions	–	5,563	12,278	3,145	24,260	76	45,322
Disposals	–	–	(96)	–	–	(29)	(125)
Depreciation	–	(1,900)	(3,513)	(5,112)	(14,048)	(730)	(25,303)
Exchange differences	–	–	(27)	(78)	(919)	(5)	(1,029)
Closing net book amount	1,516	44,125	16,572	5,446	60,263	1,863	129,785
At 31 December 2014							
Cost	1,516	47,582	59,149	42,677	235,222	13,028	399,174
Accumulated depreciation and impairment	–	(3,457)	(42,577)	(37,231)	(174,959)	(11,165)	(269,389)
Net book amount	1,516	44,125	16,572	5,446	60,263	1,863	129,785
Year ended 31 December 2015							
Opening net book amount	1,516	44,125	16,572	5,446	60,263	1,863	129,785
Transfers upon completion	(1,516)	1,516	–	–	–	–	–
Additions	–	54,153	4,673	1,577	5,373	1,022	66,798
Disposals	–	–	–	–	–	(26)	(26)
Depreciation	–	(3,311)	(4,256)	(3,340)	(11,036)	(676)	(22,619)
Exchange differences	–	–	(72)	(135)	(2,364)	(8)	(2,579)
Closing net book amount	–	96,483	16,917	3,548	52,236	2,175	171,359
At 31 December 2015							
Cost	–	103,251	62,969	42,527	235,462	12,895	457,104
Accumulated depreciation and impairment	–	(6,768)	(46,052)	(38,979)	(183,226)	(10,720)	(285,745)
Net book amount	–	96,483	16,917	3,548	52,236	2,175	171,359

Depreciation expense of HK$14,636,000 (2014: HK$17,309,000) has been charged in cost of sales, HK$3,009,000 (2014: HK$4,165,000) in selling and distribution costs and HK$4,974,000 (2014: HK$3,829,000) in administration expenses.

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

15. INVESTMENT PROPERTIES

	2015 HK$'000	2014 HK$'000
At fair value		
Opening balance at 1 January	**38,764**	12,889
Transfer from property, plant and equipment and land use rights	**–**	15,435
Revaluation surplus upon transfer of buildings and land use rights to investment properties	**–**	10,723
Revaluation gains	**911**	–
Exchange differences	**(1,153)**	(283)
Closing balance at 31 December	**38,522**	38,764

The valuation of the investment properties is based on the valuation carried out by independent professionally qualified valuer, Stirling Appraisals Limited, who holds a recognised relevant professional qualification and has recent experience in the locations and segments of the investment properties valued. The revaluation gains are included in 'other losses – net' in the consolidated income statement. The following table analyses the investment properties carried at fair value, by level of inputs to valuation techniques used to measure fair value. Such inputs are categorised into three levels within a fair value hierarchy as follows:

- Quoted prices (unadjusted) in active markets for identical assets (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset that are not based on observable market data (that is, unobservable inputs) (level 3).

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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 among levels 1, 2 and 3 during the year (2014: same).

	Fair value measurements at 31st December 2015 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$'000**	**Total HK$'000**
Investment properties:				
Production facilities in the PRC	**–**	**–**	**18,334**	**18,334**
Residential building units in the PRC	**–**	**3,928**	**–**	**3,928**
Residential building units in the USA	**–**	**16,260**	**–**	**16,260**
	–	**20,188**	**18,334**	**38,522**

	Fair value measurements at 31st December 2014 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$'000	Total HK$'000
Investment properties:				
Production facilities in the PRC	–	–	21,625	21,625
Residential building units in the PRC	–	4,250	–	4,250
Residential building units in the USA	–	12,889	–	12,889
	–	17,139	21,625	38,764

For all investment properties, their current use equates 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 and in the PRC 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.

The valuation of the production facilities in the PRC was determined using the income approach. The potential rent of the property (with reference to current market rent) of which the Group is entitled to receive for the residual term of the lease of property is capitalised. The most significant impact into this valuation approach is the rental value.

These significant unobservable inputs include:

Description	Fair value at 31-Dec-15 (HK$'000)	Valuation technique	Unobservable inputs	Range of unobservable inputs (probability-weighted average)	Relationship of unobservable inputs to fair value
Production facilities in the PRC	18,334	Income approach	Term rent	RMB12.6 – RMB15.1 per month per square metre	The higher the rent, the higher the fair value
			Market rent	RMB16 per month per square metre	The higher the rent, the higher the fair value
			Term yield	6%	The higher the yield, the lower the fair value
			Market yield	8%	The higher the yield, the lower the fair value

Description	Fair value at 31-Dec-14 (HK$'000)	Valuation technique	Unobservable inputs	Range of unobservable inputs (probability-weighted average)	Relationship of unobservable inputs to fair value
Production facilities in the PRC	21,625	Income approach	Market rent	RMB22 per month per square metre	The higher the rent, the higher the fair value
			Market yield	12%	The higher the yield, the lower the fair value

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16. LAND USE RIGHTS

	2015	2014
	HK$'000	HK$'000
Opening net book amount	**–**	402
Transfer to investment properties	**–**	(315)
Amortisation	**–**	(31)
Exchange difference	**–**	(56)
Closing net book amount	**–**	–
Cost	**–**	–
Accumulated amortisation	**–**	–
Net book amount	**–**	–

The land was situated in the PRC under medium-term land use rights of 20 years. Amortisation of land use rights was charged in administration expenses. The land use rights were transferred to investment properties in 2014.

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17. SUBSIDIARIES

The following is a list of the principal subsidiaries at 31 December 2015:

Name of company	Place of incorporation/ registration	Principal place of operation	Nominal value of issued ordinary share capital/ registered capital	Interest held	Principal activities
Asia Sharp Limited	Hong Kong	PRC	HK$1	100%	Sourcing and trading of headwear and accessories
Bollman (Hong Kong) Limited	Hong Kong	PRC	HK$29,352,260	100%	Investment holding
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
Famewell Corp	USA	USA	US$100	100%	Investment holding
Guang Zhou Jian Hao Headwear Manufacturing Ltd.	PRC *(note)*	PRC	RMB45,777,729	100%	Investment holding
H3 Sportgear LLC	USA	USA	US$3,649,700	85%	Trading of headwear and apparel
Hatworld (Hong Kong) Ltd.	Hong Kong	Hong Kong	HK$1	100%	Retailing
Hatworld (Shenzhen) Ltd.	PRC *(note)*	PRC	HK$8,500,000	100%	Retailing
Mainland Sewing Headwear Manufacturing Limited	Hong Kong	Hong Kong	HK$10,000	100%	Manufacture and sale of headwear
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

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Name of company	Place of incorporation/ registration	Principal place of operation	Nominal value of issued ordinary share capital/ registered capital	Interest held	Principal activities
SDHC Property LLC	USA	USA	US$3,000,000	100%	Property holding
Top Super Sportswear (Shenzhen) Co., Ltd.	PRC *(note)*	PRC	HK$52,000,000	100%	Manufacture and sale of headwear
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
Wintax Trading Limited	Macau	Macau	MOP$100,000	100%	Trading of headwear and provision of digitizing services
Wintax Macau Commercial Offshore Co Ltd	Macau	Macau	MOP$50,000	100%	Provision of research and development, quality control and administrative services
上海成顏豐商貿有限公司	PRC *(note)*	PRC	RMB10,000,000	75%	Retailing
梅州華飛達帽業製造有限公司	PRC *(note)*	PRC	HK$5,000,000	100%	Manufacture and sale of headwear

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.

18. GOODWILL

	2015 HK$'000	2014 HK$'000
Opening net book amount	**33,798**	33,798
Closing net book amount	**33,798**	33,798
Cost	**38,756**	38,756
Accumulated impairment	**(4,958)**	(4,958)
Net book amount	**33,798**	33,798

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

	2015 HK$'000	2014 HK$'000
Trading Business – H3	**22,488**	22,488
Trading Business – SDHC	**11,310**	11,310
	33,798	33,798

The recoverable amount of a CGU is determined based on higher of the fair values less costs to sell and 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 of 2%. The growth rate does not exceed the long-term average growth rate for the respective countries.

The key assumptions used are as follows:

	2015	2014
Trading Business – H3		
Sales growth rate	**11%**	14%
Discount rate	**16%**	16%
Gross profit margin	**24%**	24%
Trading Business – SDHC		
Sales growth rate	**9%**	9%
Discount rate	**16%**	16%
Gross profit margin	**55%**	54%

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The budgeted sales and gross profit margin of the CGUs 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. The discount rate used is pre-tax and reflect specific risks relating to the segment.

For the Trading Business – H3, the recoverable amount calculated based on value-in-use exceeded carrying value as at 31 December 2015 (2014: same). An increase in discount rate to 27% would remove the remaining headroom.

For Trading Business – SDHC, the recoverable amount calculated based on value-in-use exceeded carrying value as at 31 December 2015 (2014: same). An increase in discount rate to 43% would remove the remaining headroom.

19. OTHER INTANGIBLE ASSETS

	Trademark HK$'000	Licensing rights HK$'000	Acquired customer relationship HK$'000	Total HK$'000
Year ended 31 December 2014				
Opening net book amount	5,412	10,314	13,049	28,775
Additions	–	1,349	–	1,349
Amortisation	(1,019)	(5,946)	(1,566)	(8,531)
Closing net book amount	4,393	5,717	11,483	21,593
At 31 December 2014				
Cost	6,495	19,153	15,083	40,731
Accumulated amortisation	(2,102)	(13,436)	(3,600)	(19,138)
Net book amount	4,393	5,717	11,483	21,593
Year ended 31 December 2015				
Opening net book amount	4,393	5,717	11,483	21,593
Additions	–	2,291	–	2,291
Amortisation	(1,236)	(3,941)	(1,508)	(6,685)
Exchange differences	–	(365)	–	(365)
Closing net book amount	3,157	3,702	9,975	16,834
At 31 December 2015				
Cost	6,495	8,711	15,083	30,289
Accumulated amortisation	(3,338)	(5,009)	(5,108)	(13,455)
Net book amount	3,157	3,702	9,975	16,834

20. DEFERRED INCOME TAXATION

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

	Assets		Liabilities	
	2015	2014	**2015**	2014
	HK$'000	HK$'000	**HK$'000**	HK$'000
Tax losses	**988**	1,307	**–**	–
Depreciation allowances	**(338)**	(357)	**–**	–
Provisions for inventories and trade receivables	**35**	1,049	**–**	–
Net revaluation surplus on investment properties	**–**	–	**(3,059)**	(2,681)
Others	**1,638**	1,386	**–**	–
Deferred income tax assets	**2,323**	3,385	**(3,059)**	(2,681)

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

	2015	2014
	HK$'000	HK$'000
Net deferred income tax assets at 1 January	**704**	3,023
Exchange differences	**128**	–
(Charged)/credited to consolidated income statement *(note 11)*	**(1,568)**	362
Tax charge debited to consolidated other comprehensive income	**–**	(2,681)
Net deferred income tax (liabilities)/assets at 31 December	**(736)**	704

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

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

Deferred income tax assets/ (liabilities)	Assets					Liabilities		
	Tax losses HK$'000	Depreciation allowances HK$'000	Provisions for inventories and trade receivables HK$'000	Others HK$'000	Sub total HK$'000	Revaluation surplus on investment properties HK$'000	Sub total HK$'000	Total HK$'000
At 1 January 2014	833	(303)	1,600	893	3,023	–	–	3,023
Credited/(charged) to the consolidated income statement	474	(54)	(551)	493	362	–	–	362
Tax charge debited to consolidated other comprehensive income	–	–	–	–	–	(2,681)	(2,681)	(2,681)
At 31 December 2014	1,307	(357)	1,049	1,386	3,385	(2,681)	(2,681)	704
(Charged)/credited to the consolidated income statement	(319)	19	(1,014)	252	(1,062)	(506)	(506)	(1,568)
Exchange differences	–	–	–	–	–	128	128	128
At 31 December 2015	988	(338)	35	1,638	2,323	(3,059)	(3,059)	(736)

The Group did not recognise deferred income tax assets in respect of cumulative tax losses of HK$39,002,000 (2014: HK$41,594,000) 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. These tax losses have no expiry date except HK$15,032,000 will expire in 16 years to 20 years.

As at 31 December 2015, deferred taxation has not been provided for in the consolidated financial statements in respect of the withholding tax that would be payable on unremitted earnings of certain PRC subsidiaries of the Group amounting to approximately HK$8,512,000 (2014: HK$6,714,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

21. INVENTORIES

	2015 HK$'000	2014 HK$'000
Raw materials	**62,039**	89,241
Work-in-progress	**22,716**	22,618
Finished goods	**82,075**	89,594
	166,830	201,453

The cost of inventories recognised as expense and included in cost of sales amounted to HK$380,269,000 (2014: HK$425,549,000).

Provision for slow-moving and obsolete inventories of HK$7,965,000 has been charged to cost of sales (2014: HK$350,000).

22. TRADE AND OTHER RECEIVABLES

	Group	
	2015 HK$'000	2014 HK$'000
Trade receivables	**133,790**	140,731
Bills receivables	**1,597**	1,711
Less: provision for impairment	**(6,006)**	(5,745)
Trade and bills receivables, net	**129,381**	136,697
Deposits, prepayments and other receivables	**42,099**	56,588
Less: provision for impairment	**(1,305)**	(1,926)
	170,175	191,359
Less: non-current portion of other receivables	**(6,550)**	(14,654)
Current portion	**163,625**	176,705

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

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 30-120 days. The ageing analysis of trade receivables at the balance sheet date is as follows:

	2015 HK$'000	2014 HK$'000
0 – 30 days	**51,820**	64,101
31 – 60 days	**49,042**	34,738
61 – 90 days	**14,493**	11,297
91 – 120 days	**8,691**	1,202
Over 121 days	**9,744**	29,393
	133,790	140,731

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

	2015 HK$'000	2014 HK$'000
1 – 30 days past due	**9,983**	15,602
31 – 60 days past due	**5,205**	3,575
61 – 90 days past due	**3,301**	9,921
Over 91 days past due	**5,032**	14,429
	23,521	43,527

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) The bills receivables represents bank acceptance notes and the maturity period is as follow:

	2015 HK$'000	2014 HK$'000
Falling within 90 days	**1,597**	1,711
	1,597	1,711

(d) Included in other receivables are notes receivable from two customers totalling HK$11,339,000 (2014: HK$16,834,000).

One note receivable of HK$709,000 (2014: HK$1,274,000) is interest bearing at 7% per annum and is repayable by monthly instalments up to July 2016. As at 31 December 2015, a provision was made against the note receivable to the extent of HK$709,000 (2014: HK$1,274,000).

Another note receivable of HK$10,630,000 (2014: HK$15,560,000) is interest bearing at 5% per annum and is repayable by 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) As of 31 December 2015, trade and other receivables of HK$7,311,000 (2014: HK$7,671,000) 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:

	2015	2014
	HK$'000	HK$'000
At 1 January	**7,671**	7,475
Impairment loss recognised, net	**35**	203
Uncollectible amounts written off	**(363)**	–
Exchange difference	**(32)**	(7)
At 31 December	**7,311**	7,671

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

23. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2015 **HK$'000**	2014 HK$'000
Listed securities in Hong Kong	**1,314**	2,563
	1,314	2,563

The fair values of all equity securities are based on their current bid prices in an active market.

24. CASH AND CASH EQUIVALENTS, SHORT-TERM BANK DEPOSITS AND PLEDGED DEPOSITS

	Group	
	2015 **HK$'000**	2014 HK$'000
Cash at bank and on hand	**174,510**	107,110
Short-term bank deposits	**–**	16,752
Cash and cash equivalents	**174,510**	123,862
Short-term bank deposits	**3,175**	–
Pledged bank deposits *(Note)*	**–**	1,750

The effective interest rate on short-term bank deposits was 0.45% (2014: 0.61%) per annum; these deposits have an average maturity of 90 days as at 31 December 2015 (2014: 90 days).

Funds of the Group amounting HK$35,238,000 (2014: HK$51,657,000) are kept in the bank accounts opened with banks in the PRC and Bangladesh where the remittance of funds is subject to foreign exchange control.

Note:

Bank deposits bear interest at floating rate and are pledged as guarantee for a licensing right contract. The balance was released in the year ended 31 December 2015.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

25. SHARE CAPITAL

	Number of shares of HK$0.10 each	HK$'000
Authorised:		
At 1 January 2014, 31 December 2014 and 31 December 2015	1,000,000,000	100,000
Issued and fully paid:		
At 1 January 2014, 31 December 2014 and 2015	398,583,284	39,858

26. 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.

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For the year ended 31 December 2015

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.

On 15 July 2015, a total of 11,900,000 share options were granted to executives and certain employees of the Group. The share option period shall be ten years from the date of grant and the share option shall lapse at the expiry of the option period. 20% of the options shall vest on the first to fifth anniversary dates of the date of grant each year.

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.

(a) Movements in share options

	2015		2014	
	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**	20,670,000	0.928
Granted	**11,900,000**	**1.120**	–	–
At 31 December	**32,570,000**	**0.998**	20,670,000	0.928
Option vested at 31 December	**20,220,000**	**0.929**	20,130,000	0.929

At the balance sheet date, the weighted average remaining contractual life of the Company's share options was 6.6 years (2014: 5 years).

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

		Number of share options	
Expiry date	**Exercise price** HK$	**2015** **'000**	2014 '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
14 July 2025	1.120	**11,900**	–
		32,570	20,670

Out of the total 32,750,000 outstanding options, 20,200,000 options (2014: 20,670,000) are exercisable. No share option had been exercised in 2015 and 2014.

(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 2015 was measured based on a Black-Scholes pricing model. The inputs into the model were as follows:

Weighted average share price	**HK$1.12**
Weighted average exercise price	**HK$1.12**
Expected volatility	**17.9%**
Expected life	**10 years**
Risk free rate	**0.5%**
Expected dividend yield	**5.5%**

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$169,000 of share-based payment expense has been included in the consolidated income statement for 2015 (2014: nil) and a corresponding amount has been credited to share based compensation reserve.

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27. TRADE AND OTHER PAYABLES

	Group	
	2015	2014
	HK$'000	HK$'000
Trade and bills payables	**54,594**	76,782
Accrued charges and other payables	**79,260**	93,042
	133,854	169,824
Less: other non-current payables	**(1,075)**	(1,112)
Current portion	**132,779**	168,712

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

	2015	2014
	HK$'000	HK$'000
0 – 30 days	**24,378**	40,229
31 – 60 days	**20,067**	21,382
61 – 90 days	**2,775**	7,420
Over 90 days	**7,374**	7,751
	54,594	76,782

28. AMOUNTS DUE TO RELATED PARTIES

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$607,000 (2014: HK$548,000) is interest bearing at 5% (2014: 5%) per annum; the remaining balance is non-interest bearing.

29. BORROWINGS

	2015 **HK$'000**	2014 HK$'000
Current:		
Bank borrowings	**67,596**	32,890
Total borrowings	**67,596**	32,890

The weighted average effective interest rate per annum for bank borrowings was 2.12% (2014: 2.21%).

The bank borrowings as at 31 December 2014 and 2015 are unsecured.

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

Notes to the Consolidated Financial Statements

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30. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of profit before income tax to net cash generated from operations

	2015 HK$'000	2014 HK$'000
Profit before income tax	**56,050**	35,952
Interest income	**(1,413)**	(1,959)
Interest expenses	**1,270**	1,256
(Gain)/loss on disposals of property, plant and equipment	**(220)**	125
Loss on disposal of subsidiaries	**1**	–
Revaluation gains on investment properties	**(911)**	–
Depreciation of property, plant and equipment	**22,619**	25,303
Amortisation on land use rights	**–**	31
Amortisation of other intangible assets	**6,685**	8,531
Net provision for slow-moving and obsolete of inventories	**7,965**	350
Share-based payment expenses	**169**	36
Net provision for impairment of trade and other receivables	**35**	203
Provision for post-employment benefits	**–**	17
Changes in working capital:		
Inventories	**26,658**	(38,092)
Trade and other receivables	**23,035**	9,187
Trade and other payables	**(42,558)**	(7,240)
Amounts due from/(to) related parties	**60**	(942)
Financial asset at fair value through profit or loss	**1,249**	136
Pledged bank deposits	**1,750**	–
Cash generated from operations	**102,444**	32,894

Note:

During the year ended 31 December 2015, the Group disposed of its 100% equity interest in Manga Investments Limited and its subsidiary, United Crown International Macau Commercial Offshore Limited, for a consideration of HK$150,000. A loss on disposal of HK$1,000 was recognised in the consolidated income statement.

(b) In the cash flow statement, proceeds from sale of property, plant and equipment comprise:

	2015 HK$'000	2014 HK$'000
Net book amount *(Notes 14)*	**26**	125
Gain/(loss) on disposals of property, plant and equipment	**220**	(125)
Proceeds from disposals of property, plant and equipment	**246**	–

31. 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:

	2015 HK$'000	2014 HK$'000
Within one year	**23,531**	25,300
In the second to fifth years inclusive	**9,476**	11,791
Over five year	**–**	–
	33,007	37,091

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.

32. CAPITAL COMMITMENTS

There is no capital expenditure contracted for but not yet incurred as at the balance sheet date. (2014: Nil)

Notes to the Consolidated Financial Statements

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33. 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, *BBS, JP*.

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

	Note	2015 HK$'000	2014 HK$'000
Sales of goods to affiliated companies of a shareholder	(i)	**302,947**	295,072
Rental paid in respect of office premises to directors and a company controlled by a director	(ii)	**1,584**	1,428
Claim charges paid to affiliated companies of a shareholder	(iii)	**3,616**	10,370
License fee paid to an affiliated company of a shareholder	(iv)	**314**	796

(i) Sales of goods to affiliated companies of a shareholder were transacted pursuant to the terms and conditions set out in the manufacturing agreement entered into by the Company and NEHK on 30 September 2014. These transactions are connected transactions as defined in Chapter 14A of the Listing Rules.

(ii) Rental paid in respect of office premises to directors and a company controlled by a director were charged at a fixed monthly fee mutually agreed between the two parties. This transaction is a connected transaction as defined in Chapter 14A of the Listing Rules.

(iii) Claim charges were paid to affiliated companies of a shareholder at a fee mutually agreed between two parties.

(iv) License fee paid to an affiliated company of a shareholder was charged at a fixed rate mutually agreed between two parties.

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

	2015	2014
	HK$'000	HK$'000
Trade receivables from affiliated companies of a shareholder	**63,530**	63,861

Trade receivables from affiliated companies of a shareholder arise mainly from sale transactions and are due 60 days after the date of sales. The receivables are unsecured in nature and bear no interest. No provisions are held against such receivables.

(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 36 and certain of the highest paid employees as disclosed in note 10, is as follows:

	2015	2014
	HK$'000	HK$'000
Short-term employee benefits	**29,401**	24,526
Retirement scheme contributions	**148**	167
	29,549	24,693

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34. BALANCE SHEET AND RESERVE OF THE COMPANY

	Note	2015 HK$'000	2014 HK$'000
ASSETS			
Non-current assets			
Interests in subsidiaries		**543,470**	472,412
		543,470	472,412
Current assets			
Other receivables		**–**	199
Cash and cash equivalents		**6,312**	1,848
		6,312	2,047
Total assets		**549,782**	474,459
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company			
Share capital		**39,858**	39,858
Other reserves	(a)	**266,352**	266,183
Retained earnings	(a)	**240,542**	164,272
		546,752	470,313
LIABILITIES			
Current liabilities			
Accrued charges and other payables		**3,030**	4,146
		3,030	4,146
Total equity and liabilities		**549,782**	474,459

Note (a) Reserve movement of the 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 2014	160,230	99,431	6,486	141,274	407,421
Profit for the year	–	–	–	30,970	30,970
2013 final dividend paid	–	–	–	(3,986)	(3,986)
2014 interim dividend paid	–	–	–	(3,986)	(3,986)
Equity settled share-based transactions	–	–	36	–	36
At 31 December 2014	160,230	99,431	6,522	164,272	430,455
Representing:					
2014 proposed final dividend				7,972	
Other retained earnings				156,300	
				164,272	
At 1 January 2015	160,230	99,431	6,522	164,272	430,455
Profit for the year	–	–	–	88,228	88,228
2014 final dividend paid	–	–	–	(7,972)	(7,972)
2015 interim dividend paid	–	–	–	(3,986)	(3,986)
Equity settled share-based transactions	–	–	169	–	169
At 31 December 2015	160,230	99,431	6,691	240,542	506,894
Representing:					
2015 proposed final dividend				7,972	
Other retained earnings				232,570	
				240,542	

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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.

35. BENEFITS AND INTERESTS OF DIRECTORS (DISCLOSURES REQUIRED BY SECTION 383 OF THE HONG KONG COMPANIES ORDINANCE (CAP. 622), COMPANIES (DISCLOSURE OF INFORMATION ABOUT BENEFITS OF DIRECTORS) REGULATION (CAP. 622G) AND HK LISTING RULES)

(a) Directors' emoluments

The remunerations of each director for the year are as follows:

For the year ended 31 December 2015

	Emoluments paid or receivable in respect of a person's service as a director, whether of the company or its subsidiary undertaking — Year ended 31 December 2015						
	Fees HK$'000	Salaries HK$'000	Discretionary Bonus HK$'000	Housing allowance HK$'000	Estimated monetary value of other benefits (Note (a)) HK$'000	Employer's contributions to a retirement benefit scheme HK$'000	Total HK$'000
Mr. Ngan Hei Keung	–	1,040	2,000	–	–	32	3,072
Madam Ngan Po Ling, Pauline, *BBS, JP*	–	600	3,140	1,018	–	24	4,782
Mr. James S. Patterson	–	120	389	–	–	–	509
Ms. Maggie Gu	–	1,944	540	–	22	18	2,524
Mr. Ngan Siu Hon, Alexander (appointed on 21 December 2015)	–	147	–	–	14	–	161
Mr. Andrew Ngan	80	–	–	–	–	–	80
Mr. Leung Shu Yin, William	120	–	–	–	–	–	120
Mr. Liu Tieh Ching, Brandon, *JP*	120	–	–	–	–	–	120
Mr. Gordon Ng	120	–	–	–	–	–	120
Total	440	3,851	6,069	1,018	36	74	11,488

For the year ended 31 December 2014

Certain of the comparative information of directors' emoluments for the year ended 31 December 2014 previously disclosed in accordance with the predecessor Companies Ordinance have been restated in order to comply with the new scope and requirements by the Hong Kong Companies Ordinance (Cap.622).

	Emoluments paid or receivable in respect of a person's services as a director, whether of the Company or its subsidiary undertaking					
	Year ended 31 December 2014 (Restated)					
	Fees HK$'000	Salaries HK$'000	Housing allowances HK$'000	Estimated monetary value of other benefits (Note (a)) HK$'000	Employer's contributions to a retirement benefit scheme HK$'000	Total HK$'000
Mr. Ngan Hei Keung	–	1,540	–	–	24	1,564
Madam Ngan Po Ling, Pauline, *BBS, JP*	–	1,180	1,025	–	24	2,229
Mr. James S. Patterson	–	276	–	–	–	276
Ms. Maggie Gu	–	1,801	390	–	17	2,208
Mr. Andrew Ngan	80	240	–	–	24	344
Mr. Leung Shu Yin, William	104	–	–	–	–	104
Mr. Lo Hang Fong (resigned on 1 September 2014)	64	–	–	–	–	64
Mr. Liu Tieh Ching, Brandon, *JP*	120	–	–	–	–	120
Mr. Gordon Ng (appointed on 1 September 2014)	40	–	–	–	–	40
Total	408	5,037	1,415	–	89	6,949

Note (a): Other benefits include leave pay, share option and insurance premium.

No director waived any emoluments in respect of the years ended 31 December 2014 and 2015.

(b) Directors' retirement benefits and termination benefits

None of the directors received or will receive any retirement benefits or termination benefits during the year (2014: Nil).

(c) Consideration provided to third parties for making available directors' services

The Group did not pay consideration to any third parties for making available directors' services during the year (2014: Nil).

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For the year ended 31 December 2015

(d) Information about loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors

No loans, quasi-loans and other dealing were made available in favour of the directors, controlled body corporates and connected entities of such directors at the end of the year or at any time during the year (2014: Nil).

(e) Directors' material interests in transactions, arrangements or contracts

During the year, the Group entered into business transactions with related parties in the normal course of business. Details of the transactions are disclosed in note 34 to the consolidated financial statements.

Other than the above, no significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Financial Summary

Results	2011 HK$'000	2012 HK$'000	2013 HK$'000	2014 HK$'000	2015 HK$'000
	Year ended 31 December				
Turnover	751,017	767,152	922,625	917,533	**870,998**
Gross profit	196,425	201,784	243,810	249,753	**265,112**
Profit before income tax	25,252	12,474	10,211	35,952	**56,050**
Profit for the year attributable to:	20,888	7,633	6,218	30,420	**51,376**
Owners of the Company	21,202	8,659	7,366	33,042	**52,554**
Non-controlling interests	(314)	(1,026)	(1,148)	(2,622)	**(1,178)**
Basic earnings per share (HK cents)	5.3	2.2	1.8	8.3	**13.2**
Dividends	15,943	15,944	7,972	11,958	**11,958**

Assets and liabilities	2011 HK$'000	2012 HK$'000	2013 HK$'000	2014 HK$'000	2015 HK$'000
	As at 31 December				
Non-current assets	176,495	194,424	228,056	242,197	**269,386**
Current assets	485,417	517,487	492,210	506,333	**509,454**
Current liabilities	(140,323)	(212,487)	(225,172)	(230,359)	**(223,539)**
Net current assets	345,094	305,000	267,038	275,974	**285,915**
Non-current liabilities	(22,552)	(8,214)	(5,135)	(4,250)	**(4,591)**
Net assets	499,037	491,210	489,959	513,921	**550,710**

Notes: The information of the financial summary for two years ended 31 December 2014 and 2015 have been extracted from the audited consolidated income statement and consolidated balance sheet which are set out on page 41 to page 44 of the annual report.