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 2011

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 2011.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2011

	Note	**2011** *HK$'000*	2010 *HK$'000*
Revenue	2 & 3	**751,017**	678,633
Cost of sales		**(554,592)**	(490,086)
Gross profit		**196,425**	188,547
Other income		**1,589**	1,077
Other losses – net	4	**(2,122)**	(12,420)
Selling and distribution costs		**(70,637)**	(81,913)
Administration expenses		**(97,299)**	(85,097)
Profit from operations		**27,956**	10,194
Finance income		**451**	1,099
Finance costs		**(3,155)**	(62)
Profit before income tax	5	**25,252**	11,231
Income tax expense	6	**(4,364)**	(5,672)
Profit for the year		**20,888**	5,559

	Note	**2011** *HK$'000*	2010 *HK$'000*
Attributable to:			
Owners of the Company		**21,202**	5,670
Non-controlling interests		**(314)**	(111)
		20,888	5,559
Earnings per share attributable to owners of the Company	7		
Basic		**5.3 HK cents**	1.5 HK cents
Diluted		**5.3 HK cents**	1.5 HK cents
Dividends	8	**15,943**	11,951

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2011

	2011	2010
	HK$'000	*HK$'000*
Profit for the year	**20,888**	5,559
Other comprehensive income:		
Exchange differences on translation of financial statements of foreign operations	**2,021**	3,899
Total comprehensive income for the year, net of tax	**22,909**	9,458
Attributable to:		
Owners of the Company	**23,119**	9,493
Non-controlling interests	**(210)**	(35)
Total comprehensive income for the year	**22,909**	9,458

CONSOLIDATED BALANCE SHEET

As at 31 December 2011

	Note	**2011** **HK$'000**	2010 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment		**104,245**	118,678
Land use rights		**695**	816
Goodwill		**27,446**	4,958
Other intangible assets		**38,588**	2,041
Other non-current receivables	9	**2,857**	5,023
Deferred income tax assets		**975**	152
Non-current bank deposits		**1,689**	–
		176,495	131,668
Current assets			
Inventories		**137,074**	130,518
Trade and other receivables	9	**156,044**	160,325
Amount due from a related company		**–**	941
Financial assets at fair value through profit or loss		**3,141**	1,423
Income tax recoverable		**262**	604
Cash and cash equivalents		**188,896**	185,667
		485,417	479,478
Total assets		**661,912**	611,146
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company			
Share capital		**39,858**	39,800
Other reserves		**220,515**	216,873
Retained earnings			
– Proposed final dividend		**11,957**	7,971
– Others		**225,906**	220,648
		498,236	485,292
Non-controlling interests		**801**	4,025
Total equity		**499,037**	489,317
LIABILITIES			
Non-current liabilities			
Other non-current payables	10	**22,216**	–
Long service payment payable		**336**	260
Deferred income tax liabilities		**–**	629
		22,552	889

	Note	2011 *HK$'000*	2010 *HK$'000*
Current liabilities			
Trade and other payables	10	**120,091**	106,448
Amounts due to related companies		**513**	1,435
Current income tax liabilities		**17,888**	13,057
Borrowings		**1,831**	–
		140,323	120,940
Total liabilities		**162,875**	121,829
Total equity and liabilities		**661,912**	611,146
Net current assets		**345,094**	358,538
Total assets less current liabilities		**521,589**	490,206

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.

Changes in accounting policy and disclosures

(i) New and amended standards adopted by the Group

The following amended standards and interpretations of HKFRS are mandatory for accounting periods beginning on or after 1 January 2011 but they are not relevant to the Group's operations:

HKAS 24 (Revised)	Related party disclosures
HKAS 32 Amendment	Classification of rights issue
HK(IFRIC) – Int 14	Prepayment of minimum funding requirement
HK(IFRIC) – Int 19	Extinguishing financial liabilities with equity instruments
Annual improvement project to HKFRS 2010	

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

The following new and amended standards have been issued but are not effective for the financial year beginning 1 January 2011 and have not been early adopted by the Group:

HKAS 1 (Amendment)	Presentation of financial statements[3]
HKAS 12 (Revised)	Deferred tax: Recovery of underlying assets[2]
HKAS 19 (Amendment)	Employee benefits[4]
HKAS 27 (revised 2011)	Separate financial statements[4]
HKAS 28 (revised 2011)	Investment in associates and joint ventures[4]
HKAS 32 (Amendment)	Financial instruments: Presentation — Offsetting financial assets and financial liabilities[5]
HKFRS 1 (Amendment)	Severe hyperinflation and removal of fixed dates for first-time adopters[1]
HKFRS 7 (Amendment)	Disclosures — Transfer of financial assets[1]
HKFRS 7 (Amendment)	Financial instruments: Disclosures — Offsetting financial assets and financial liabilities[4]
HKFRS 7 and HKFRS 9 (Amendments)	Mandatory effective date and transition disclosures[6]
HKFRS 9	Financial instruments[6]
HKFRS 10	Consolidated financial statements[4]

HKFRS 11	Joint arrangements[4]
HKFRS 12	Disclosures of interests in other entities[4]
HKFRS 13	Fair value measurements[4]

[1] effective for annual periods beginning on or after 1 July 2011
[2] effective for annual periods beginning on or after 1 January 2012
[3] effective for annual periods beginning on or after 1 July 2012
[4] effective for annual periods beginning on or after 1 January 2013
[5] effective for annual periods beginning on or after 1 January 2014
[6] effective for annual periods beginning on or after 1 January 2015

The expected impacts from the adoption of the above standards and amendments are still being assessed in details by management but it is expected that the adoption should not have significant impacts to the Group.

2. REVENUE

The principal activities of the Group are manufacturing, trading and retailing of headwear products, and retailing of licensed 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 by segment as follows:

(i) Manufacturing Business: The Group manufactures headwear products for sale to its Trading Business and Retail Business as well as to external customers. The prime manufacturing facilities are located in Shenzhen and Panyu, the PRC. 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, and H3 Sportgear LLC. (“H3”) which focus on the US market.

(iii) Retail Business: The Group operates LIDS stores in the PRC and Hong Kong, and SANRIO stores in the PRC. The operation of tourist souvenir shops have ceased during 2010.

	Manufacturing		Trading		Retail		Total	
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	*HK$'000*	*HK$'000*
Revenue from external customers	**567,712**	532,311	**62,707**	33,644	**120,598**	112,678	**751,017**	678,633
Inter-segment revenue	**18,795**	12,290	**–**	–	**–**	–	**18,795**	12,290
Reportable segment revenue	**586,507**	544,601	**62,707**	33,644	**120,598**	112,678	**769,812**	690,923
Reportable segment profit/(loss)	**44,995**	32,767	**2,588**	(1,386)	**(10,236)**	(4,227)	**37,347**	27,154
Gain from disposal of financial assets at fair value through profit or loss							**1,013**	874
Fair value loss on financial assets at fair value through profit or loss							**(289)**	(8)
Share-based payment expenses							**(1,235)**	(2,536)
Unallocated corporate income							**46**	474
Unallocated corporate expenses							**(8,475)**	(14,665)
Profit from operations							**28,407**	11,293
Finance costs							**(3,155)**	(62)
Income tax expense							**(4,364)**	(5,672)
Profit for the year							**20,888**	5,559
Depreciation of property, plant and equipment and amortisation of land use rights	**21,357**	24,275	**316**	114	**5,213**	4,528	**26,886**	28,917
Amortisation of other intangible assets	**2,040**	1,749	**6,492**	–	**5,140**	–	**13,672**	1,749
Loss on disposal of property, plant and equipment	**60**	350	**–**	–	**58**	–	**118**	350
Provision for impairment of inventories	**6,320**	1,000	**–**	–	**6,250**	1,365	**12,570**	2,365
Provision for impairment and write-off of trade and other receivables	**21,336**	16,281	**–**	–	**–**	18	**21,336**	16,299
Reportable segment assets	**296,697**	327,543	**58,987**	7,201	**74,366**	71,778	**430,050**	406,522
Other intangible assets							**38,588**	2,041
Deferred income tax assets							**975**	152
Income tax recoverable							**262**	604
Financial assets at fair value through profit or loss							**3,141**	1,423
Other corporate assets							**188,896**	200,404
Total assets							**661,912**	611,146
Reportable segment liabilities	**63,613**	71,151	**30,194**	7,270	**48,510**	26,398	**142,317**	104,819
Deferred income tax liabilities							**–**	629
Current income tax liabilities							**17,888**	13,057
Borrowings							**1,831**	–
Other corporate liabilities							**839**	3,324
Total liabilities							**162,875**	121,829
Capital expenditure incurred during the year	**4,671**	15,350	**953**	2	**5,436**	5,178	**11,060**	20,530

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 revenue from external customers and its non-current assets are divided into the following geographical areas:

(i) Revenue from external customers

	2011	2010
	HK$'000	*HK$'000*
Hong Kong	**23,859**	15,280
USA	**493,071**	431,393
PRC	**105,504**	101,927
Europe	**84,556**	92,635
Others	**44,027**	37,398
Total	**751,017**	678,633

(ii) Non-current assets

	2011	2010
	HK$'000	*HK$'000*
Hong Kong	**6,581**	10,420
PRC	**100,223**	113,755
Europe	**2,203**	342
USA	**479**	–
	109,486	124,517
Goodwill	**27,446**	4,958
Other intangible assets	**38,588**	2,041
Deferred income tax assets	**975**	152
	176,495	131,668

During 2011, HK$218,214,000 or 29.1% and HK$92,452,000 or 12.3% of the Group's revenue was derived from two customers in the Manufacturing business (2010: HK$142,790,000 or 21.0% and HK$68,633,000 or 10.1%).

4. OTHER LOSSES – NET

	2011	2010
	HK$'000	*HK$'000*
Gain from disposal of financial assets at fair value through profit or loss	**1,013**	874
Financial assets at fair value through profit or loss – fair value loss	**(289)**	(8)
Net foreign exchange (loss)/gain	**(2,728)**	581
Loss on disposal of property, plant and equipment	**(118)**	(350)
Loss on settlement of a litigation (Note)	**–**	(13,517)
	(2,122)	(12,420)

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 17 November 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 BEFORE INCOME TAX

Profit before income tax is stated after charging:

	2011	2010
	HK$'000	*HK$'000*
Depreciation of property, plant and equipment	**26,734**	28,770
Amortisation on land use rights	**152**	147
Amortisation of other intangible assets	**13,672**	1,749
Provision for impairment and write-off of trade and other receivables	**21,336**	16,299
Provision for impairment of inventories	**12,570**	2,365
Provision for impairment of prepaid license fee	**–**	5,635

6. INCOME TAX EXPENSE

	2011	2010
	HK$'000	*HK$'000*
Hong Kong profits tax	**–**	–
Overseas tax		
– Current year	**5,212**	6,672
– Under-provision in prior years	**604**	–
	5,816	6,672
Deferred taxation		
– Current year	**(1,452)**	(1,000)
	4,364	5,672

No Hong Kong profits tax has been provided for as the Company has no assessable profit for the year (2010: nil). 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 PER SHARE

The calculation of basic earnings per share is based on the profit attributable to owners of the Company of HK$21,202,000 (2010: (HK$5,670,000) and on the weighted average number of shares of 398,555,394 (2010: 377,224,643) in issue during the year.

Dilutive earnings per share is the same as basic earnings per share for the years ended 31 December 2010 and 2011 as the share options have no dilutive impact for both years.

8. DIVIDENDS

The dividends paid in 2010 and 2011 were HK$11,518,000 (3 HK cents per share) and HK$11,958,000 (3 HK cents per share) respectively. A dividend in respect of the year ended 31 December 2011 of 3 HK cents per share, amounting to a total dividend of HK$11,957,000, is to be proposed at the annual general meeting on 22 May 2012. These financial statements do not reflect this dividend payable.

	2011	2010
	HK$'000	*HK$'000*
Interim dividend of 1 HK cent (2010: 1 HK cent) per share	**3,986**	3,980
Proposed final dividend of 3 HK cents (2010: 2 HK cents) per share	**11,957**	7,971
	15,943	11,951

The aggregate amounts of the dividends paid and proposed during 2010 and 2011 have been disclosed in the consolidated income statement in accordance with the Hong Kong Companies Ordinance.

The amount of proposed final dividend for 2011 was based on 398,583,284 (2010: 398,003,284) shares in issue as at 31 December 2011.

9. TRADE AND OTHER RECEIVABLES

	2011	2010
	HK$'000	*HK$'000*
Trade and bills receivables	**130,068**	116,762
Deposits, prepayments and other receivables	**37,023**	67,758
	167,091	184,520
Less: provision for impairment	**(8,190)**	(19,172)
	158,901	165,348
Less: non-current portion of other receivables	**(2,857)**	(5,023)
Current portion	**156,044**	160,325

(a) The ageing analysis of trade and bills receivables at the balance sheet date is as follows:

	2011	2010
	HK$'000	*HK$'000*
0 – 30 days	**84,364**	50,700
31 – 60 days	**24,496**	31,962
61 – 90 days	**5,503**	5,947
Over 90 days	**15,705**	28,153
	130,068	116,762

(b) As at 31 December 2010, the Group had an aggregate amount of HK$39,038,000 due from a customer, of which HK$25,034,000 and HK$14,004,000 were included in trade receivables and other receivables, respectively. The balance was secured by an unconditional guarantee from the shareholder of this customer ("Guarantor") in respect of the repayment of the customer's balance due to the Group. In the event that the customer fails to make payments on time, the Group may require the Guarantor to make those payments under the guaranty agreement and the Group has the option to require the Guarantor to make such payments in the form of common stock of the customer of a value at least equal to the payment obligation.

On 19 August 2011, the Group acquired 85% equity interest of the customer pursuant of the guaranty agreement above. The directors carried out an impairment assessment before the acquisition and an impairment provision of HK$17,371,000 has been made during the year.

(c) Included in other receivables is a note receivable from a customer of HK$7,483,000 (2010: HK$8,271,000). The note receivable is interest bearing at 7% per annum and is repayable by 26 monthly instalments up to November 2012. The balance is secured by a second mortgage over a property. As at 31 December 2011, a provision of HK$3,965,000 was made.

10. TRADE AND OTHER PAYABLES

	2011	2010
	HK$'000	*HK$'000*
Trade and bills payables	**50,075**	44,857
Accrued charges and other payables	**92,232**	61,591
	142,307	106,448
Less: other non-current payables	**(22,216)**	–
Current portion	**120,091**	106,448

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

	2011	2010
	HK$'000	*HK$'000*
0 – 30 days	**28,521**	24,941
31 – 60 days	**14,418**	13,768
61 – 90 days	**2,045**	2,380
Over 90 days	**5,091**	3,768
	50,075	44,857

BUSINESS REVIEW

Overview

The Group recorded encouraging results during 2011 with an increase in turnover across all operations including manufacturing, trading and retail businesses. Profit attributable to shareholders surged 274% to HK$ 21,202,000. The Group's strategic measures to counter the many challenges during the year such as rising prices for raw materials and labour costs in the PRC enabled us to capture the enormous opportunities from the continued thriving Chinese economy and stronger demand from a gradually recovering global economy. Thus, our overall business recorded satisfactory performance.

In the Manufacturing Business, the Group maintained its strong position in the face of industry consolidation taking place in recent years. Capitalising on our strengths, we have become the preferred partner for numerous customers, and we have continued to expand our customer base. Combining our cost control measures and increased capacity through outsourcing production to a factory in Bangladesh, this segment remained as our major income source through its outstanding performance.

For the Trading Business, the consistent efforts to strengthen our sales team has paid off and led to a turnaround this year. The acquisition of H3 Sportgear has also provided a major boost in expanding the distribution and trading channels within Europe and the US, enabling us to achieve sustainable long-term growth of the business there.

Within the Retail Business, the Group has strived to expand the sales network and diversify its Sanrio and LIDS businesses to set a foundation for long-term development.

Financial Review

Resulting from the satisfactory performance of the manufacturing business segment and the strong growth in the trading business segment, turnover of the Group for the year ended 31 December 2011 rose 11% to HK$751,017,000 while overall gross profit increased by 4% to HK$196,425,000, profit attributable to shareholders also skyrocketed 274% to HK$ 21,202,000.

On the other hand, the Group's business was adversely influenced by the appreciating RMB and increasing labour cost during the year, resulting overall gross profit margin was 26.2% (2010: 27.8%). However, our effective cost control measures managed to boost the net profit margin from 0.8% last year to 2.8%.

The Group has adopted a prudent approach to its business operations. During the year, the Manufacturing and Retail businesses made inventory provisions of HK$6,320,000 and HK$6,250,000 respectively. The Group also made an impairment provision for the debts due from two customers of approximately HK$ 21,336,000 as detailed in note 9(b) and 9(c) of this announcement. Excluding these provisions, profit attributable to shareholders would be HK$55,108,000.

Manufacturing Business

During the year under review, the robust demand of the Group's customers boosted the order volume, so the turnover of the Manufacturing Business grew 7% to HK$586,507,000 from the previous year. This segment remained as our major income source, occupying 76.2% of the Group's total turnover. However, the prices of materials continued to rise and productivity was also affected by an increasing labour turnover rate in the Group's factories in Mainland China. Thus, the gross profit of this segment dropped slightly by 1% to HK$116,757,000. The Group outsourced part of the order to a factory in Bangladesh in order to mitigate the high turnover rate at local factories, and to increase flexibility in production and enlarged capacity.

Adhering to our prudent financial practices, the Group has made a provision of approximately HK$ 21,336,000 for trade and other receivables due from two customers. However, thanks to the effective cost effective measures initiated last year, in particular using less expensive means of delivery, we managed to appreciably reduce the cost of sales of the Manufacturing Business, thus the operating profit of this segment increased by 37% from HK$ 32,767,000 last year to HK$ 44,995,000.

Mainland Headwear has maintained close collaboration with our strategic partner, New Era. During the year, New Era's orders were at US$28,048,000, 60% higher than the minimum amount of US$17,500,000 stated in the manufacturing agreement. Besides, the Group has obtained approval from its shareholders at the Special General Meeting held on 9 November 2011 to renew a three-year manufacturing agreement with New Era. Under the agreement, New Era is required to purchase a minimum of US$35,000,000, US$40,000,000 and US$45,0000,000 worth of products from the Group for three financial years from 2012 to 2014. These amounts are more than double when compared with its committed minimum purchase amount in the previous agreement that was signed in 2008. This large order forms a solid foundation for our future growth. We have confidence that we can maintain a good relationship with New Era in the future.

In recent years, as the headwear industry underwent consolidation, Mainland Headwear managed to thrive as it has become the preferred choice for major customers and secured new customers with our flexible operational strategies and strong design and production capability. To satisfy the increasing volume of orders and mitigate rising cost pressures, we have begun to outsource our orders to a factory in Bangladesh that has lower production costs. This move not only adds immediate capacity, but also gives us greater flexibility to fill larger orders.

Trading Business

The Group's efforts to strengthened its sales team of its Trading Business during the year have been rewarded with an 86% increase in turnover to HK$62,707,000, achieving a segment turnaround, and recording an operating profit of HK$ 2,588,000 (2010: operating loss of HK$1,386,000).

The Group continued to devote resources to nurture its sales team in Europe which have begun to bear fruit. The sales team followed up its success in securing the distribution right of the headwear products for a leading soccer team in the English Premier League (EPL) in the first half of 2011 by gaining similar distribution rights from several leading soccer teams in the EPL in the second half of the year, further fuelling business growth.

On 19 August 2011, the Group completed the acquisition of the entire equity interest in Million Soung Limited at a total consideration of US$5,600,001 (equivalent to approximately HK$43,600,000) as a repayment of debts owed to a subsidiary of the Company. Under the terms of the agreement, the Group would indirectly own 85% equity interest in H3 Sportgear, through Million Soung Limited. As H3 Sportgear is mainly engaged in distribution of licensed and private label headwear, apparel and accessories in the USA, the acquisition would make H3 Sportgear the Group's distribution trading arm in the USA, currently its largest market, enabling direct sales to major retailers there. Upon completion of the acquisition, the Group immediately received orders from one of the largest retailers in the USA, illustrating the bright prospects in that market. The Group has also included H3 Sportgear under its Trading Business after the acquisition and achieved considerable progress in integrating the business. The operating loss of H3 Sportgear has reduced substantially during the end of the year. The Group believes the Trading Business would bring a greater contribution as stronger synergies are realised in the future.

Retail Business

With the continuous economic growth and rising consumer demand in China, together with the Group's strategy of actively expanding its sales network and promoting the diversification of the LIDS business, turnover of the Group's retail business grew by 7% year-on-year to HK$ 120,598,000, accounting for about 15.7% of the Group's total turnover. Adhering to the prudent management philosophy, the Group has made provision for inventory of HK$6,250,000, it explained the increase of the operating loss of the year to HK$10,236,000 (2010: HK$4,227,000) compared with last year.

Sanrio

Driven by the healthy growth of China's economy along with the establishment of an online sales platform for the Sanrio business which helped boost sales, turnover from the Sanrio operations climbed by 4% year-on-year to HK$89,538,000 with a same store sales growth of 10%. However, the continuous rise in the exchange rate of the Japanese Yen, together with increases in store rentals and raw material costs in Mainland China, and increase in inventory provision of HK$2,300,000 made by the Group for the Sanrio business have placed pressure on the operations of the business. Thus, gross profit margin was reduced to approximately 50.4% (2010: 57.2%), and its operating loss was HK$5,830,000 (2010: HK$1,047,000).

The Group has strived constantly to expand its market and strengthen its sales network in second and third-tier cities such as Shenyang and Baotou. As at 31 December 2011, the Group is operating a total of 49 self-owned stores and 64 franchise stores.

The Group has diversified its business with an aim to enhance both the brand awareness and profitability of the Sanrio business. It has committed to developing new branded product lines during the year including “Hello Kitty” teenage girls’ apparel, handbags and stationery. Capitalising on strong demand for high-end premium goods driven by the booming economy of China and rising consumer spending, the Group is confident that the Sanrio business will continue to improve in the future.

LIDS

Turnover of the LIDS business increased by 21% from HK$25,757,000 last year to HK$31,044,000, with same store sales growth of 5%. This satisfactory performance was mainly attributable to the expansion of the sales network and the opening of “NOP” and “New Era” stores to diversify business development. The new stores have been well received by consumers during the year as they have become the main growth driver of the LIDS business. However, affected by the high rental and continuous increase of staff costs in China and Hong Kong, the gross profit margin of LIDS business reduced to 71.7% (2010:76.3%). In addition, the increase in inventory provision of HK$2,500,000 made by the Group for the LIDS business led to an operating loss of HK$2,595,000. Excluding the provision for inventory, the LIDS business would have almost achieved breakeven.

As at 31 December 2011, the Group owned 27 LIDS self-owned stores, of which 22 were in China and 5 were in Hong Kong. In addition, the Group operated 12 LIDS franchise stores in China, and 4 of its own-brand “NOP” stores and 1 “New Era” retail store in Hong Kong.

Prospects

The continuous economic growth in China has increased the purchasing power of consumers, which in turn creates immense potential for the consumer goods market. This favourable factor supplements by robust demand of the Group’s customers, Mainland Headwear has established a solid position in the global headwear market. Although the Group expects to face tough ongoing challenges such as the possibility of RMB appreciation along with labour shortages in China and rising wages and rentals, it is confident of driving sustainable business development through prudent planning.

Within the Manufacturing Business, the Group’s efforts in exploring new customer sources have begun to pay off. Anticipating an increasing market demand for its headwear, the Group is negotiating with key customers for increasing orders volume. The strategic cooperative agreement signed between the Group and New Era stipulates that the minimum order value of the procurement contracts for the coming year will increase from US$17,500,000 this year to US$35,000,000, US$40,000,000 and US$45,000,000 respectively between 2012 and 2014, bringing a stable and substantial income stream to the Group.

To meet the keen demand of customers, while reducing costs and the reliance on the increasingly expensive production from plants in South China, the Group plans to further expand the scale of its production elsewhere during the coming years. As for the factories in the South China, since the staff there are highly productive skilled labourers, the Group will maintain the existing production capacity of its South China plants to address the production specifications of high value-added products. Backed by the substantial orders and its expansion to production bases with lower costs, the Group is confident of the healthy development of the Manufacturing Business in the future.

The Group will continue to expand the online e-commerce platform for its Sanrio business in the coming year with an aim of expanding the reach of its sales network and adding to market share. The huge visitation potential of the internet world and the cost effective model will further drive sales of the Sanrio products. The Group expects contribution will be generated by the online business in second half of 2012. The Group is also investing more resources in improving the operational efficiency of the existing stores and promoting product diversification to boost sales performance. It plans to expand its business by adding more self-owned stores and attracting more franchisees for stores in second and third-tier cities and capture the strongly rising domestic demand.

As for the LIDS business, the Group plans to open more "NOP" retail stores and "New Era" retail stores in Hong Kong at the appropriate time to further seize opportunities in the retail headwear market. The Group is also stepping up its efforts in developing more diverse brands and improving the design and development of new products. These initiatives should enable the Group to meet the diversity of market demands in a timely manner, develop a broad and loyal customer base, increase sales and profit and maintain business growth.

For the Trading Business, the Group is striving to enhance the strength of its sales team in Europe and the efforts have born satisfactory results. The sales team of the segment had gained the distribution rights of headwear products for a few leading soccer teams in EPL last year, which has laid a solid foundation for the order growth in Europe. The team will consistently strive to secure more distribution right so as to create larger synergies for the Group. In addition, the integration of H3 Sportsgear with the Group's Trading Business has progressed smoothly. The Group expects continuous improvement in its Trading Business and further narrowing of operating loss in the coming year, thus providing a greater contribution to the Group's development in Europe and the USA.

MANAGEMENT DISCUSSION AND ANALYSIS

Liquidity and Financial Resources

As at 31 December 2011, the Group had cash, bank balances and a portfolio of liquid investments totaling HK$192.0 million (2010: HK$187.1 million). About 63% and 19% of these liquid funds were denominated in US dollars and Renminbi respectively and the remainder mainly in HK dollars and Pound Sterling.

The Group maintained similar level of liquid funds in 2011 compared to 2010.

As at 31 December 2011, in addition to the HK$1.8 million bank loan of a newly acquired subsidiary, the Group had banking facilities of HK$106.6 million (2010: HK$116.0 million), of which HK$95.6 million (2010: HK$106.0 million) was not utilised.

The Group continued to maintain its gearing ratio (being the Group's net borrowings over total equity) at close to 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$4.7 million (2010: HK$15.3 million) on the additions to plant and equipment to upgrade its manufacturing capability. The Group had also spent HK$5.4 million (2010: 5.2 million) on the retail systems and opening of new retail stores in 2011.

For the year 2011, the Group has budgeted HK$9.7 million for capital expenditure to enhance its production capacity and efficiency, and HK$3.5 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 0.8%. 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 2011, the Group employed 95 (2010: 106) employees in Hong Kong and Macau, and 2,695 (2010: 3,459) employees in the PRC and a total of 20 (2010: 8) employees in the US and UK. The expenditures for employees during the year were approximately HK$177.8 million (2010: HK$160.3 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 3 HK cents (2010: 2 HK cents) per share in respect of the year ended 31 December 2011. Subject to the approval at the forthcoming annual general meeting, the final dividend will be payable on or after 20 June 2012 to the shareholders whose names appear on the register of members at the close of the business on 30 May 2012.

The registered of members of the Company will be closed from 28 May 2012 to 30 May 2012 (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 25 May 2012.

ANNUAL GENERAL MEETING

It is proposed that the Annual General Meeting of the Company will be held on 22 May 2012. 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.

To determine the identity of members who are entitled to attend and vote at the forthcoming Annual General Meeting which will be held on 22 May 2012, the register of members of the Company will be closed from 18 May 2012 to 22 May 2012 (both dates inclusive). In order to qualify to attend the Annual General Meeting, all transfers, accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong Branch Share Registrar, Tricor Tengis Limited, at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on 17 May 2012.

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

During the year ended 31 December 2011, 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 2011 except for the deviations of Code Provisions A.4.1 as explained in the Company's Annual Report for the year ended 31 December 2010.

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 2011, 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, 27 March 2012

As at the date of this announcement, the Board comprises nine directors, of which four are Executive Directors, namely Mr. Ngan Hei Keung, Madam Ngan Po Ling, Pauline, Mr. James S. Patterson and Ms. Maggie Gu; two Non-executive Directors, namely Mr. Tse Kam Fow and Mr. Andrew Ngan; 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*