MAINLAND HEADWEAR HOLDINGS LIMITED
飛達帽業控股有限公司*

(incorporated in Bermuda with limited liability)

(Stock Code: 1100)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2009

The board of directors (the "Board"/"Directors") of Mainland Headwear Holdings Limited (the "Company") is pleased to announce the financial results of the Company and its subsidiaries (collectively the "Group"/"Mainland Headwear") for the year ended 31 December 2009.

CONSOLIDATED INCOME STATEMENT
For the year ended 31 December 2009

	Note	**2009** *HK$'000*	2008 *HK$'000*
Turnover and revenue	2	**515,834**	610,959
Cost of sales		**(401,842)**	(440,586)
Gross profit		**113,992**	170,373
Other income		**5,581**	9,133
Selling and distribution costs		**(65,979)**	(69,533)
Administration expenses		**(99,474)**	(99,071)
Other operating expense		**(6,815)**	(4,861)
Impairment of goodwill and intangibles		**–**	(28,348)
Loss from operations		**(52,695)**	(22,307)
Share of results of a jointly controlled entity		**209**	(4,570)
Finance costs		**(62)**	(86)
Loss before taxation	4	**(52,548)**	(26,963)
Taxation	5	**(140)**	(2,857)
Loss for the year		**(52,688)**	(29,820)

	Note	**2009**	2008
		HK$'000	*HK$'000*
Attributable to:			
Equity holders of the Company		**(45,133)**	(29,259)
Minority interests		**(7,555)**	(561)
Loss for the year		**(52,688)**	(29,820)
Loss per share	7		
Basic		**(13.4 HK cents)**	(9.2 HK cents)
Diluted		**N/A**	N/A

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2009

	2009 *HK$'000*	2008 *HK$'000*
Loss for the year	**(52,688)**	(29,820)
Other comprehensive income for the year		
Exchange differences on translation of financial statements of foreign operations	**894**	13,272
Total comprehensive loss for the year	**(51,794)**	(16,548)
Attributable to:		
Equity holders of the Company	**(44,133)**	(16,265)
Minority interests	**(7,661)**	(283)
Total comprehensive loss for the year	**(51,794)**	(16,548)

CONSOLIDATED BALANCE SHEET
As at 31 December 2009

	Note	2009 HK$'000	2008 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		**128,703**	138,696
Prepaid premium on leasehold land held for own use under an operating lease		**937**	1,075
Interests in a jointly controlled entity		**–**	15,136
Goodwill		**4,958**	4,958
Intangibles		**3,790**	–
Deferred tax assets		**67**	28
		138,455	159,893
Current assets			
Inventories		**103,153**	119,946
Trade and other receivables	8	**167,644**	144,738
Amount due from a related company		**923**	918
Short term investments		**4,758**	4,322
Tax recoverable		**604**	608
Bank balances and cash		**138,729**	149,148
		415,811	419,680
Current liabilities			
Trade and other payables	9	**90,876**	95,996
Amounts due to related companies		**1,170**	1,412
Taxation		**2,595**	3,774
		94,641	101,182
Net current assets		**321,170**	318,498
Total assets less current liabilities		**459,625**	478,391
Non-current liabilities			
Post-employment benefits		**73**	73
Deferred tax liabilities		**1,513**	2,253
		1,586	2,326
NET ASSETS		**458,039**	476,065

	2009 *HK$'000*	2008 *HK$'000*
CAPITAL AND RESERVES		
Share capital	**35,191**	31,840
Reserves	**414,108**	441,654
Total equity attributable to equity holders of the Company	**449,299**	473,494
Minority interests	**8,740**	2,571
TOTAL EQUITY	**458,039**	476,065

Notes

1. **ACCOUNTING POLICIES**

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), and the requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). The financial statements are prepared under the historical cost convention, except for short term investments which are stated at fair value.

In the current year, the Group has applied for the first time the following new standards, amendments and interpretations (the new "HKFRSs") issued by the HKICPA, which are relevant to and effective for the Group's financial statements for the annual period beginning on 1 January 2009:

HKAS 1 (Revised 2007)	Presentation of Financial Statements
HKAS 23 (Revised 2007)	Borrowing Costs
HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
HKFRS 2 (Amendments)	Share-based Payments: Vesting Conditions and Cancellations
HKFRS 7 (Amendments)	Improving Disclosures about Financial Instruments
HKFRS 8	Operating Segments
Various	Annual Improvements to HKFRSs 2008

Other than as noted below, the adoption of these new and revised HKFRSs has had no material impact on how the results and financial position for the current and prior periods have been prepared and presented.

HKAS 1 (Revised 2007) Presentation of Financial Statements

The adoption of HKAS 1 (Revised 2007) makes certain changes to the format and presentation of some items within the primary financial statements. A third balance sheet as at the beginning of the earliest comparative period is required when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements or when it reclassifies items in its financial statements.

The measurement and recognition of the Group's assets, liabilities, income and expenses is unchanged. However, some items that were recognised directly in equity are now recognised in other comprehensive income. HKAS 1 affects the presentation of owner changes in equity and introduces a 'Statement of comprehensive income'.

Comparatives have been restated to conform with the revised standard. However, the changes to the comparatives have not affected the consolidated or parent company balance sheet at 1 January 2008 and accordingly the third balance sheet as at 1 January 2008 is not presented.

HKFRS 7 (Amendments) Improving Disclosures about Financial Instruments

The amendments require additional disclosures for financial instruments which are measured at fair value in the balance sheet. These fair value measurements are categorised into a three-level fair value hierarchy, which reflects the extent of observable market data used in making the measurements. The Group has taken advantage of the transitional provisions in the amendments and has not provided comparative information in respect of the new requirements.

HKFRS 8 Operating Segments

As a result of the adoption of HKFRS 8, reported segment information is now based on internal management reporting information that is regularly reviewed by the senior executive management. In the previous annual financial statements, segments were identified by reference to the dominant source and nature of the Group's risks and returns. The adoption of HKFRS 8 has not affected the identified and reportable operating segments but to provide comparative amounts in respect of items disclosed for the first time in 2009.

At the date of authorisation of these financial statements, certain new and amended HKFRSs have been published but are not yet effective, and have not been adopted early by the Group.

The directors anticipate that all of the pronouncements will be adopted in the Group's accounting policy for the first period beginning after the effective date of the pronouncement. Information on new and amended HKFRSs that are expected to have impact on the Group's accounting policies is provided below. Certain other new and amended HKFRSs have been issued but are not expected to have a material impact of the Group's financial statements.

HKFRS 3 Business combinations (Revised 2008)

The standard is applicable in reporting periods beginning on or after 1 July 2009 and will be applied prospectively. The new standard still requires the use of the purchase method (now renamed the acquisition method) but introduces material changes to the recognition and measurement of consideration transferred and the acquiree's identifiable assets and liabilities, and the measurement of non-controlling interests (previously known as minority interest) in the acquiree. The new standard is expected to have a significant effect on business combinations occurring in reporting periods beginning on or after 1 July 2009.

HKFRS 9 Financial instruments

The standard is effective for accounting periods beginning on or after 1 January 2013 and addresses the classification and measurement of financial assets. The new standard reduces the number of measurement categories of financial assets and all financial assets will be measured at either amortised cost or fair value based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. Fair value gains and losses will be recognised in profit or loss except for those on certain equity investments which will be presented in other comprehensive income.

HKAS 27 Consolidated and separate financial statements (Revised 2008)

The revised standard is effective for accounting periods beginning on or after 1 July 2009 and introduces changes to the accounting requirements for the loss of control of a subsidiary and for changes in the Group's interest in subsidiaries. Total comprehensive income must be attributed to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Annual improvements to HKFRSs 2009

The HKICPA has issued Improvements to HKFRSs 2009. Most of the amendments become effective for annual periods beginning on or after 1 January 2010. The Group expects the amendment to HKAS 17 Leases to be relevant to the Group's accounting policies. Prior to the amendment, HKAS 17 generally required a lease of land to be classified as an operating lease. The amendment requires a lease of land to be classified as an operating or finance lease in accordance with the general principles in HKAS 17. The Group will need to reassess the classification of its unexpired leases of land at 1 January 2010 on the basis of information existing at the inception of those leases in accordance with the transitional provisions for the amendment. The amendment will apply retrospectively except where the necessary information is not available. In that situation, the leases will be assessed on the date when the amendment is adopted.

2. 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 represents sales of goods at invoiced value to customers net of returns and discounts.

3. SEGMENT INFORMATION

The executive directors have identified the following three operating segments:

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

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

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

	Manufacturing		Trading		Retail		Total	
	2009	2008	**2009**	2008	**2009**	2008	**2009**	2008
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Revenue from external customers	**388,080**	379,421	**31,248**	45,622	**96,506**	185,916	**515,834**	610,959
Inter-segment revenue	**13,600**	19,947	**–**	–	**–**	–	**13,600**	19,947
Reportable segment revenue	**401,680**	399,368	**31,248**	45,622	**96,506**	185,916	**529,434**	630,906
Reportable segment (loss)/profit	**(2,613)**	364	**(2,101)**	4,987	**(17,946)**	(22,838)	**(22,660)**	(17,487)
Net gain/(loss) from short term investments							**43**	(4,861)
Share-based payment expenses							**(1,975)**	(713)
Unallocated corporate income							**1,227**	943
Unallocated corporate expenses							**(29,330)**	(189)
Loss from operations							**(52,695)**	(22,307)
Share of results of a jointly controlled entity							**209**	(4,570)
Finance costs							**(62)**	(86)
Taxation							**(140)**	(2,857)
Loss for the year							**(52,688)**	(29,820)

	Manufacturing		Trading		Retail		Total	
	2009	2008	**2009**	2008	**2009**	2008	**2009**	2008
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Reportable segment assets	**327,285**	327,982	**8,456**	10,312	**70,577**	72,040	**406,318**	410,334
Interests in a jointly controlled entity							**–**	15,136
Intangibles							**3,790**	–
Deferred tax assets							**67**	28
Tax recoverable							**604**	608
Short term investments							**4,758**	4,322
Other corporate assets							**138,729**	149,145
Total assets							**554,266**	579,573
Reportable segment liabilities	**48,654**	39,983	**9,434**	7,907	**22,761**	35,357	**80,849**	83,247
Deferred tax liabilities							**1,513**	2,253
Taxation							**2,595**	3,774
Other corporate liabilities							**11,270**	14,234
Total liabilities							**96,227**	103,508

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

The Group's revenues from external customers and its non-current assets (other than deferred tax assets) are divided into the following geographical areas:

(i) Revenue from external customers

	2009	2008
	HK\$'000	*HK\$'000*
Hong Kong (Place of domicile)	**14,526**	16,014
USA	**292,313**	289,238
PRC	**88,477**	191,648
Europe	**86,713**	98,074
Others	**33,805**	15,985
Total	**515,834**	610,959

(ii) Non-current assets

	2009	2008
	HK\$'000	*HK\$'000*
Hong Kong (Place of domicile)	**7,975**	6,637
PRC and Macau	**125,923**	137,743
Europe	**4,017**	349
Vietnam	**473**	15,136
	138,388	159,865

During 2009, HK\$59,554,000 or 11.6% of the Group's revenue was derived from a single customer in the Manufacturing business (2008: HK\$77,704,000 or 12.7%).

4. LOSS BEFORE TAXATION

This is stated after charging/(crediting):

	2009	2008
	HK\$'000	*HK\$'000*
Negative goodwill	**(1,033)**	(5,808)
Net (gain)/loss from short term investments	**(43)**	4,861
Depreciation of property, plant and equipment	**32,127**	30,042
Amortisation on prepaid premium on leasehold land held for own use under operating lease	**144**	142
Amortisation of intangibles	**138**	–
Provisions for impairment of trade and other receivables	**3,606**	1,662
Provisions for impairment of property, plant and equipment	**6,815**	–
Loss on disposal of property, plant and equipment	**3,079**	–
Written down of inventories to net realisable value	**9,589**	–
Impairment of goodwill	**–**	17,202
Impairment of intangibles	**–**	11,146

5. TAXATION

	2009	2008
	HK$'000	*HK$'000*
Hong Kong Profits Tax		
– Current year	**(27)**	527
– Under/(over)-provision in prior years	**175**	(839)
	148	(312)
PRC income tax	**1,296**	3,488
Overseas tax	**(525)**	1,035
	919	4,211
Deferred taxation		
– Current year	**(779)**	(1,147)
– Decrease in tax rate	**–**	(207)
	(779)	(1,354)
	140	2,857

Hong Kong Profits Tax has been provided at the rate of 16.5% (2008: 16.5%) on the estimated assessable profits for the year. 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.

6. DIVIDENDS

	2009	2008
	HK$'000	*HK$'000*
Interim dividend of 1 HK cents (2008: 2 HK cents) per share	**3,352**	6,368
Proposed final dividend of 2 HK cents (2008: 3 HK cents) per share	**7,038**	10,055
	10,390	16,423

A final dividend in respect of 2009 of 2 HK cents (2008: 3 HK cents) per share amounting to approximately HK$7,038,000 (2008: HK$10,055,000) has been proposed by the directors after the balance sheet date. The proposed final dividend has not been recognised as a liability at the balance sheet date, but reflected as an appropriation of accumulated profits for the year ended 31 December 2009.

7. LOSS PER SHARE

The calculation of basic loss per share is based on the loss attributable to equity holders of the Company of HK$45,133,000 (2008: HK$29,259,000) and on the weighted average number of shares of 335,710,859 (2008: 318,402,284) in issue during the year.

No diluted loss per share has been presented for the year ended 31 December 2009 and 2008 because the impact of exercise of the share options was anti-dilutive.

8. TRADE AND OTHER RECEIVABLES

	2009	2008
	HK$'000	*HK$'000*
Trade and bills receivables	**108,713**	107,713
Less: provision for impairment of trade receivables	**(3,273)**	(3,566)
	105,440	104,147
Deposits, prepayments and other debtors	**62,204**	40,591
	167,644	144,738

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

	2009	2008
	HK$'000	*HK$'000*
0 – 30 days	**52,479**	41,651
31 – 60 days	**18,101**	28,258
61 – 90 days	**4,180**	15,033
Over 90 days	**30,680**	19,205
	105,440	104,147

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.

9. TRADE AND OTHER PAYABLES

	2009	2008
	HK$'000	*HK$'000*
Trade and bills payables	**35,257**	43,938
Accrued charges and other creditors	**55,619**	52,058
	90,876	95,996

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

	2009	2008
	HK$'000	*HK$'000*
0 – 30 days	**20,447**	19,816
31 – 60 days	**8,169**	9,263
61 – 90 days	**2,382**	1,385
Over 90 days	**4,259**	13,474
	35,257	43,938

BUSINESS REVIEW AND PROSPECTS

Overview

2009 was a challenging year for Mainland Headwear. The financial tsunami affected the global economy and the US market continued to be weak. In the PRC market, exports have slowed down but raw material costs and wages have risen substantially. Consumers in the PRC's first-tier cities have also become more conservative in spending. These factors combined have created a difficult operating environment for the Group during the period.

To cope with these challenging times, the Group continued to strengthen product design and R&D capabilities of its Manufacturing Business to encourage expansion of its customer base. Amid the adverse operating conditions, Mainland Headwear secured new orders from one of Japan's leading casual wear retail chains. In addition, the strategic cooperation with New Era Cap Co., Inc. ("New Era"), the world's largest headwear company, was finalised in October 2008 providing a steady income stream for the Group's Manufacturing Business.

However, as consumers in the first-tier cities in the PRC have been more cautious with their spending, the Group's Retail Business has declined. Nevertheless, the Group was able to narrow the operating loss of the LIDS business during the year by increasing the sales proportion of its own brand products and introducing several accessory brands which were well received by the market.

Financial Review

For the year ended 31 December 2009, the Group's turnover was HK$515,834,000 (2008: HK$610,959,000). Gross profit and loss attributable to shareholders were HK$113,992,000 (2008: HK$170,373,000) and HK$45,133,000 (2008: HK$29,259,000) respectively.

The loss incurred by the Group was mainly due to the increases in raw material costs and wages, a decline of the Retail Business and the occurrence of one-off expenses. These expenses included: the legal costs and legal fee provisions of HK$21,000,000 generated from the litigation in relation to Concept One's breaching the manufacturing agreement signed with the Group; provision for inventory of Olympic products of HK$5,898,000; and the loss of approximately HK$11,853,000 arising from the closure of the Vietnam factory.

Manufacturing Business

For the year ended 31 December 2009, the Manufacturing Business continued to be the Group's major revenue contributor. Turnover from the Manufacturing Business was HK$401,680,000, a level comparable to that of last year (2008: HK$399,368,000), accounting for 76% of the Group's total turnover.

Various unfavourable external factors have inhibited the Manufacturing Business including a high RMB exchange rate, the rising costs of raw material and wages and arbitrary one-off expenses. These expenses comprised provision for the unsold Olympic headwear products amounted to HK$4,128,000 and the loss of approximately HK$11,853,000 from the closing of the Vietnam factory. These charges collectively contributed to an operating loss of HK$2,613,000 (2008: profit of HK$364,000) for this segment.

The Group's efforts to strengthen product design and R&D of its Manufacturing Business is starting to show results. The improved product design has helped secure orders from several internationally renowned brands which are expected to bring a stable and significant revenue stream to the Group in the coming year. Furthermore, New Era agreed in October 2008 to purchase headwear products manufactured and supplied by the Group for a seven year period between 1 January 2009 and 31 December 2015. The purchase value of New Era's orders in the review year exceeded the minimum purchase amount of US$5,000,000 in the first year as stated in the contract.

The Group's factories in Shenzhen, Panyu and Dongguan provide sufficient capacity and facilities to cater for current orders.

Retail Business

The Group's Retail Business recorded a turnover of HK$96,506,000 (2008: HK$185,916,000), representing about 18% of the total turnover of the Group, with an operating loss of HK$17,946,000 (2008: HK$22,838,000) during the year under review.

Decrease in turnover was mainly due to sharp decline in the Diecui Business, with a weaker demand for high-end goods in first-tier cities. However, the Group has increased the sales proportion of its own brand products which carry higher margins. The LIDS business also underwent significant improvement in the second half of 2009.

SANRIO

During the year, turnover from the Sanrio operations amounted to HK$72,636,000 (2008: HK$85,806,000), with an operating loss of HK$8,641,000 (2008: HK$3,680,000).

This year, the Group continued its strategy of opening self-owned flagship stores across first-tier cities in the PRC to optimise its brand image so as to attract more franchisees in second- and third-tier cities. In the uncertain economic climate, the Group has acted prudently in shop expansions over the last year. As of 31 December 2009, the Group operated 48 Sanrio self-owned stores, 1 store less than the previous year. The number of franchise stores decreased to 51 from 60 last year. In addition, the Group's self-developed products increased from 40% to 45% in the first half of 2009, and this percentage is expected to grow steadily in the future.

LIDS

Impacted by the decline in consumer spending in first-tier cities, LIDS operations made a turnover of HK$22,391,000 (2008: HK$27,923,000). To address this shortcoming and boost operational efficiency, the Group increased the sales proportion of its own brand products, introduced higher margin accessories, tightened store management controls and gradually reallocated underperforming stores. As a result, gross margin increased from around 68% to 70%. Operating loss was also reduced significantly in the second half, making the total operating loss for the year HK$3,236,000 (2008: HK$3,732,000). As of 31 December 2009, the Group operated 28 self-owned LIDS stores: 22 in the PRC and 6 in Hong Kong. It also has 18 franchise stores in the PRC.

Diecui

During the year under review, the Diecui operations recorded a turnover of HK$1,479,000 (2008: HK$72,187,000), with an operating loss of HK$6,069,000 (2008: HK$15,426,000). The Group scaled down the Diecui operation after the 2008 Beijing Olympic Games by reducing the number of shops from four self-owned stores and 36 franchise stores last year-end to three self-owned stores.

Trading Business

Influenced by the weak British pound during the past year, the Trading Business generated a turnover of HK$31,248,000 (2008: HK$45,622,000) with an operating loss of HK$2,101,000 (2008: profit of HK$4,987,000). The segment continued to expand its customer base for the Manufacturing Business, leveraging its established relationship with major retailers in the US and Europe.

Prospects

Looking ahead, in the face of anticipated rises in staff costs, the Group will actively enhance its product design and R&D capability to attract a larger customer base while continuing to closely control production costs. Therefore, the Group remains confident about its prospects for the year ahead.

Manufacturing Business

With the high RMB exchange rate and rising wages expected to continue, the operating environment for the Manufacturing Business in 2010 will remain challenging.

To combat these unfavourable conditions, the Group will not only step up cost control efforts, but also further boost its product design and R&D capabilities of the Manufacturing Business in a bid to broaden its customer base. Its outstanding product design has helped the Group secure orders from several globally renowned brands in recent months, creating new revenue streams for the Group.

In addition, the minimum purchase amount for 2010 agreed by New Era within the sales agreement will rise substantially to US$15,000,000, an increase of 200% over the total order amount in the first year. This together with the satisfactory growth in the orders from a leading Japanese casual wear retail chain secured last year is expected to generate stable revenue for the Group.

Retail Business

In its Retail Business, the Group will focus on development of the LIDS and SANRIO operations.

LIDS

The Group plans to open 2 additional self-owned stores in Hong Kong in high pedestrian traffic areas or tourist spots with total 8 stores. In the PRC, the Group will continue to expand its business in the first- and second-tier cities and will increase 8 self-owned stores and 5 franchise stores in order generate more revenue and expand its market share with total 30 and 23 stores respectively.

Additionally, the Group will continue to increase the sales proportion of its higher profit margin own brand products to 76% in 2010. The Group also plans to identify additional accessory brands to offer a more diverse product portfolio and boost the attraction of its brand to consumers as well as its competitive position. The Group is confident that the LIDS business would achieve breakeven in the coming year.

SANRIO

With the ongoing challenges in the operating environment, the Group will take a prudent approach towards implementing its development strategy for its Sanrio business.

The Group intends to continue to open flagship stores across first-tier cities in the PRC to optimise its brand image with a view to attracting more franchisees in the second- and third-tier cities and thereby further extending the Sanrio sales network in the PRC. In the coming year, the Group plans to open around 5 self-owned stores in cities such as Beijing, Guangzhou, Shenzhen, Chongqing, Shenyang and Tianjin with total 53 self-owned stores and add around 25 franchise stores in other regions with total 76 franchise stores. Through these measures, the Group intends to attain breakeven for the Sanrio business in 2010.

Trading Business

The Group's Trading Division will continue to leverage its strong business relationships with major European retailers to expand the customer base for the Manufacturing Business creating synergies within the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

Liquidity and Financial Resources

As at 31 December 2009, the Group had cash, bank balances and a portfolio of liquid investments totaling HK$143.5 million (2008: HK$153.5 million). About 55% and 22% of these liquid funds were denominated in US dollars and Renminbi respectively and the remainder mainly in HK dollars and Pound Sterling.

The decrease in liquid funds was mainly attributable to the decrease in trade and other payables. The Group settled a significant amount of trade payables for Olympic products in early 2009.

As at 31 December 2009, the Group had banking facilities of HK$104.0 million (2008: HK$105.0 million), of which HK$101.5 million (2008: HK$103.3 million) was not utilised.

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

Acquisition of additional interests in Keen Idea Group Limited ("Keen Idea") and closure of the Vietnam factory

At 31 December 2008, the Group had 36% equity interests in a jointly controlled entity, Keen Idea. Keen Idea is a company engaged in headwear manufacturing business with its factory based in Vietnam.

On 27 February 2009, the Group further acquired 24% equity interests of Keen Idea for a cash consideration of HK$4,368,000. The Group had effectively 60% equity interests in Keen Idea, which has become a non-wholly owned subsidiary of the Group.

Total cash consideration for 60% interest in Keen Idea included initial investment of HK$19,706,000 for 36% equity interest and HK$4,368,000 for acquisition of additional 24% equity interest in Keen Idea.

Negative goodwill of HK$1,033,000 has arisen on the acquisition of Keen Idea as a result of a bargain purchase.

The recent global weakening economy has affected the performance of Keen Idea. Therefore the board of directors of Keen Idea decided to close down the operations of the Vietnam factory in the third quarter of 2009.

Capital Expenditure

During the year, the Group spent approximately HK$10.1 million (2008: HK$10.3 million) on the construction of an additional factory building, which was completed in 2009, and additions to plant and equipment to upgrade its manufacturing capability. The Group had also spent HK$4.5 million (2008: HK$4.4 million) on the retail systems and opening of new retail stores in 2009.

For the year 2010, the Group has budgeted HK$10.5 million for capital expenditure to enhance its production capacity and efficiency, and HK$1.5 million for opening of new shops.

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

Subsequent event

On 2 April 2010, New Era Cap Asia Pacific Limited ("New Era"), pursuant to the Manufacturing Agreement signed by the Group and New Era on 21 October 2008, issued a letter to the Company requesting to exercise the share option for 25,000,000 ordinary shares at the exercise price of HK$0.82425 per share. The request was approved by the board of directors on 12 April 2010. Upon the receipt of the share proceeds from New Era, share certificates are expected to be issued by late April 2010.

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 Manufacturing Business by about 1%. However, as the businesses in the PRC market grow, the expected positive contribution will provide a hedge against the adverse effect of any appreciation of Renminbi to the manufacturing costs.

Employees and Remuneration Policies

At 31 December 2009, the Group employed 101 (2008: 109) employees in Hong Kong and Macau, and 3,318 (2008: 3,249) employees in the PRC and a total of 6 (2008: 6) employees in the UK. The expenditures for employees during the year were approximately HK$149.2 million (2008: HK$152.3 million). The Group ensures that the pay levels of its employees are competitive and employees were remunerated based on their position and performance. Key employees of the Group, including Directors, are also granted share options under the share option schemes operated by the Company.

DIVIDENDS AND CLOSURE OF REGISTER OF MEMBERS

The Directors now recommend the payment of a final dividend of 2 HK cents (2008: 3 HK cents) per share in respect of the year ended 31 December 2009. Subject to the approval at the forthcoming annual general meeting, the final dividend will be payable on or after 9 June 2010 to the shareholders whose names appear on the register of members at the close of the business on 19 May 2010.

The registered of members of the Company will be closed from 20 May 2010 to 26 May 2010 (both dates inclusive). In order to qualify for the proposed final dividend, all transfers, accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong Branch Share Registrar, Tricor Tengis Limited, at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on 19 May 2009.

ANNUAL GENERAL MEETING

It is proposed that the Annual General Meeting of the Company will be held on 26 May 2010. The Notice of the Annual General Meeting will be published in the Company's website and sent to the shareholders of the Company in due course.

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

During the year ended 31 December 2009, 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 year ended 31 December 2009 except for the deviations of Code Provisions A.4.1 and A.4.2 as explained in the Company's Annual Report for the year ended 31 December 2008.

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 the Model Code throughout the year.

SCOPE OF WORK OF THE AUDITORS

The figures in respect of the preliminary announcement of the Group's results for the year ended 31 December 2009 have been agreed by the Group's auditors, Grant Thornton, ("the Auditors") to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by the Auditors in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by the Auditors on the preliminary announcement.

REVIEW OF FINANCIAL STATEMENTS

The Audit Committee has reviewed the Group's consolidated financial statements for the year ended 31 December 2009, including the accounting principles and practices adopted by the Group, in conjunction with the Company's external auditor.

By Order of the Board
Ngan Hei Keung
Chairman

Hong Kong, 12 April 2010

As at the date of this announcement, the Board 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.

* *For identification purpose only*