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 2012

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 2012.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2012

	Note	**2012** *HK$'000*	2011 *HK$'000*
Revenue	2, 3	**767,152**	751,017
Cost of sales		**(565,368)**	(554,592)
Gross profit		**201,784**	196,425
Other income		**1,350**	1,589
Other gains/(losses) – net	4	**874**	(2,122)
Selling and distribution costs		**(82,800)**	(70,637)
Administration expenses		**(106,794)**	(97,299)
Profit from operations		**14,414**	27,956
Finance income		**1,427**	451
Finance costs	5	**(3,367)**	(3,155)
Profit before income tax	6	**12,474**	25,252
Income tax expense	7	**(4,841)**	(4,364)
Profit for the year		**7,633**	20,888

	Note	**2012**	2011
		HK$'000	*HK$'000*
Attributable to:			
Owners of the Company		**8,659**	21,202
Non-controlling interests		**(1,026)**	(314)
		7,633	20,888
Earnings per share attributable to owners of the Company	8		
Basic		**2.2 HK cents**	5.3 HK cents
Diluted		**2.2 HK cents**	5.3 HK cents
Dividends	9	**15,944**	15,943

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012

	2012 *HK$'000*	2011 *HK$'000*
Profit for the year	**7,633**	20,888
Other comprehensive income:		
Exchange differences on translation of financial statements of foreign operations	**3,423**	2,021
Total comprehensive income for the year, net of tax	**11,056**	22,909
Attributable to:		
Owners of the Company	**12,088**	23,119
Non-controlling interests	**(1,032)**	(210)
Total comprehensive income for the year	**11,056**	22,909

CONSOLIDATED BALANCE SHEET

As at 31 December 2012

	Note	**2012**	2011
		HK$'000	*HK$'000*
ASSETS			
Non-current assets			
Property, plant and equipment		**93,802**	104,245
Land use rights		**545**	695
Goodwill		**31,342**	27,446
Other intangible assets		**40,301**	38,588
Deferred income tax assets		**1,416**	975
Other non-current receivables	10	**25,268**	2,857
Non-current bank deposits		**1,750**	1,689
		194,424	176,495
Current assets			
Inventories		**161,455**	137,074
Trade and other receivables	10	**204,383**	156,044
Amount due from a related company		**1,321**	–
Financial assets at fair value through profit or loss		**3,083**	3,141
Derivative financial instruments		**601**	–
Income tax recoverable		**262**	262
Cash and cash equivalents		**146,382**	188,896
		517,487	485,417
Total assets		**711,911**	661,912
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company			
Share capital		**39,858**	39,858
Other reserves		**224,583**	220,515
Retained earnings			
– Proposed final dividend		**7,972**	11,957
– Others		**219,158**	225,906
		491,571	498,236
Non-controlling interests		**(361)**	801
Total equity		**491,210**	499,037

	Note	2012 HK$'000	2011 HK$'000
LIABILITIES			
Non-current liabilities			
Other non-current payables	11	**7,847**	22,216
Long service payment payable		**367**	336
		8,214	22,552
Current liabilities			
Trade and other payables	11	**152,423**	120,091
Amounts due to a related company		**517**	513
Derivative financial instruments		**135**	–
Current income tax liabilities		**19,412**	17,888
Borrowings		**40,000**	1,831
		212,487	140,323
Total liabilities		**220,701**	162,875
Total equity and liabilities		**711,911**	661,912
Net current assets		**305,000**	345,094
Total assets less current liabilities		**499,424**	521,589

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 and derivative financial instruments.

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 amendments to standards and interpretations are mandatory for accounting periods beginning on or after 1 January 2012. The adoption of these amendments to standards and interpretations does not have any significant impact to the results and financial position of the Group.

HKFRS 1 (Amendment)	Severe hyperinflation and removal of fixed dates for first time adopters
HKFRS 7 (Amendment)	Disclosures – transfers of financial assets
HKAS 12 (Amendment)	Deferred tax: recovery of underlying assets

(ii) New and amended standards have been issued but are not effective for the financial year beginning 1 January 2012 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 2012 and have not been early adopted by the Group:

HKFRS 1 (Amendment)	Government loans (2)
HKFRS 7 (Amendment)	Financial instruments: Disclosures – Offsetting financial assets and financial liabilities (2)
HKFRS 9	Financial instruments (4)
HKFRS 10	Consolidated financial statements (2)
HKFRS 11	Joint arrangements (2)
HKFRS 12	Disclosures of interests in other entities (2)
HKFRS 13	Fair value measurement (2)
HKAS 1 (Amendment)	Presentation of financial statements (1)
HKAS 19 (Amendment)	Employee benefits (2)
HKAS 27 (2011)	Separate financial statements (2)
HKAS 28 (2011)	Investments in associates and joint ventures (2)
HKAS 32 (Amendment)	Offsetting financial assets and financial liabilities (3)
HK(IFRIC) – Int 20	Stripping costs in the production phase of a surface mine (2)

Forth 2011 annual improvement project (2)

[1] Effective for the Group for annual period beginning on 1 July 2012
[2] Effective for the Group for annual period beginning on 1 January 2013
[3] Effective for the Group for annual period beginning on 1 January 2014
[4] Effective for the Group for annual period beginning on 1 January 2015

The Group anticipates that the application of the above new, revised or amended standards and interpretations have no material impact on the results and the financial position of the Group.

2. REVENUE

The principal activities of the Group are manufacturing, trading and retailing of headwear products, and retailing of licensed products.

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.

	Manufacturing		Trading		Retail		Total	
	2012	2011	2012	2011	2012	2011	2012	2011
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Revenue from external customers	545,197	567,712	94,982	62,707	126,973	120,598	767,152	751,017
Inter-segment revenue	53,807	18,795	–	–	–	–	53,807	18,795
Reportable segment revenue	599,004	586,507	94,982	62,707	126,973	120,598	820,959	769,812
Reportable segment profit/(loss)	50,124	44,590	472	2,588	(26,097)	(10,236)	24,499	36,942
Gain from disposal of financial assets at fair value through profit or loss							179	1,013
Financial assets at fair value through profit or loss and derivative financial instruments – fair value gain/(loss)							879	(289)
Gain on settlement of derivative financial instruments							658	–
Share-based payment expenses							(1,176)	(1,235)
Unallocated corporate expenses							(10,625)	(8,475)
Profit from operations							14,414	27,956
Finance income							1,427	451
Finance costs							(3,367)	(3,155)
Income tax expense							(4,841)	(4,364)
Profit for the year							7,633	20,888
Depreciation of property, plant and equipment and amortisation of land use rights	20,109	21,357	511	316	4,726	5,213	25,346	26,886
Amortisation of other intangible assets	–	2,040	7,472	6,492	6,937	5,140	14,409	13,672
Impairment loss on goodwill	–	–	–	–	4,958	–	4,958	–
Loss on disposal of property, plant and equipment	–	60	–	–	381	58	381	118
Provision for impairment of inventories	4,600	6,320	131	–	4,406	6,250	9,137	12,570
Provision for impairment and write-off of trade and other receivables	772	21,336	–	–	–	–	772	21,336
Reportable segment assets	333,263	296,697	110,963	58,987	69,099	74,366	513,325	430,050
Other intangible assets							40,301	38,588
Deferred income tax assets							1,416	975
Income tax recoverable							262	262
Financial assets at fair value through profit or loss							3,083	3,141
Derivative financial instruments							601	–
Other corporate assets							152,923	188,896
Total assets							711,911	661,912
Reportable segment liabilities	78,870	63,613	26,652	30,194	49,994	48,510	155,516	142,317
Current income tax liabilities							19,412	17,888
Derivative financial instruments							135	–
Bank borrowings							40,000	1,831
Other corporate liabilities							5,638	839
Total liabilities							220,701	162,875
Capital expenditure incurred during the year	7,108	4,671	26,471	953	5,413	5,436	38,992	11,060

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

	2012	2011
	HK$'000	*HK$'000*
Hong Kong	**28,762**	23,859
USA	**488,537**	493,071
PRC	**109,121**	105,504
Europe	**89,076**	84,556
Others	**51,656**	44,027
Total	**767,152**	751,017

(ii) Non-current assets

	2012	2011
	HK$'000	*HK$'000*
Hong Kong	**23,798**	6,581
PRC	**93,468**	100,223
Europe	**2,152**	2,203
USA	**1,947**	479
	121,365	109,486
Goodwill	**31,342**	27,446
Other intangible assets	**40,301**	38,588
Deferred income tax assets	**1,416**	975
	194,424	176,495

During 2012, revenue derived from the Group's largest customer amounted to HK$267,246,000 or 34.8% of the Group's revenue (2011: HK$236,665,000 or 31.5%). Revenue derived from the second largest customer amounted to HK$69,870,000 or 9.1% (2011: HK$92,452,000 or 12.3%).

4. OTHER GAINS/(LOSSES) – NET

	2012	2011
	HK$'000	*HK$'000*
Gain from disposal of financial assets at fair value through profit or loss	**179**	1,013
Financial assets at fair value through profit or loss and derivative financial instruments – fair value gain/(loss)	**879**	(289)
Gain on settlement of derivative financial instruments	**658**	–
Net foreign exchange loss	**(461)**	(2,728)
Loss on disposal of property, plant and equipment	**(381)**	(118)
	874	(2,122)

5. FINANCE COSTS

	2012	2011
	HK$'000	HK$'000
Interest on overdrafts and other borrowings	**(792)**	(324)
Interest on amounts due to a related company	**(11)**	(39)
Interest on other non-current payables	**(2,564)**	(2,792)
	(3,367)	(3,155)

6. PROFIT BEFORE INCOME TAX

Profit before income tax is stated after charging:

	2012	2011
	HK$'000	*HK$'000*
Depreciation of property, plant and equipment	**25,190**	26,734
Amortisation on land use rights	**156**	152
Amortisation of other intangible assets	**14,409**	13,672
Provision for impairment and write-off of trade and other receivables	**772**	21,336
Provision for impairment of inventories	**9,137**	12,570
Impairment loss on goodwill	**4,958**	–

7. INCOME TAX EXPENSE

	2012	2011
	HK$'000	*HK$'000*
Hong Kong profits tax	**719**	–
Overseas tax		
– Current year	**4,258**	5,212
– Under-provision in prior years	**299**	604
	5,276	5,816
Deferred income tax		
– Current year	**(435)**	(1,452)
	4,841	4,364

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits for the year ended 31 December 2012. No Hong Kong profits tax has been provided for as the Company has no assessable profit for the year ended 31 December 2011.

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.

8. EARNINGS PER SHARE

(a) Basic

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the year.

	2012	2011
Profit attributable to owners of the Company (HK$'000)	**8,659**	21,202
Weighted average number of ordinary shares in issue	**398,583,284**	398,555,394

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all outstanding share options. A calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

	2012	2011
Profit attributable to owners of the Company (HK$'000)	**8,659**	21,202
Weighted average number of ordinary shares in issue	**398,583,284**	398,555,394
Adjustment for share options	**173,280**	–
Weighted average number of ordinary shares for diluted earnings per share	**398,756,564**	398,555,394
Diluted earnings per share (HK cent)	**2.2**	5.3

9. DIVIDENDS

A dividend in respect of the year ended 31 December 2012 of 2 HK cents per share, amounting to a total dividend of HK$7,972,000, is to be proposed at the annual general meeting on 22 May 2013. These financial statements do not reflect this dividend payable.

	2012	2011
	HK$'000	*HK$'000*
Interim dividend of 2 HK cents (2011: 1 HK cent) per share	**7,972**	3,986
Proposed final dividend of 2 HK cents (2011: 3 HK cents) per share	**7,972**	11,957
	15,944	15,943

The aggregate amounts of the dividends paid and proposed during 2011 and 2012 have been disclosed in the consolidated income statement in accordance with the Hong Kong Companies Ordinance.

The amount of proposed final dividend for 2012 was based on 398,583,284 (2011: 398,583,284) shares in issue as at 31 December 2012.

10. TRADE AND OTHER RECEIVABLES

	2012	2011
	HK$'000	*HK$'000*
Trade and bills receivables	**154,234**	130,068
Deposits, prepayments and other receivables	**85,859**	37,023
	240,093	167,091
Less: provision for impairment	**(10,442)**	(8,190)
	229,651	158,901
Less: non-current portion of other receivables	**(25,268)**	(2,857)
Current portion	**204,383**	156,044

The carrying amounts of the trade and other receivables approximate their fair values.

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

	2012	2011
	HK$'000	*HK$'000*
0 – 30 days	**63,210**	84,364
31 – 60 days	**37,484**	24,496
61 – 90 days	**19,569**	5,503
Over 90 days	**33,971**	15,705
	154,234	130,068

(b) Included in trade receivables is a balance past due over 60 days from a customer of HK$808,000 (2011: HK$1,240,000). The balance bears interest at 15% per annum and is repayable in quarterly instalments of US$15,000 until the entire principal balance and interest has been paid. No collateral were held over this balance.

(c) Included in other receivables are two note receivables from two customers of HK$21,012,000 (2011: HK$7,483,000).

One note receivable of HK$5,452,000 (2011: HK$7,483,000) is interest bearing at 7% per annum and is repayable by 26 monthly instalments up to July 2015. The note is secured by a second mortgage over a property. As at 31 December 2011 and 2012, a provision of HK$3,965,000 was made against the note receivable.

Another note receivable of HK$15,560,000 (2011: Nil) is interest bearing at 5% per annum and is repayable by 12 quarterly instalments from January 2015 to October 2017. The note is secured by all the assets of the customer but the Group's interest in the collaterals is subordinated to the customer's major lender. The customer has also committed to place purchase orders with the Group with a minimum amount no less than US$16 million each year for three years or for the duration of the loan, whichever is shorter.

(d) During the year, the Group has entered into a sales and purchase agreement to acquire Unimas Sportswear Ltd. ("Unimas"), a company incorporated in Bangladesh, which the acquisition has been completed subsequent to year-end. As at 31 December 2012, the Group had advanced HK$14,300,000 to Unimas for expansion of production facilities. The advance is unsecured, interest-free, and repayable on demand.

11. TRADE AND OTHER PAYABLES

	2012	2011
	HK$'000	*HK$'000*
Trade and bills payables	**69,571**	50,075
Accrued charges and other payables	**90,699**	92,232
	160,270	142,307
Less: other non-current payables	**(7,847)**	(22,216)
Current portion	**152,423**	120,091

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

	2012	2011
	HK$'000	*HK$'000*
0 – 30 days	**32,814**	28,521
31 – 60 days	**25,013**	14,418
61 – 90 days	**4,916**	2,045
Over 90 days	**6,828**	5,091
	69,571	50,075

BUSINESS REVIEW

Overview

In 2012, the Group's Manufacturing Business registered a satisfactory performance and remained as its main income stream despite the slowdown in the development of the retail market in the PRC. Overall speaking, the Group's turnover for the year ended 31 December 2012 increased by 2.1% to HK$767,152,000 and gross profit rose by 2.7% to HK$201,784,000 (2011:HK$196,425,000), while the gross profit margin maintained at 26.3%, similar to that of last year. However, due to the Group's active acquisitions to expand business which associated with professional fees and other costs, together with the unsatisfactory operating results of the Retail Business and the resulting impairment loss of goodwill, profit attributable to shareholders was HK$8,659,000 (2011: HK$21,202,000).

As for the Manufacturing Business, riding on its strength and brand reputation established over the years, the Group has maintained a solid cooperative relationship with existing customers and succeeded in expanding its customer base. However, production capacities of the Group's factories in Mainland China were unable to fulfill all orders from customers. To redress this shortfall, during the year the Group proposed to acquire 80% equity interest in Unimas Sportswear Limited ("Unimas"), the Group's outsourced factory in Bangladesh, aiming to diversify its production base and enhance its production capacity. The acquisition was completed on 13 March 2013.

In the Trading Business, the Group has managed to capture the opportunities in Europe and the US through actively pursuing mergers and acquisitions during recent years. H3 Sportgear, which was acquired in 2011, has immediately contributed a strong stream of orders to the Group. H3 Sportgear's close collaboration with renowned retailers in the US has also expanded the Group's penetration rate in the US market. Although some of the orders produced in late 2012 have not been delivered during the year under review, the operational performance of this business segment was in line with expectation and is set to bring greater contribution to the Group in the future. During the year the Group has also acquired 100% equity interest in San Diego Hat Company ("SDHC"), a high-end women's headwear company in the US. It is believed that upon integration with the Group's existing Trading Business, SDHC will help expand the Group's revenue stream and generate greater synergies with the Manufacturing Business.

Regarding the Retail Business, the Group has continued to expand the sales network and has diversified its Sanrio and LIDS businesses to set a solid foundation for long-term development.

Financial Review

Benefitting from the satisfactory performance of the Manufacturing Business, the Group's turnover during the year under review increased by 2.1% to HK$767,152,000 (2011:HK$751,017,000) and gross profit rose by 2.7% to HK$201,784,000 (2011:HK$196,425,000). Although the Group continued to face challenges including rising staff and rental costs, overall gross profit margin was maintained at 26.3% thanks to the stringent control measures.

On the other hand, due to the political dispute between the PRC and Japan in the second half of the year under review affecting performance of the Retail Business, the Group has made provisions for impairment loss of goodwill of HK$4,958,000. The acquisition of the entire equity interest in SDHC during the year also generated professional fees and other costs of approximately HK$4,500,000. Thus, profit attributable to shareholders was adversely affected and amounted to HK$8,659,000 (2011: HK$21,202,000).

Business Review

Manufacturing Business

The Manufacturing Business remained the Group's main revenue contributor. During the year under review, demand for the Group's products continued to be keen, spurring a modest growth in orders. Turnover grew by 2.1% year-on-year to HK$599,004,000, accounting for 73.0% of the Group's total turnover. However, the overall production capacity of the Group's mainland plants has been constrained by the continuous rising labour cost and the considerably high staff turnover in the PRC. Also, Unimas, the Group's outsourced factory in Bangladesh, has just commenced production in late 2012, and thus not much contribution in production capacity was recorded for the year under review. In view of this, the Group outsourced part of its orders to meet demand which increased the Group's sub-contracting cost and resulted in a 6.5% gross profit decline in Manufacturing Business to HK$109,207,000. Despite this, the Group's cost control measures, in particular the reduction in the utilisation of expensive transportation methods to deliver goods, have effectively helped lower expense. As a result, Manufacturing Business still posted a satisfactory performance with operating profit increasing by 12.4% from HK$44,590,000 in the last year to HK$50,124,000.

The Group continued to maintain close collaboration with its strategic partner New Era. During the year, the Group received orders amounting to approximately US$35,000,000 from New Era, which met the minimum order value stated in the manufacturing agreement.

To balance the rising volume of orders and the pressure of rising costs, the Group has decided to diversify its production bases. Following the completion of acquisition of 80% equity interest in Unimas at a total consideration of US$1,720,000 (HK$13,382,000) on 13 March 2013, the Group has also invested in plant construction in Hubei Province, the PRC, hoping to increase production capacity by taking advantage of the more abundant and less costly labour resources in Hubei and Bangladesh, reducing reliance on any particular region and allocating product orders with different specifications to different factories to enhance the Group's overall operating efficiency.

Trading Business

With H3 Sportgear's success in expanding the sales channels in the US for the Group, turnover from the Trading Business surged by 51.5% to HK$94,982,000. However, some of the products produced in late 2012 had not been delivered during the year under review, has affected the performance of this business segment. Operating profit dropped to HK$472,000 (2011: HK$2,588,000).

On 28 December 2012, the Group has completed the acquisition of the entire equity interest in SDHC at cash consideration of US$5,000,000 (HK$38,900,000) and advances of US$1,500,000 (HK$11,670,000) for repayment of SDHC's bank borrowings. SDHC is a leading high-end designer, importer and marketer of women's hats in the US, with over 4,700 customers located in the US, the PRC, Japan and Europe. Its products are mostly sold to US based customers, comprised of better specialty stores, department stores, grocery chains and online retailers. The Group believes that SDHC's existing network in women's apparel will immediately help expand its customer base in the high-end women's apparel market segment and help to diversify its product variety. The Group can also utilise SDHC's manufacturing network outside the PRC to expand its production capacity. The well-established and strongly recognised brands owned by SDHC can also benefit the sales performance of the Group's retail operations throughout the PRC.

The Group is confident of the potential of the US and European markets in the future and expects the newly acquired businesses to generate enormous synergies with its existing businesses so as to make a more significant contribution to the Group.

Retail Business

Anti-Japanese protests in the PRC since the end of last year have adversely affected the performance of the Group's Sanrio Business in the PRC. This phenomenon has hit the Group's business even harder during the peak consumption season at the end of the year. Although the Group strived to expand its sales network and diversify its LIDS business which led to a year-on-year increase of 5.3% in turnover to HK$126,973,000, the Group still recorded an operating loss of HK$26,097,000 (2011: HK$10,236,000). The loss was due to impairment loss for goodwill in the Group's Retail Business as well as the surge in rentals for retail outlets and staff costs in the PRC and Hong Kong which substantially increased operating cost.

Sanrio

The Group continued to expand the sales network of its Sanrio Business in the past year. Turnover rose by 7% to HK$95,898,000 from last year. Gross profit margin maintained at 50.5% (2011: 50.4%). On the other hand, the anti-Japanese sentiment and the boycott of Japanese products have affected sales during the traditional peak season in the second half of the year. The sharp rises in rentals for retail outlets and staff costs in the PRC have also exerted pressure on the operation of the Sanrio Business. Consequently, the business segment recorded an operating loss of HK$17,733,000 (2011: HK$5,830,000).

During the year, the Group's strategy to expand the Sanrio Business had continued its shift to adding more franchisees. As at 31 December 2012, the Group operated a total of 50 self-owned stores and 74 franchise stores. (2011: 49 self-owned stores and 64 franchise stores).

LIDS

The business segment of LIDS comprises "LIDS" and "NOP" self-owned stores and franchise stores in the PRC, and "LIDS", "NOP" and "New Era" self-owned retail stores in Hong Kong. Turnover from the LIDS Business amounted to HK$31,064,000, similar to that of last year (2011: HK$31,044,000). During the year, "NOP" and "New Era" stores were well-received by consumers. However, the surge in rental costs and rising staff costs in the PRC and Hong Kong, together with the provision for inventory of HK$4,406,000 made for the LIDS Business, have resulted in an operating loss of HK$7,831,000 (2011: HK$2,595,000).

As at 31 December 2012, the Group operated a total of 21 self-owned "LIDS" stores, 15 of which were in the PRC with 6 in Hong Kong, and the Group also had 6 "LIDS" franchise stores in the PRC. Besides, the Group had 10 self-owned "NOP" stores, 5 of which were in the PRC with the remainder in Hong Kong, and 12 "NOP" franchise stores in the PRC. The Group also operated one "New Era" retail store in Hong Kong (2011: 26 self-owned "LIDS" stores and 9 "LIDS" franchise stores, 5 self-owned "NOP" stores and 3 "NOP" franchise stores as well as one self-owned "New Era" retail store).

Prospects

The Group expects to face a range of challenges such as the decreasing demand from PRC residents for high-end consumer goods, the appreciation of the RMB and rising rents. In view of the slowdown of growth in the domestic economy, the PRC government has embarked on a consumption stimulus policy, thus the Group anticipates a rebound in the country's economy. The Group is continuing to closely monitor market changes so as to formulate appropriate measures to enhance business efficiency and to drive continued growth in its business.

As for the Manufacturing Business, the Group will continue to diversify the location of its production facilities, enabling a greater flexibility in production and to reduce reliance on any individual production plant. The Group acquired 80% equity interest of Unimas in Bangladesh on 13 March 2013. Leveraging lower rentals and labour costs in Bangladesh as well as the taxation waiver offered to its products by EU countries, Unimas is likely to contribute significantly more to the Group's revenue and profits this year. The Hubei plant currently under planning is initially scheduled to begin construction in the middle of this year and is expected to commence operation by the end of 2013. The Group believes it will help relieve some of the pressure from the trend of increasing orders. Towards that end, the Group has clearly allocated tasks and responsibilities for all of its plants. As the staff in the Shenzhen and Panyu factories offer higher value-added skills and greater efficiency, these two facilities will be responsible for manufacturing more sophisticated and high value-added products. The factories in Bangladesh and Hubei will be mainly responsible for manufacturing products with simpler specifications requiring less complicated production processes. The coordination of tasks among all the production bases enables them to leverage each other's strengths and boost overall efficiency.

The European and US markets still have huge development potential and therefore the Group will invest more resources in the Trading Business and hopes to generate stronger synergies with the Manufacturing Business. The integration of H3 Sportgear into the Group's Trading Business has progressed smoothly and its operations are expected to advance, while the newly acquired SDHC can broaden the Group's customer base in Europe and the US, thus auguring brighter prospects.

The Group will solidify its foothold in the regions where it is well-established for its Sanrio Business in the PRC, instead of adopting an aggressive approach to expand coverage of its network. Similarly, the franchise business will also be an important and effective strategic tool to penetrate the PRC market. As such, the Group will continue to streamline operations and enhance efficiency, and focus on potential franchisees. As for the LIDS Business, seeing rising consumption power in the new towns in Hong Kong's New Territories, the Group will continue to seek suitable locations to open "NOP" retail outlets in those districts. At the same time, the Group will strive to diversify brands and develop attractive new product designs to more accurately address the needs of the market in a bid to boost its sales and profit and maintain business growth.

MANAGEMENT DISCUSSION AND ANALYSIS

Liquidity and Financial Resources

As at 31 December 2012, the Group had cash, bank balances and a portfolio of liquid investments totaling HK$149.5 million (2011: HK$192.0 million). About 50% and 28% of these liquid funds were denominated in US dollars and Renminbi respectively and the remainder mainly in HK dollars and Pound Sterling.

The net cash outflow in the acquisition of San Diego Hat Company ("SDHC") amounted HK$49.6 million. And there were a new loan advanced to a customer and advances to Unimas, in a total of HK$29,860,000 during the year. Therefore, liquid funds of the Group decreased as compared with 2011.

As at 31 December 2012, the Group had banking facilities of HK$172.9 million (2011: HK$106.6 million), of which HK$119.9 million (2011: HK$95.6 million) was not utilised.

The gearing ratio (being the Group's net borrowings over total equity) of the Group is at 8.1%. In view of the strong financial and liquidity position, the Group will have sufficient financial resources to meet its commitments and working capital requirements.

Acquisition of San Diego Hat Company

On 28 December 2012, the Group acquired 100% equity interests of San Diego Hat Company ("SDHC"). SDHC is principally engaged in distribution of women's, men's and kids headwear and other accessories in the USA.

The consideration for the acquisition is US$5,000,000 (HK$38,900,000) in cash and advances of US$1,500,000 (HK$11,670,000) for repayment of SDHC's bank borrowings. The consideration is subject to adjustments as provided in the sales and purchase agreement and may be adjusted by certain of the vendors' and SDHC's obligations.

Provisional goodwill of HK$8,854,000 has arisen on the acquisition of SDHC. The Group believes that through the acquisition of SDHC, the product range that can be offered by the Group will be more comprehensive, which in turn will bring more sales and profits to the Group in different aspects including expansion of its customer base immediately through SDHC's existing sales network, especially in women's market in which SDHC is renowned of. The Group can utilise SDHC's manufacturing network outside of the PRC to expand its manufacturing capacities and capabilities. The well-established and strongly recognized brand owned by SDHC can benefit the sales in the Group's retail operations throughout the PRC.

Subsequent Event

On 13 March 2013, the Group acquired 80% equity interest in Unimas Sportswear Ltd. ("Unimas"), a company incorporated in Bangladish. Unimas operates a factory in Bangladesh for the production of headwear products. The aggregate consideration for the acquisition amounted to US$1,720,000 which will be settled in the following manner: i) US$1,290,000 in form of cash, and ii) US$430,000 by way of issuance and allotment of ordinary shares of the Company at the price of HK$1.03 per share. The consideration is subject to certain adjustments based on the finalised net asset value of Unimas.

Capital Expenditure

During the year, the Group spent approximately HK$7.1 million (2011: HK$4.7 million) on additions to plant and equipment to upgrade its manufacturing capability. The Group had also spent HK$5.4 million (2011: HK$5.4 million) on the retail systems and opening of new retail stores in 2012, and HK$1.9 million (2011: HK$0.3 million) on equipments and systems of trading business. Upon the acquisition of SDHC, the Group spent HK$24.6 million on its intangible assets and goodwill.

For the year 2012, the Group has budgeted HK$60 million for capital expenditure. Under Manufacturing business, HK$24,691,000 is for the investment in plant construction in Hubei Province, the PRC; and HK$19,450,000 is for the consideration payable to vendors of Unimas and construction of the plant in Bangladesh. Under Trading business, HK$12,448,000 is for purchasing two houses for investment purpose. The remaining HK$3,500,000 is for opening of new shops under Retail business.

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

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 0.6%. However, as the Retail businesses in the PRC market grow, the expected positive contribution will provide a hedge against the adverse effect of any appreciation of Renminbi to the manufacturing costs.

Employees and Remuneration Policies

At 31 December 2012, the Group employed 117 (2011: 95) employees in Hong Kong and Macau, and 2,799 (2011: 2,695) employees in the PRC and a total of 43 (2011: 20) employees in the US and UK. The expenditures for employees during the year were approximately HK$202.1 million (2011: HK$177.8 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 (2011: 3 HK cents) per share in respect of the year ended 31 December 2012. Subject to the approval at the forthcoming annual general meeting, the final dividend will be payable on or after 19 June 2012 to the shareholders whose names appear on the register of members at the close of the business on 30 May 2013.

The registered of members of the Company will be closed from 28 May 2013 to 30 May 2013 (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 27 May 2013.

ANNUAL GENERAL MEETING

It is proposed that the Annual General Meeting of the Company will be held on 22 May 2013. 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 2013, the register of members of the Company will be closed from 20 May 2013 to 22 May 2013 (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 16 May 2012.

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

During the year ended 31 December 2012, 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 2012 except for the deviations of Code Provisions A.4.1 as explained in the Company's Annual Report for the year ended 31 December 2011.

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 2012, 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, 26 March 2013

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*