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 2010

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 2010.

CONSOLIDATED INCOME STATEMENT
For the year ended 31 December 2010

	Note	**2010** **HK$'000**	2009 HK$'000
Revenue	*2&3*	**678,633**	515,834
Cost of sales		**(490,086)**	(401,842)
Gross profit		**188,547**	113,992
Other income		**1,077**	1,748
Other losses – net	*4*	**(12,420)**	(11,352)
Selling and distribution costs		**(81,913)**	(65,979)
Administration expenses		**(85,097)**	(93,861)
Profit/(loss) from operations		**10,194**	(55,452)
Share of results of a jointly controlled entity		**–**	209
Finance income – net		**1,037**	2,695
Profit/(loss) before income tax	*5*	**11,231**	(52,548)
Income tax expense	*6*	**(5,672)**	(140)
Profit/(loss) for the year		**5,559**	(52,688)

	Note	2010	2009
		HK$'000	*HK$'000*
Attributable to:			
Owners of the parent		**5,670**	(45,133)
Non-controlling interests		**(111)**	(7,555)
		5,559	(52,688)
Earnings/(loss) per share attributable to owners of the parent	*7*		
Basic		**1.5 HK cents**	(13.4 HK cents)
Diluted		**1.5 HK cents**	(13.4 HK cents)
Dividends	*8*	**11,951**	10,390

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2010

	2010	2009
	HK$'000	*HK$'000*
Profit/(loss) for the year	**5,559**	(52,688)
Other comprehensive income		
Exchange differences on translation of financial statements of foreign operations	**3,899**	894
Total comprehensive income/(loss) for the year, net of tax	**9,458**	(51,794)
Attributable to:		
Owners of the parent	**9,493**	(44,133)
Non-controlling interests	**(35)**	(7,661)
Total comprehensive income/(loss) for the year	**9,458**	(51,794)

CONSOLIDATED BALANCE SHEET

As at 31 December 2010

	Note	2010 HK$'000	2009 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment		**118,678**	128,703
Land use rights		**816**	937
Goodwill		**4,958**	4,958
Other intangible asset		**2,041**	3,790
Other non-current receivables	9	**5,023**	–
Deferred tax assets		**152**	67
		131,668	138,455
Current assets			
Inventories		**130,518**	103,153
Trade and other receivables	9	**160,325**	167,644
Amount due from a related company		**941**	923
Financial assets at fair value through profit or loss		**1,423**	4,758
Tax recoverable		**604**	604
Cash and cash equivalents		**185,667**	138,729
		479,478	415,811
Total assets		**611,146**	554,266
EQUITY			
Equity attributable to owners of the parent			
Share capital		**39,800**	35,191
Other reserves		**216,873**	179,641
Retained earnings			
– Proposed dividends		**7,971**	7,038
– Others		**220,648**	227,429
		485,292	449,299
Non-controlling interests		**4,025**	8,740
Total equity		**489,317**	458,039

	Note	2010 HK$'000	2009 HK$'000
LIABILITIES			
Non-current liabilities			
Long service payment payable		**260**	73
Deferred tax liabilities		**629**	1,513
		889	1,586
Current liabilities			
Trade and other payables	*10*	**106,448**	90,876
Amounts due to related companies		**1,435**	1,170
Income tax payable		**13,057**	2,595
		120,940	94,641
Total liabilities		**121,829**	96,227
Total equity and liabilities		**611,146**	554,266
Net current assets		**358,538**	321,170
Total assets less current liabilities		**490,206**	459,625

Notes

1. ACCOUNTING POLICIES

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

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

Changes in accounting policy and disclosures

(i) New and amended standards adopted by the Group

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 January 2010.

- HKFRS 3 (revised), 'Business combinations', and consequential amendments to HKAS 27, 'Consolidated and separate financial statements', are effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009.

  The revised standard continues to apply the acquisition method to business combinations but with some significant changes compared with HKFRS 3. For example, all payments to purchase a business are recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the statement of comprehensive income. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs are expensed.

  HKAS 27 (revised) requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss. HKAS 27 (revised) has no significant impact on the Group's financial statements on the current period.

- HKAS 17 (amendment), 'Leases', deletes specific guidance regarding classification of leases of land, so as to eliminate inconsistency with the general guidance on lease classification. As a result, leases of land should be classified as either finance or operating lease using the general principles of HKAS 17, i.e. whether the lease transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee. Prior to the amendment, land interest which title is not expected to pass to the Group by the end of the lease term was classified as operating lease under "Leasehold land and land use rights", and amortised over the lease term. The revised standard has no significant impact on the Group's financial statements on the current period.

The following new and amended standards and interpretations of HKFRS are mandatory for accounting periods beginning on or after 1 January 2010 but they are not relevant to the Group's operations:

HKFRS 1 (Revised)	First-time Adoption of HKFRSs
HKFRS 1 Amendment	Additional Exemptions for First-time Adopters
HKFRS 2 Amendment	Group Cash-settled Share-based Payment Transactions
HKAS 39 Amendment	Eligible Hedged Items
HK(IFRIC)-Int 9 and HKAS 39 Amendments	Embedded Derivatives
HK(IFRIC)-Int 17	Distributions of Non-cash Assets to Owners
HK(IFRIC)-Int 18	Transfer of Assets from Customers
HK Interpretation 5	Presentation of Financial Statements - Clarification by the borrower of a Term Loan that contains a Repayment on Demand Clause

First and second improvements to HKFRSs published by the Hong Kong Institute of Certified Public Accountants.

(ii) New standards, amendments and interpretations have been issued but are not effective for the financial year beginning 1 January 2011 and have not been early adopted

HKFRS 1 Amendment	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters
HKFRS 1 Amendment	Severe Hyperinflation and Removal of Fixed Dates for First-time adopters
HKFRS 7 Amendment	Disclosures - Transfers of Financial Assets
HKFRS 9	Financial Instruments
HKAS 12 Amendment	Deferred Tax: Recovery of Underlying Assets
HKAS 24 (Revised)	Related Party Disclosures
HKAS 32 Amendment	Classification of Rights Issues
HK(IFRIC)-Int 14 Amendment	Prepayments of a Minimum Funding Requirement
HK(IFRIC)-Int 19	Extinguishing Financial Liabilities with Equity Instruments Annual Improvements Project to HKFRSs 2010
Annual Improvements Project to HKFRSs 2010	

The Group has not early adopted the above standards, amendments and interpretations and is not yet in a position to state whether substantial changes to the Group's accounting policies and presentation of accounts will result.

Certain prior year comparative figures in the consolidated income statement have been reclassified to conform with the current year's presentation. Prior year balance sheet was not affected by this change in presentation.

2. REVENUE

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

3. 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 as follows:

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

(ii) Trading Business: The trading and distribution of headwear and other products business of the Group is operating through Drew Pearson International (Europe) Ltd., 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. The operation of tourist souvenir shops have ceased during 2010.

	Manufacturing		Trading		Retail		Total	
	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	**532,311**	388,080	**33,644**	31,248	**112,678**	96,506	**678,633**	515,834
Inter-segment revenue	**12,290**	13,600	**–**	–	**–**	–	**12,290**	13,600
Reportable segment revenue	**544,601**	401,680	**33,644**	31,248	**112,678**	96,506	**690,923**	529,434
Reportable segment profit/(loss)	**32,767**	(2,613)	**(1,386)**	(2,101)	**(4,227)**	(17,946)	**27,154**	(22,660)
Gain from disposal of financial assets at fair value through profit or loss							**874**	132
Fair value loss on financial assets at fair value through profit or loss							**(8)**	(89)
Share-based payment expenses							**(2,536)**	(1,975)
Unallocated corporate income							**474**	1,227
Unallocated corporate expenses							**(14,665)**	(29,330)
Profit/(loss) from operations							**11,293**	(52,695)
Share of results of a jointly controlled entity							**–**	209
Finance costs							**(62)**	(62)
Income tax expense							**(5,672)**	(140)
Profit/(loss) for the year							**5,559**	(52,688)

	Manufacturing		Trading		Retail		Total	
	2010	2009	**2010**	2009	**2010**	2009	**2010**	2009
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Reportable segment assets	**327,543**	327,285	**7,201**	8,456	**71,778**	70,577	**406,522**	406,318
Other intangible asset							**2,041**	3,790
Deferred tax assets							**152**	67
Tax recoverable							**604**	604
Financial assets at fair value through profit or loss							**1,423**	4,758
Other corporate assets							**200,404**	138,729
Total assets							**611,146**	554,266
Reportable segment liabilities	**71,151**	48,654	**7,270**	9,434	**26,398**	22,761	**104,819**	80,849
Deferred tax liabilities							**629**	1,513
Income tax payable							**13,057**	2,595
Other corporate liabilities							**3,324**	11,270
Total liabilities							**121,829**	96,227

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 are divided into the following geographical areas:

(i) Revenue from external customers

	2010	2009
	HK$'000	*HK$'000*
Hong Kong	**15,280**	14,526
USA	**431,393**	292,313
PRC	**101,927**	88,477
Europe	**92,635**	86,713
Others	**37,398**	33,805
Total	**678,633**	515,834

(ii) Non-current assets

	2010	2009
	HK$'000	*HK$'000*
Hong Kong	**10,420**	4,185
PRC	**113,755**	120,965
Europe	**342**	4,017
Vietnam	**–**	473
	124,517	129,640
Goodwill	**4,958**	4,958
Other intangible asset	**2,041**	3,790
Deferred tax assets	**152**	67
	131,668	138,455

During 2010, HK$142,790,000 or 21.0% and HK$68,633,000 or 10.1% of the Group's revenue was derived from two customers in the Manufacturing business (2009: HK$59,554,000 or 11.6% and HK$59,072,000 or 11.5%).

4. OTHER LOSSES – NET

	2010	2009
	HK$'000	*HK$'000*
Gain from disposal of financial assets at fair value through profit or loss	**874**	132
Financial assets at fair value through profit or loss – fair value loss	**(8)**	(89)
Excess of the share of the fair value of net assets of a subsidiary acquired over acquisition costs	**–**	1,033
Net foreign exchange gain/(loss)	**581**	(2,534)
Loss on disposal of property, plant and equipment	**(350)**	(3,079)
Loss on settlement of a litigation *(Note)*	**(13,517)**	–
Provision for impairment of property, plant and equipment	**–**	(6,815)
	(12,420)	(11,352)

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

5. PROFIT/(LOSS) BEFORE INCOME TAX

Profit/(loss) before income tax is stated after charging:

	2010	2009
	HK$'000	*HK$'000*
Depreciation of property, plant and equipment	**28,770**	32,127
Amortisation on land use rights	**147**	144
Amortisation of other intangible asset	**1,749**	138
Provision for impairment and write-off of trade and other receivables	**16,299**	3,606
Provision for impairment of inventories	**2,365**	9,589
Provision for impairment of prepaid license fee	**5,635**	–

6. INCOME TAX EXPENSE

	2010	2009
	HK$'000	*HK$'000*
Hong Kong profits tax		
– Current year	**–**	(27)
– Under provision in prior years	**–**	175
	–	148
Overseas tax	**6,672**	771
	6,672	919
Deferred taxation		
– Current year	**(1,000)**	(779)
	5,672	140

Hong Kong profits tax has been provided at the rate of 16.5% (2009: 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.

7. EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings/(loss) per share is based on the profit/(loss) attributable to owners of the parent of HK$5,670,000 (2009: (HK$45,133,000)) and on the weighted average number of 377,224,643 (2009: 335,710,859) shares in issue during the year.

Dilutive earnings/(loss) per share is the same as basic earnings/(loss) per share for the years ended 31 December 2009 and 2010 as there were no dilutive impact for both years.

8. DIVIDENDS

The dividends paid in 2010 and 2009 were HK$11,518,000 (3 HK cents per share) and HK$13,407,000 (3 HK cents per share) respectively. A dividend in respect of the year ended 31 December 2010 of 2 HK cents per share, amounting to a total dividend of HK$7,971,000, is to be proposed at the annual general meeting on 17 May 2011. These financial statements do not reflect this dividend payable.

	2010	2009
	HK$'000	*HK$'000*
Interim dividend of 1 HK cent (2009: 1 HK cent) per share	**3,980**	3,352
Proposed final dividend of 2 HK cents (2009: 2 HK cents) per share	**7,971**	7,038
	11,951	10,390

The aggregate amounts of the dividends paid and proposed during 2009 and 2010 have been disclosed in the consolidated income statement in accordance with the Hong Kong Companies Ordinance.

9. TRADE AND OTHER RECEIVABLES

	2010	2009
	HK$'000	*HK$'000*
Trade and bill receivables	**116,762**	108,713
Deposits, prepayments and other receivables	**67,758**	62,204
	184,520	170,917
Less: provision for impairment	**(19,172)**	(3,273)
	165,348	167,644
Less: non-current portion of other receivables	**(5,023)**	–
Current portion	**160,325**	167,644

Ageing analysis of trade and bill receivables

The ageing analysis of trade and bill receivables at the balance sheet date is as follows:

	2010	2009
	HK$'000	*HK$'000*
0 – 30 days	**50,700**	52,479
31 – 60 days	**31,962**	18,101
61 – 90 days	**5,947**	4,180
Over 90 days	**28,153**	33,953
	116,762	108,713

10. TRADE AND OTHER PAYABLES

	2010	2009
	HK$'000	*HK$'000*
Trade and bill payables	**44,857**	35,257
Accrued charges and other payables	**61,591**	55,619
	106,448	90,876

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

	2010	2009
	HK$'000	*HK$'000*
0 – 30 days	**24,941**	20,447
31 – 60 days	**13,768**	8,169
61 – 90 days	**2,380**	2,382
Over 90 days	**3,768**	4,259
	44,857	35,257

BUSINESS REVIEW

Overview

During the year under review, the Group achieved a turnaround recording encouraging results. In the face of multiple challenges, most notably rising raw material costs and wages, as well as labour shortage, the Group embarked on strategies which proved effective in tapping the opportunities presented by the recovering global economy and the burgeoning retail market in the PRC. Thus the Group delivered a significant improvement in overall performance during the year.

In the Manufacturing Business, the headwear market has been undergoing consolidation, with weaker players being eliminated, Group providing scope for stronger players such as Mainland Headwear to develop further. The internal measures we undertook, including stronger administrative and management procedures, and actions to address the labour shortage and bolster our overall productivity, delivered a satisfactory improvement in the operational performance of our Manufacturing Business.

As for the Retail Business, our LIDS and SANRIO businesses also performed satisfactorily and achieved turnaround in the second half of the year. Meanwhile, LIDS opened its first own-brand flagship store, "NOP", in Hong Kong. On top of the higher margin own-brand products, a variety of accessories were also introduced in the shop to further increase the gross profit margin of this business.

Financial Review

For the year ended 31 December 2010, the Group's turnover increased by approximately 31.6% from HK$515,834,000 to HK$678,633,000. Gross profit surged 65.4% to HK$188,547,000 (2009: HK$113,992,000), while the gross profit margin grew 5.7% from 22.1% to 27.8%. During the year, the Manufacturing Business recorded a satisfactory performance. In addition to this, thanks to the remarkable improvement in the Retail Business, the Group successfully turned around its business with profit attributable to shareholders of HK$5,670,000 (2009: Loss attributable to shareholders was HK$45,133,000). Excluding the one-off expense of approximately HK$14,000,000 from the settlement of litigation with Concept One, the profit attributable to shareholders would have been HK$19,000,000.

Manufacturing Business

During the year under review, the Manufacturing Business boasted excellent results. Turnover substantially increased by 35.6% over the previous year to HK$544,601,000 (2009: HK$401,680,000), accounting for 78.8% of the Group's total turnover, continuing as our major revenue source. The rise in turnover was mainly a result of the consolidation in the headwear industry, as customers preferred to work with stronger and more stable headwear manufacturers, thus driving growth in orders.

However, the Group faced myriad external challenges during the year, including an appreciating RMB, and rising raw material prices and labour costs coupled with growing labour shortages. In addition, to fulfill the requirements of the sharp increase in orders with shorter delivery schedules, the Group adopted quicker yet more expensive transportation modes for some orders to expedite timely delivery so as to maintain a good long-term relationship with customers. This move has resulted in an increase in cost but fortunately the condition alleviated significantly during the second half of the year.

To cope with the challenges, the Group has strived to expand its customer base and launched various cost control and administrative improvement measures, thus, the Group recorded an operating profit of HK$32,767,000 (2009: operating loss of HK$2,613,000).

In relation to the litigation in Concept One's alleged breach of the manufacturing agreement, the Group signed a settlement agreement with Concept One in November 2010. The agreement resolved the uncertainty brought to the Group arising from further litigation, enabling the Group to focus more resources and time to develop its business in the future. However, the Group reflected an one-off loss of approximately HK$14,000,000 during the year accordingly.

During the year under review, the Group has reformed the administration and management system within its factories. Apart from reviewing the salary and fringe benefits provided to staff and offering a more attractive remuneration package, the Group has also encouraged staff to refer high calibre individuals to join the Group to address the labour shortage in the PRC and maintain sufficient production capacity to meet rising demand.

Retail Business

The continued strong economic growth and rapid rise in the living standard of the PRC population has spurred market demand for high-end premium goods. These trends were instrumental to the Group's Retail Business recording a turnover of HK$112,678,000 during the year. This marked a rise of 16.8% over the same period last year (2009: HK$96,506,000) and accounted for about 16.3% of the Group's total turnover.

Although SANRIO and LIDS both reported satisfactory results last year and achieved turnaround in the second half, the Retail Business continued to record an operating loss of HK$4,227,000 this year (2009: Operating loss of HK$17,946,000). This was mainly attributable to the operating loss of HK$3,565,000 generated from the closure of the Diecui business.

SANRIO

Benefiting from the rising demand for high-end premium goods by consumers in first- and second-tier cities, turnover from the SANRIO operations climbed by 19.0% to HK$86,430,000 (2009: HK$72,636,000). The Group substantially increased the sales proportion of its self-developed products with higher profit margins from 45% to around 64%, leading to an improvement in gross profit margin from 52.7% last year to 57.2%. This increase in turnover has reduced the proportion of fixed costs such as distribution and administrative expenses, leading to a major drop in operating loss from HK$8,641,000 last year to HK$1,047,000. Worthy of attention is that the performance of SANRIO's business improved notably in the second half to record a profit.

To satisfy the demand for a better shopping experience from customers in first-tier cities and enhance its brand image, the Group restructured its network of self-owned stores during the year, relocating specific stores to prime locations, expanding the area of its flagship stores and enriching its product mix. This strategy has proven to be successful, not only increasing sales of self-owned stores but also increasing franchisees in second and third-tier cities. As at 31 December 2010, the Group operated 47 Sanrio self-owned stores, a decrease of one store when compared with last year, and increased the number of franchise stores from 51 stores in the same period last year to 59 stores.

LIDS

LIDS registered a turnover of HK$25,757,000, rising 15.0% over the same period last year (2009: HK$22,391,000). This was mainly attributable to the satisfactory performance in second- and third-tier cities in the PRC and the Group's efforts to further develop the NOP own-brand business. During the year under review, the Group strived to increase the sales proportion of its own-brand products and introduced higher margin accessories. These initiatives have helped to improve the gross profit margin from 70.0% in the corresponding period last year to 76.3%. LIDS' business also achieved a turnaround in the second half of the year for the first time with an annual operating profit of HK$384,000 (2009: Operating loss of HK$3,236,000).

To further boost profitability, the Group unveiled its first own-brand flagship store, "NOP", in Central, Hong Kong in October 2010, offering its own-brand products with higher profit margins and other quality headwear and accessories. The enhanced and trendy product mix of the new store has initially been well received by the market.

As at 31 December 2010, the Group had 31 self-owned LIDS stores, of which 24 were in the PRC and six were in Hong Kong. In addition, the Group operated 13 LIDS franchise stores in the PRC and one own-brand store, "NOP", in Hong Kong.

Trading Business

The Trading Business of the Group generated a turnover of HK$33,644,000 (2009: HK$31,248,000) with an operating loss of HK$1,386,000 (2009: HK$2,101,000). This was mainly because the Group has invested resources in enhancing the European sales team during the year to further expand its customer base for the Manufacturing Business by leveraging its established relationships with major retailers in Europe. The Group believes the results would further reflect these efforts in the year ahead.

Prospects

Looking ahead, the Group believes the reviving economies in the US and Europe and the increasing demand in the PRC market for high-end premium products present tremendous opportunities for its future development.

Manufacturing Business

For the Manufacturing Business, according to the manufacturing agreement signed with New Era, the minimum purchase value of New Era's orders for 2011 is to increase to US$17,500,000. The greater volume of business, together with its strong business partnership with New Era, is expected to continue to bring a stable and promising income to the Group.

In addition, the Group expects the growth momentum of orders to be sustained during the year ahead. To meet the increasing orders and alleviate the pressures of labour shortage and rising wages in the PRC, the Group plans to further expand its production scale in other regions.

Retail Business

In its Sanrio business, the Group is continuing to identify prime locations in first-tier cities in the PRC for large retail stores to boost its brand image and also with a view to attract more franchisees in second- and third-tier cities. Moreover, the Group plans to further enrich its product mix and continue to increase the sales proportion of its self-developed products in order to boost both sales and gross profit margins. Given the strong demand for high-end premium products driven by improving living standards of people in the PRC, the Group is very optimistic about the growth prospects of this business.

As for the LIDS business, the Group will actively develop the franchise business in the second- and third-tier cities and provide wholesale products to other large retail shops and department stores. In addition, in view of the satisfactory progress of its first own-brand flagship store, "NOP", in Hong Kong, the Group has already opened a branch store of "NOP" in Tsim Sha Tsui in mid-March and plans to seek other suitable locations to extend its retail network in Hong Kong.

At the same time, the Group will strengthen its cooperation with New Era by opening the first New Era store in Tsim Sha Tsui in March 2011. The store will mainly sell headwear for the sporting leagues for which the license is owned by New Era, including the NBA, NHL, MLB, etc. Riding on the Group's well-established retail and wholesale platform in the PRC and Hong Kong coupled with the rich industry experience of both parties, the Group is confident its further cooperation with New Era can boost this business.

MANAGEMENT DISCUSSION AND ANALYSIS

Liquidity and Financial Resources

As at 31 December 2010, the Group had cash, bank balances and a portfolio of liquid investments totaling HK$187.1 million (2009: HK$143.5 million). About 65% and 15% of these liquid funds were denominated in US dollars and Renminbi respectively and the remainder mainly in HK dollars and Pound Sterling.

The increase in liquid funds was mainly attributable to increase in share capital. NE exercised share options to subscribe for 46,093,000 shares at the average exercise price of HK$0.77 per share during 2010.

As at 31 December 2010, the Group had banking facilities of HK$116.0 million (2009: HK$104 million), of which HK$106.0 million (2009: HK$101.5 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.

Capital Expenditure

During the year, the Group spent approximately HK$15.3 million (2009: HK$10.1 million) on the additions to plant and equipment to upgrade its manufacturing capability. The Group had also spent HK$5.2 million (2009: HK$4.5 million) on the retail systems and opening of new retail stores in 2010.

For the year 2011, the Group has budgeted HK$10.0 million for capital expenditure to enhance its production capacity and efficiency, and HK$1.6 million for opening of new shops.

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

Exchange Risk

Most assets and liabilities of the Group are denominated either in HK dollars, US dollars or Renminbi. The Group estimates that any 1% appreciation of the Renminbi is expected to reduce the gross margin of the Manufacturing Business by about 1.5%. 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 2010, the Group employed 106 (2009: 101) employees in Hong Kong and Macau, and 3,459 (2009: 3,318) employees in the PRC and a total of 8 (2009: 6) employees in the UK. The expenditures for employees during the year were approximately HK$160.3 million (2009: HK$149.2 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 (2009: 2 HK cents) per share in respect of the year ended 31 December 2010. Subject to the approval at the forthcoming annual general meeting, the final dividend will be payable on or after 31 May 2011 to the shareholders whose names appear on the register of members at the close of the business on 16 May 2010.

The registered of members of the Company will be closed from 12 May 2011 to 17 May 2011 (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 16 May 2011.

ANNUAL GENERAL MEETING

It is proposed that the Annual General Meeting of the Company will be held on 17 May 2011. 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 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 year ended 31 December 2010 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 2009.

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.

REVIEW OF FINANCIAL STATEMENTS

The Audit Committee has reviewed the Group's consolidated financial statements for the year ended 31 December 2010, 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, 29 March 2011

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*