



Mainland Headwear Holdings Limited

(Stock code: 1100)



*Interim Report
2010*

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Management Discussion and Analysis

The Board of Directors (the "Directors") of Mainland Headwear Holdings Limited (the "Company") is pleased to announce the unaudited interim results of the Company and its subsidiaries (collectively, the "Group") for the six months ended 30 June 2010 (the "Period") together with comparative figures for the corresponding period in 2009.

FINANCIAL REVIEW

For the six months ended 30 June 2010, the Group's turnover was HK\$292,902,000, representing an increase of 19.3% when compared with the same period last year. The increase was mainly due to the market consolidation of the manufacturing sector which favoured the Group, the strong growth in orders propelled by the reviving economy and the strengthening of the retail market in Mainland China which benefitted the Group's Retail Business.

The Group has also strived to produce high value-added headwear during the period under review. This effort plus the streamlined structure and stringent cost control measures have resulted in a surge in gross profit of 50.5% to HK\$87,032,000 and a growth in profit margin of 23.5% over the same period last year to 29.7% of this Period. Most importantly, the Group experienced a turnaround in its overall business with profit attributable to shareholders of HK\$10,262,000 (2009: loss attributable to shareholders of HK\$15,409,000).

BUSINESS REVIEW

Manufacturing Business

During the period under review, the stronger headwear manufacturers were better prepared to survive in the wake of the financial tsunami and customers tended to place orders with manufacturers with stronger capability. Improving market conditions have also spurred customers to fill their inventories leading to a year-on-year growth of 19.2% in turnover of the Group's Manufacturing Business during the first half of 2010 to HK\$238,201,000, accounting for 78.9% of the Group's total turnover. This business segment remained as the Group's main revenue stream.

Management Discussion and Analysis

During the period, the Group managed to cope with the anticipated increase in raw material price by streamlining its organisational structure and increasing inventory levels in a timely manner. These measures have helped the Group to strictly control costs. Besides, the Group also focused on producing high value-added products. Gross profit margin thus increased 7 percentage points to a level slightly over 23%. However, to fulfill the requirements of the sharp increase in orders with shorter delivery schedules, the Group adopted quicker yet more expensive transportation modes to deliver products on time, so as to maintain strong long term relationships with customers. This move has resulted in an increase in cost. Despite this, the Manufacturing Business has shown remarkable improvement underscoring a business turnaround with an operating profit of HK\$24,679,000 (2009: operating loss of HK\$3,028,000).

The Panyu Factory also saw a turnaround in its business during the period with an operating profit of HK\$2,603,000 (2009: operating loss of HK\$1,574,000). This was mainly attributable to the efforts in increasing the portion of orders requiring high value-added operation.

Retail Business

Benefitting from the continued strong consumer sentiment in the PRC market driven by the fast domestic economic growth and the reviving global economy, the Group's Retail Business recorded a turnover of HK\$49,288,000, a rise of 9.7% over the same period last year and about 16.3% of the total turnover of the Group. Although rental cost continued to rise in the PRC, the Group still managed to slash operating losses by more than 50% to HK\$5,261,000 (2009: operating loss of HK\$10,948,000) through implementing strict cost control measures.

Sanrio

The Sanrio business recorded solid growth during the period under review as turnover was up by 12.4% to HK\$38,403,000. With the Group's efforts in controlling costs and its proven strategy of optimising its brand image to attract more franchisees in second- and third-tier cities, the profit margin of the Sanrio business saw slight improvement. It reported same store sales growth of 6% and operating loss shrunk to HK\$2,599,000 from HK\$3,140,000 in the same period last year. As at 30 June 2010, the Group operated 47 Sanrio self-owned stores and 47 franchise stores.

Management Discussion and Analysis

LIDS

LIDS registered a turnover of HK\$10,529,000, similar to the same period last year (2009: HK\$10,742,000). As a result of the increased sales portion of its own brand products with higher profit margins and adding higher margin accessories to optimise sales mix, the profit margin of this business rose by 4 percentage points to a level above 70%. Operating loss was also improved, narrowing to HK\$1,411,000 from HK\$2,062,000 in the corresponding period last year. As at 30 June 2010, the Group had 25 self-owned LIDS stores, of which 18 were in the PRC and 7 were in Hong Kong. In addition, the Group had 13 LIDS franchise stores in the PRC.

Diecui

During the period, the Group recorded a turnover of HK\$356,000 (2009: HK\$41,000) for Diecui operations, with an operating loss of HK\$1,251,000 (2009: operating loss of HK\$5,746,000). In view of the changing business environment for tourist souvenir, the Group intends to shrink the scale of Diecui business.

Trading Business

Turnover from Trading Business increased by 41.6% to HK\$14,294,000. However, an operating loss of HK\$1,434,000 (2009: operating profit of HK\$41,000) was recorded. The loss was attributable to a steep depreciation of the British pound and an increase in royalty fees.

During the period, the Trading Business continued to create synergies and make significant contribution to expand the customer base for the Group's Manufacturing Business.

PROSPECTS

The Group anticipates challenges such as RMB appreciation, labour shortages in the PRC and rising wages and rentals to continue in the second half year. Nevertheless, the Group remains optimistic yet prudent in formulating its strategy striving to achieve steady and healthy growth of its business.

For Manufacturing Business, the Group's effort in securing new customers is gradually bearing fruit. The strong growth momentum of its orders is expected to continue in the second half of the year. In the face of challenges ahead, the Group is planning to install new production facilities to its existing plants to boost production efficiency. Moreover, the Group will continue to strengthen cost control measures, enhance product design and R&D capabilities and focus on manufacturing higher margin products as it aims to improve the performance of the Manufacturing Business.

Management Discussion and Analysis

To boost the competitiveness of the Sanrio business, the Group plans to take a bulk purchase approach to reduce average purchasing cost. Meanwhile, the Group will continue to optimise its brand with a view to expanding its franchisee network in the second- and third-tier cities. In the second half year, the Group expects to open 2 self-owned stores in first-tier cities in the PRC and attract 34 franchisees in second- and third-tier cities to extend its sales network and market share. By taking these steps, the Group believes the business would achieve breakeven in the second half year.

In the LIDS business, the Group intends to continue to sell more accessories to meet the market demand and expects to increase the sales portion of higher margin own branded products to 62%. The Group also plans to open 3 franchise stores in the second half year to capture the enormous opportunities presented by the booming PRC economy. The Group is confident that the LIDS business would achieve breakeven in the second half year.

For the trading business, the Group will continue to ride on the strong business relationships of its trading division with major European retailers to explore more opportunities for cooperation thereby expanding the customer base for the manufacturing business and creating greater synergies for the Group.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2010, the Group had cash and bank balances and a portfolio of liquid investments totaling HK\$140.4 million (31 December 2009: HK\$143.5 million). About 54% and 24% of these liquid funds were denominated in US dollars and Renminbi respectively.

As at 30 June 2010, the Group had banking facilities of HK\$104.0 million (31 December 2009: HK\$104.0 million), of which HK\$98.9 million (31 December 2009: HK\$101.5 million) was not utilised.

The Group continues to maintain its gearing ratio (aggregate of bank borrowings divided by shareholders' equity) at 0% (31 December 2009: 0%). In view of the strong financial and liquidity position, the Group will have sufficient financial resources to meet its commitments and working capital requirements.

Management Discussion and Analysis

SUBSEQUENT EVENT

On 2 August 2010, New Era Cap Asia Pacific Limited (“NE”), pursuant to a manufacturing agreement signed by the Group and NE on 21 October 2008, issued a letter to the Company requesting to exercise the share options for 21,093,000 ordinary shares at the exercise price of HK\$0.70525 per share.

CAPITAL EXPENDITURE

During the Period, the Group spent approximately HK\$6.1 million (2009: HK\$4.2 million) on additions to equipment to further upgrade its manufacturing capabilities, and HK\$2.9 million (2009: HK\$1.7 million) for the opening of retail stores.

As at 30 June 2010, the Group had authorised capital commitment of HK\$10.0 million in respect of manufacturing equipment. In addition, the Group also had authorised capital commitment of HK\$1.5 million for the opening of new retail outlets.

CONTINGENT LIABILITIES

As disclosed in the Company’s 2009 annual report, on 6 March 2008, the Company, through its US attorney, filed a complaint in the United District court for the Southern District of New York against Drew Pearson Marketing LLC and USPA Accessories LLC d/b/a Concept One (collectively, the “Defendants”) for breaches of the terms and conditions of a Asset Purchase Agreement (“APA”) and a Manufacturing Agreement (“MA”) entered with the Company in December 2006, the transactions of which were announced and circulated on 11 December 2006 and 29 December 2006 respectively.

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

The directors strongly refute the allegations from Concept One and consider them to be without merit, and as such, are determined to vigorously defend those allegations. Although directors are confident that the Company will prevail in the case, they expect the matter to be resolved during the second half of 2010.

Management Discussion and Analysis

EXCHANGE RISK

Most assets and liabilities of the Group are denominated either in HK dollars, US dollars or Renminbi. The Group estimates that any 2% appreciation of the Renminbi is expected to reduce the gross margin of the Group by about 1%.

EMPLOYEES AND REMUNERATION POLICIES

At 30 June 2010, the Group employed a total of 8 (2009: 6) employees in the UK, 97 (2009: 97) employees in Hong Kong and Macau, and 3,477 (2009: 4,210) workers and employees in the PRC and Vietnam. The expenditures for the employees during the Period were approximately HK\$76 million (2009: HK\$73 million). The Group ensures that the pay levels of its employees are competitive and employees are remunerated based on their position and performance. Key employees of the Group, including Directors, are also granted share options under the share option schemes operated by the Company.

Interim Dividend and Closure of Register of Members

INTERIM DIVIDEND

The Board has declared an interim dividend of 1 HK cent (2009: 1 HK cent) per share, payable on or after 21 October 2010.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 27 September 2010 to 30 September 2010 (both dates inclusive). In order to qualify for the interim dividend, all transfers, accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong Branch Share Registrar, Tricor Tengis Limited, at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on 24 September 2010.

Independent Review Report



Member of Grant Thornton International Ltd

TO THE BOARD OF DIRECTORS OF MAINLAND HEADWEAR HOLDINGS LIMITED

(incorporated in Bermuda with limited liability)

INTRODUCTION

We have reviewed the interim financial report set out on pages 11 to 29 which comprises the condensed consolidated balance sheet of Mainland Headwear Holdings Limited (the "Company") as of 30 June 2010 and the related condensed consolidated income statement, condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated cash flow statement for the six-month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and presentation of the interim financial report in accordance with Hong Kong Accounting Standard 34.

Our responsibility is to express a conclusion on this interim financial report based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Independent Review Report

SCOPE OF REVIEW

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

CONCLUSION

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

Grant Thornton

Certified Public Accountants

6th Floor, Nexxus Building

41 Connaught Road Central

Hong Kong

26 August 2010

Condensed Consolidated Income Statement (Unaudited)

For the six months ended 30 June 2010

		Six months ended 30 June	
	Note	2010 <i>HK\$'000</i>	2009 <i>HK\$'000</i>
Turnover and revenue	3 & 4	292,902	245,553
Cost of sales		(205,870)	(187,731)
Gross profit		87,032	57,822
Other income		1,494	2,891
Selling and distribution costs		(39,922)	(31,769)
Administration expenses		(35,120)	(40,400)
Other operating expenses		-	(9,045)
Profit/(loss) from operations		13,484	(20,501)
Share of results of a jointly controlled entity		-	209
Finance costs	5(a)	(1)	(83)
Profit/(loss) before taxation	5	13,483	(20,375)
Taxation	6	(3,119)	(357)
Profit/(loss) for the period		10,364	(20,732)
Attributable to:			
Equity holders of the Company		10,262	(15,409)
Non-controlling interests		102	(5,323)
Profit/(loss) for the period		10,364	(20,732)
Earnings/(loss) per share	8		
Basic		2.8 HK cents	(4.6 HK cents)
Diluted		2.8 HK cents	N/A

The notes on pages 18 to 29 form part of the interim financial report. Details of dividends payable to equity holders of the Company are set out in note 7.

Condensed Consolidated Statement of Comprehensive Income (Unaudited)

For the six months ended 30 June 2010

	Six months ended 30 June	
	2010 <i>HK\$'000</i>	2009 <i>HK\$'000</i>
Profit/(loss) for the period	10,364	(20,732)
Other comprehensive income for the period		
Exchange differences on translation of financial statements of foreign operations	(944)	1,593
Total comprehensive income/(loss) for the period	<u>9,420</u>	<u>(19,139)</u>
Attributable to:		
Equity holders of the Company	9,318	(13,746)
Non-controlling interests	102	(5,393)
Total comprehensive income/(loss) for the period	<u>9,420</u>	<u>(19,139)</u>

The notes on pages 18 to 29 form part of the interim financial report.

Condensed Consolidated Balance Sheet

At 30 June 2010

	<i>Note</i>	30 June 2010 (Unaudited) HK\$'000	31 December 2009 (Audited) HK\$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		117,512	128,703
Prepaid premium on leasehold land held for own use under an operating lease		865	937
Goodwill		4,958	4,958
Intangibles		2,915	3,790
Deferred tax assets		50	67
		<hr/> 126,300 <hr/>	<hr/> 138,455 <hr/>
Current assets			
Inventories		105,366	103,153
Trade and other receivables	9	199,467	167,644
Amount due from a related company		923	923
Short term investments		5,124	4,758
Tax recoverable		604	604
Bank balances and cash		135,291	138,729
		<hr/> 446,775 <hr/>	<hr/> 415,811 <hr/>
Current liabilities			
Trade and other payables	10	81,944	90,876
Amounts due to related companies		1,216	1,170
Taxation		6,022	2,595
		<hr/> 89,182 <hr/>	<hr/> 94,641 <hr/>
Net current assets		<hr/> 357,593 <hr/>	<hr/> 321,170 <hr/>
Total assets less current liabilities		<hr/> 483,893 <hr/>	<hr/> 459,625 <hr/>

Condensed Consolidated Balance Sheet

At 30 June 2010

		30 June 2010 (Unaudited) HK\$'000	31 December 2009 (Audited) HK\$'000
	<i>Note</i>		
Non-current liabilities			
Post-employment benefits		73	73
Deferred tax liabilities		1,510	1,513
		1,583	1,586
NET ASSETS		482,310	458,039
CAPITAL AND RESERVES			
Share capital	11	37,691	35,191
Reserves		435,777	414,108
Total equity attributable to equity holders of the Company		473,468	449,299
Non-controlling interests		8,842	8,740
TOTAL EQUITY		482,310	458,039

The notes on pages 18 to 29 form part of the interim financial report.

Condensed Consolidated Cash Flow Statement (Unaudited)

For the six months ended 30 June 2010

	Six months ended 30 June	
	2010 <i>HK\$'000</i>	2009 <i>HK\$'000</i>
Net cash used in operating activities	(13,704)	(21,968)
Net cash used in investing activities	(2,747)	(1,344)
Net cash from financing activities	13,067	4,006
	<hr/>	<hr/>
Net decrease in cash and cash equivalents	(3,384)	(19,306)
Cash and cash equivalents at the beginning of the period	138,729	149,148
Effect of foreign exchange rate changes	(54)	(61)
	<hr/>	<hr/>
Cash and cash equivalents at the end of the period, represented by bank balances and cash	135,291	129,781
	<hr/> <hr/>	<hr/> <hr/>

The notes on pages 18 to 29 form part of the interim financial report.

Condensed Consolidated Statement of Changes in Equity (Unaudited)

For the six months ended 30 June 2010

Attributable to equity holders of the Company

	Share capital	Share premium	Contributed surplus	Accumulated profits	Capital reserve	Exchange reserve	Total	Non-controlling interests	Total equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2010	35,191	125,377	25,878	234,467	5,438	22,948	449,299	8,740	458,039
Profit for the period	-	-	-	10,262	-	-	10,262	102	10,364
Other comprehensive income:									
– Exchange differences on translation of financial statements of foreign operations	-	-	-	-	-	(944)	(944)	-	(944)
Total comprehensive income/(loss) for the period	-	-	-	10,262	-	(944)	9,318	102	9,420
2009 final dividend paid	-	-	-	(7,538)	-	-	(7,538)	-	(7,538)
Exercise of share options	2,500	19,883	-	-	(1,777)	-	20,606	-	20,606
Equity settled share-based transactions	-	-	-	-	1,783	-	1,783	-	1,783
Transactions with owners	2,500	19,883	-	(7,538)	6	-	14,851	-	14,851
At 30 June 2010	<u>37,691</u>	<u>145,260</u>	<u>25,878</u>	<u>237,191</u>	<u>5,444</u>	<u>22,004</u>	<u>473,468</u>	<u>8,842</u>	<u>482,310</u>
Representing:									
2010 interim dividend declared		-	-	3,980	-	-	3,980		
Reserves		<u>145,260</u>	<u>25,878</u>	<u>233,211</u>	<u>5,444</u>	<u>22,004</u>	<u>431,797</u>		
		<u>145,260</u>	<u>25,878</u>	<u>237,191</u>	<u>5,444</u>	<u>22,004</u>	<u>435,777</u>		

Condensed Consolidated Statement of Changes in Equity (Unaudited)

For the six months ended 30 June 2010

	Attributable to equity holders of the Company						Non-controlling interests	Total equity	
	Share capital	Share premium	Contributed surplus	Accumulated profits	Capital reserve	Exchange reserve			Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
At 1 January 2009	31,840	100,203	25,878	288,378	5,247	21,948	473,494	2,571	476,065
Loss for the period	-	-	-	(15,409)	-	-	(15,409)	(5,323)	(20,732)
Other comprehensive income:									
– Exchange differences on translation of financial statements of foreign operations	-	-	-	-	-	1,663	1,663	(70)	1,593
Total comprehensive (loss)/income for the period	-	-	-	(15,409)	-	1,663	(13,746)	(5,393)	(19,139)
2008 final dividend paid	-	-	-	(10,055)	-	-	(10,055)	-	(10,055)
Increase in shareholding of a subsidiary	-	-	-	-	-	-	-	13,830	13,830
Equity settled share-based transactions	-	-	-	-	2,037	-	2,037	-	2,037
Issue of new shares	1,676	12,468	-	-	-	-	14,144	-	14,144
Transactions with owners	1,676	12,468	-	(10,055)	2,037	-	6,126	13,830	19,956
Share options lapsed	-	-	-	4,629	(4,629)	-	-	-	-
At 30 June 2009	<u>33,516</u>	<u>112,671</u>	<u>25,878</u>	<u>267,543</u>	<u>2,655</u>	<u>23,611</u>	<u>465,874</u>	<u>11,008</u>	<u>476,882</u>
Representing:									
2009 interim dividend declared	-	-	-	3,352	-	-	3,352	-	-
Reserves	-	112,671	25,878	264,191	2,655	23,611	429,006	-	-
	-	<u>112,671</u>	<u>25,878</u>	<u>267,543</u>	<u>2,655</u>	<u>23,611</u>	<u>432,358</u>	-	-

The notes on pages 18 to 29 form part of the interim financial report.

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2010

1. BASIS OF PREPARATION

The interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”), and Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

The interim financial report has been prepared in accordance with the same accounting policies adopted in the annual financial statements for the year ended 31 December 2009, except for the adoption of the new or amended Hong Kong Financial Reporting Standards (“HKFRSs”) (which include individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations) as disclosed in note 2 to this interim financial report.

The interim financial report is unaudited, but has been reviewed by the Company’s Audit Committee and the Company’s auditor, Grant Thornton in accordance with Hong Kong Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the HKICPA.

The interim financial report does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual financial statements for the year ended 31 December 2009.

2. ADOPTION OF NEW OR AMENDED HKFRSs

In the current period, the Group has applied for the first time the following new or amended HKFRSs issued by the HKICPA, which are relevant to and effective for the Group’s financial statements for the annual financial period beginning on 1 January 2010.

HKFRS 3 (Revised 2008)	Business combinations
HKAS 27 (Revised 2008)	Consolidated and separate financial statements
Various	Improvements to HKFRSs 2009

The adoption of these new or amended HKFRSs has had no material impact on how the results and financial position for the current and prior periods have been prepared and presented.

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2010

2. ADOPTION OF NEW OR AMENDED HKFRSs (*CONTINUED*)

The Group has not early adopted the following new or amended HKFRSs that have been issued but are not yet effective.

HKAS 24 (Revised)	Related party disclosures ²
HKAS 32 (Amendment)	Classification of rights issues ³
HKFRS 1 (Amendment)	Limited exemption from comparative HKFRS 7 disclosures for first-time adopters ⁴
HKFRS 9	Financial instruments ⁵
HK(IFRIC) – Int 14 (Amendment)	Prepayments of a minimum funding requirement ²
HK(IFRIC) – Int 19	Extinguishing financial liabilities with equity instruments ⁴
Various	Improvements to HKFRSs 2010 ¹

¹ *Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate*

² *Effective for annual periods beginning on or after 1 January 2011*

³ *Effective for annual periods beginning on or after 1 February 2010*

⁴ *Effective for annual periods beginning on or after 1 July 2010*

⁵ *Effective for annual periods beginning on or after 1 January 2013*

The Group is in the process of assessing the impact of these new or amended HKFRSs upon initial application. So far it has concluded that these new or amended HKFRSs are unlikely to have a significant impact on the Group's results and financial position.

3. TURNOVER AND REVENUE

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

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

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2010

4. SEGMENT INFORMATION

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

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

The executive directors have identified the following three operating segments:

- **Manufacturing Business:** The Group manufactures headwear products for sale to its Trading Business and Retail Business as well as to external customers. The prime manufacturing facilities are located in Shenzhen and Panyu, the PRC. Customers are mainly located in the USA and Europe.
- **Trading Business:** The trading and distribution of headwear and other products business of the Group is operating through Drew Pearson International (Europe) Ltd. ("DPI Europe") which focus on the Europe Market.
- **Retail Business:** The Group operates LIDS stores in the PRC and Hong Kong, and SANRIO stores and tourist souvenir shops in the PRC.

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2010

4. SEGMENT INFORMATION (CONTINUED)

	Manufacturing		Trading		Retail		Total	
	Six months ended		Six months ended		Six months ended		Six months ended	
	2010	2009	2010	2009	2010	2009	2010	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue from external customers	229,320	190,535	14,294	10,096	49,288	44,922	292,902	245,553
Inter-segment revenue	8,881	9,366	-	-	-	-	8,881	9,366
Reportable segment revenue	<u>238,201</u>	<u>199,901</u>	<u>14,294</u>	<u>10,096</u>	<u>49,288</u>	<u>44,922</u>	<u>301,783</u>	<u>254,919</u>
Reportable segment profit/(loss)	24,679	(3,028)	(1,434)	41	(5,261)	(10,948)	17,984	(13,935)
Net gain from short term investments							366	172
Share-based payment expenses							(1,783)	(2,037)
Unallocated corporate income							787	845
Unallocated corporate expenses							(3,870)	(5,546)
Profit/(loss) from operations							13,484	(20,501)
Share of results of a jointly controlled entity							-	209
Finance costs							(1)	(83)
Taxation							(3,119)	(357)
Profit/(loss) for the period							<u>10,364</u>	<u>(20,732)</u>

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2010

4. SEGMENT INFORMATION (CONTINUED)

	Manufacturing <i>HK\$'000</i>	Trading <i>HK\$'000</i>	Retail <i>HK\$'000</i>	Unallocated <i>HK\$'000</i>	Total <i>HK\$'000</i>
Reportable segment assets:					
30 June 2010	<u>355,952</u>	<u>6,812</u>	<u>69,212</u>	<u>141,099</u>	<u>573,075</u>
31 December 2009	<u>327,285</u>	<u>8,456</u>	<u>70,577</u>	<u>147,948</u>	<u>554,266</u>

5. PROFIT/(LOSS) BEFORE TAXATION

Profit/(loss) before taxation is stated after charging/(crediting):

	Six months ended 30 June	
	2010 <i>HK\$'000</i>	2009 <i>HK\$'000</i>
(a) Finance costs		
Interest on bank loans, overdrafts and other borrowings wholly repayable within five years	<u>1</u>	<u>83</u>
(b) Other items		
Net gain from short-term investments	(366)	(172)
Negative goodwill	–	(1,033)
Depreciation of property, plant and equipment	13,834	16,391
Amortisation of intangibles	875	–
Provision for impairment of trade and other receivables	2,000	–
Provision for impairment of property, plant and equipment	–	9,045
Written down of inventories to net realisable value	–	5,032

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2010

6. TAXATION

	Six months ended 30 June	
	2010 <i>HK\$'000</i>	2009 <i>HK\$'000</i>
Current tax		
Hong Kong Profits Tax	1,366	165
PRC income tax	1,739	288
Overseas tax	–	10
	<hr/>	<hr/>
	3,105	463
Deferred taxation	14	(106)
	<hr/>	<hr/>
	3,119	357
	<hr/> <hr/>	<hr/> <hr/>

Hong Kong Profits Tax has been provided at the rate of 16.5% (2009: 16.5%) on the estimated assessable profits for the Period. Taxation for PRC and overseas subsidiaries has been calculated at the rates applicable in the respective jurisdictions and based on prevailing legislation, interpretations, and practices in respect thereof.

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2010

7. DIVIDENDS

(a) Dividends attributable to the period

	Six months ended 30 June	
	2010 HK\$'000	2009 HK\$'000
Interim dividend declared of 1 HK cent (2009: 1 HK cent) per share	<u>3,980</u>	<u>3,352</u>

The interim dividend declared after the balance sheet date has not been recognised as a liability at the balance sheet date, but reflected as an appropriation of accumulated profits for the Period.

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

	Six months ended 30 June	
	2010 HK\$'000	2009 HK\$'000
Final dividend paid in respect of 2009 of 2 HK cents (2008: 3 HK cents) per share	<u>7,538</u>	<u>10,055</u>

8. EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings/(loss) per share is based on the profit attributable to equity holders of the Company of HK\$10,262,000 (2009: loss of HK\$15,409,000) and on the weighted average number of shares of 361,440,671 (2009: 334,697,356) in issue during the Period.

The calculation of diluted earnings per share for the period ended 30 June 2010 was based on profit attributable to equity holders of the Company of HK\$10,262,000 and on weighted average number of shares of 365,766,306 during the Period.

No diluted loss per share has been presented for the period ended 30 June 2009 because the impact of exercise of the share options was anti-dilutive.

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2010

9. TRADE AND OTHER RECEIVABLES

	30 June 2010 HK\$'000	31 December 2009 HK\$'000
Trade and bills receivables	135,246	108,713
Less: provision for impairment	(5,273)	(3,273)
	<hr/>	<hr/>
	129,973	105,440
Deposits, prepayments and other debtors	69,494	62,204
	<hr/>	<hr/>
	199,467	167,644
	<hr/> <hr/>	<hr/> <hr/>

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

	30 June 2010 HK\$'000	31 December 2009 HK\$'000
0 – 30 days	57,813	52,479
31 – 60 days	31,232	18,101
61 – 90 days	8,168	4,180
Over 90 days	32,760	30,680
	<hr/>	<hr/>
	129,973	105,440
	<hr/> <hr/>	<hr/> <hr/>

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

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2010

10. TRADE AND OTHER PAYABLES

	30 June 2010 HK\$'000	31 December 2009 HK\$'000
Trade and bills payables	33,362	35,257
Accrued charges and other creditors	48,582	55,619
	<hr/>	<hr/>
	81,944	90,876
	<hr/> <hr/>	<hr/> <hr/>

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

	30 June 2010 HK\$'000	31 December 2009 HK\$'000
0 – 30 days	21,012	20,447
31 – 60 days	5,006	8,169
61 – 90 days	2,129	2,382
Over 90 days	5,215	4,259
	<hr/>	<hr/>
	33,362	35,257
	<hr/> <hr/>	<hr/> <hr/>

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2010

11. SHARE CAPITAL

	<i>Note</i>	Number of shares (‘000)	<i>HK\$’000</i>
Authorised:			
Ordinary shares of HK\$0.10 each At 1 January 2009, 31 December 2009 and 30 June 2010		1,000,000	100,000
Issued and fully paid:			
At 1 January 2009		318,402	31,840
Issue of new shares	(a)	16,758	1,676
Issue of shares pursuant to share option scheme	(b)	16,750	1,675
At 31 December 2009		351,910	35,191
Issue of shares pursuant to share option scheme	(c)	25,000	2,500
At 30 June 2010		376,910	37,691

Note:

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

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2010

11. SHARE CAPITAL (CONTINUED)

Note: (Continued)

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

- (c) During the Period, NE has exercised the share options granted to subscribe for 25,000,000 shares at the exercise price of HK\$0.82425 per share. The total consideration was HK\$20,606,000 and the balance of HK\$18,106,000 was credited to the share premium account. An amount of HK\$1,777,000 has been transferred from capital reserve to the share premium account.

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

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2010

12. CAPITAL COMMITMENTS

At 30 June 2010, the Group had capital expenditure commitments as follows:

	30 June 2010 HK\$'000	31 December 2009 HK\$'000
Authorised but not contracted for		
– Manufacturing business	10,000	10,500
– Retail business	1,500	1,522
	<hr/> 11,500 <hr/>	<hr/> 12,022 <hr/>

13. SUBSEQUENT EVENT

On 2 August 2010, New Era Cap Asia Pacific Limited ("NE"), pursuant to a manufacturing agreement signed by the Group and NE on 21 October 2008, issued a letter to the Company requesting to exercise the share options for 21,093,000 ordinary shares at the exercise price of HK\$0.70525 per share.

14. APPROVAL OF INTERIM FINANCIAL REPORT

The interim financial report was approved by the Board of Directors on 26 August 2010.

Other Information Provided in Accordance with the Listing Rules

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 30 June 2010, 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			Total	Percentage of interest
	Personal interest	Other direct interest	Underlying shares		
Mr. Ngan Hei Keung	–	202,848,000 <i>(note 1, 2)</i>	45,800,000 <i>(note 3, 4)</i>	248,648,000	65.97%
Madam Ngan Po Ling, Pauline	19,148,000 <i>(note 2)</i>	183,700,000 <i>(note 1, 2)</i>	45,800,000 <i>(note 3, 4)</i>	248,648,000	65.97%
Mr. James S. Patterson	–	–	2,000,000 <i>(note 5)</i>	2,000,000	0.53%

Other Information Provided in Accordance with the Listing Rules

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES (CONTINUED)

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

Notes:

- (1) 183,700,000 shares are legally and beneficially owned by Mr. Ngan Hei Keung and Madam Ngan Po Ling, Pauline as to 40% and 60% respectively.
- (2) The 19,148,000 shares are beneficially owned by Madam Ngan, Pauline, the spouse of Mr. Ngan.
- (3) Pursuant to the contingent purchase deed dated 21 October 2008 between Mr. Ngan, Madam Ngan and NE, NE is entitled to require Mr. Ngan and Madam Ngan to purchase up to 39,800,000 shares on the terms and conditions of the said deed.
- (4) Each of Mr. Ngan and Madam Ngan have been granted share options under the Company's share options scheme to subscribe for 3,000,000 shares of the Company.
- (5) Mr. Patterson has been granted share options under the Company's share option scheme to subscribe for 2,000,000 shares of the Company.

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

Other Information Provided in Accordance with the Listing Rules

SHARE OPTION SCHEMES

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

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

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

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

Other Information Provided in Accordance with the Listing Rules

SHARE OPTION SCHEMES (CONTINUED)

(1) *(Continued)*

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

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

As at the date of interim report, save for those granted but yet to be exercised, the total number of shares available for issue under the New Scheme was 37,816,486 shares, which represented 10.0% of the issued share capital of the Company as at 31 July 2010.

Other Information Provided in Accordance with the Listing Rules

SHARE OPTION SCHEMES (CONTINUED)

(1) (Continued)

At 30 June 2010, the Directors, employees, customers and suppliers of the Group had the following interests in options to subscribe for shares of the Company (market value per share was HK\$0.78 at the balance sheet date) granted at nominal consideration under the share option schemes operated by the Company, each option gives the holder the right to subscribe for one share:

	Date of grant	Period during which options exercisable	Exercise price (HK\$)	Outstanding at 1.1.2010 and 30.6.2010	Market value per share at date of grant (HK\$)
New Scheme					
Director	23.06.2009	23.06.2010 – 23.06.2019	0.946	8,000,000	0.93
Employees	11.06.2008	11.06.2009 – 11.06.2018	1.190	1,000,000	1.16
	23.06.2009	23.06.2010 – 23.06.2019	0.946	8,600,000	0.93
				17,600,000	
Customers and suppliers	03.07.2002	03.07.2003 – 02.07.2010	2.455	2,145,000	2.45

Other Information Provided in Accordance with the Listing Rules

SHARE OPTION SCHEMES (CONTINUED)

(1) *(Continued)*

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The estimate of the fair value of the share option granted is measured based on a Black-Scholes pricing mode.

Share options were granted under a service condition. This condition has not been taken into account in the grant date fair value measurement of the services rendered. There were no market conditions associated with the share option grants.

The fair value of the share options granted of HK\$3,928,000 was recognised as intangible assets in 2009 and the corresponding amount of which has been credited to capital reserve.

Under this share option scheme, HK\$875,000 of amortisation of intangibles has been included in the consolidated balance sheet for the six months ended 30 June 2010 (2009: nil) and the corresponding amount has been credited to capital reserve.

Other Information Provided in Accordance with the Listing Rules

SHARE OPTION SCHEMES (CONTINUED)

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

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

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

Movements in share options

	Note	Number of share options
At 1 January 2009		62,843,000
Exercised during 2009	(a)	(16,750,000)
At 31 December 2009		46,093,000
Exercise during the period	(b)	(25,000,000)
At 30 June 2010	(c)	21,093,000

Notes:

- (a) The share price for share options exercised during 2009 at the date of exercise was HK\$0.7939.
- (b) The share price for share options exercised during the Period at the date of exercise was HK\$0.82425.
- (c) The share price for share options exercised on 2 August 2010 was HK\$0.70525.

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

Other Information Provided in Accordance with the Listing Rules

SHARE OPTION SCHEMES (CONTINUED)

(2) (Continued)

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

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

Notes:

- (i) During the period from 1 January 2009 to 30 June 2009, the actual aggregate purchase by New Era did not exceed the minimum annual consideration in accordance with the Manufacturing Agreement, NE is entitled to lower discount levels set out in above to any parts of Tranche No. 1 option.
- (ii) During the period from 1 January 2010 to 30 June 2010, the actual aggregate purchase by New Era did not exceed the minimum annual consideration in accordance with the Manufacturing Agreement, NE is entitled to lower discount levels set out in above to any parts of Tranche No. 2 and Tranche No. 3 option which remain outstanding as of 30 June 2010.
- (iii) In no event, the exercise price will be above HK\$8.00 per option share or will be below the prevailing nominal value of the shares.
- (iv) The probability of earlier fulfillment condition not fulfilled adopted by the Group is 30%.

Other Information Provided in Accordance with the Listing Rules

SHARE OPTION SCHEMES (CONTINUED)

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

SUBSTANTIAL SHAREHOLDERS

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

Long positions in the shares and underlying shares

Name	Capacity	Number of shares			Total	Percentage of interest
		Personal interest	Other interest	Underlying shares		
Successful Years International Co., Ltd. (note 1)	Beneficial owner	183,700,000	–	–	183,700,000	48.74%
Mr. Christopher Koch (note 2)	Interest of a controlled corporation	–	58,508,000	21,093,000	79,601,000	21.12%
New Era Cap Hong Kong LLC (note 2)	Interest of a controlled corporation	–	58,508,000	21,093,000	79,601,000	21.12%
New Era Cap Asia Pacific Limited (note 2)	Beneficial owner	58,508,000	–	21,093,000	79,601,000	21.12%

Other Information Provided in Accordance with the Listing Rules

SUBSTANTIAL SHAREHOLDERS (CONTINUED)

Long positions in the shares and underlying shares (Continued)

Notes:

1. Successful Years International Co., Ltd. is owned by Mr. Ngan Hei Keung and Madam Ngan Po Ling, Pauline as to 40% and 60% respectively. The interests of Mr. Ngan Hei Keung and Madam Ngan Po Ling, Pauline in Successful Years International Co., Ltd. are also disclosed in the section headed "Directors' Interests in Shares and Underlying Shares" above.
2. Pursuant to the manufacturing agreement, New Era Cap Asia Pacific Limited ("NE") subscribed 16,758,000 shares and exercised 41,750,000 option shares, and granted options of 21,093,000 underlying shares subject to terms and conditions of the manufacturing agreement. Mr. Christopher Koch owns 75% of the issued share capital of New Era Cap Hong Kong LLC which in turn owns 100% of the issued share capital of NE. As such, Mr. Christopher Koch and New Era Cap Hong Kong LLC are deemed to be interested in the 58,508,000 shares and 21,093,000 underlying shares.

Short positions in the underlying shares

Name	Number of underlying shares	Percentage of interest
Mr. Christopher Koch	39,800,000 (note)	10.56%
New Era Cap Hong Kong LLC	39,800,000 (note)	10.56%
New Era Cap Asia Pacific Limited ("NE")	39,800,000 (note)	10.56%

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

Save as disclosed above, as at 30 June 2010, the Company had not been notified by any persons (other than Directors) who had interests in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

Other Information Provided in Accordance with the Listing Rules

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

During the six months ended 30 June 2010, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

CODE ON CORPORATE GOVERNANCE PRACTICES

In the opinion of the Board, the Company has complied with the code provisions in the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Listing Rules during the six months ended 30 June 2010 except for the deviations from Code Provisions A.4.1 and A.4.2 as detailed in the Corporate Governance Report included in the 2009 Annual Report that independent non-executive directors have not been appointed for a specific term; and that the Chairman and the Managing Director (who are also the founders of the Company), are not subject to retirement by rotation.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules. All Directors have confirmed, following enquiry by the Company, that they have complied with the required standard set out in Model Code throughout the Period.

AUDIT COMMITTEE

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

By Order of the Board

Ngan Hei Keung

Chairman

Hong Kong, 26 August 2010

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