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 2013

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 2013.

CONSOLIDATED INCOME STATEMENT
For the year ended 31 December 2013

	Note	2013 HK$'000	2012 HK$'000
Revenue	2	**922,625**	767,152
Cost of sales		**(678,815)**	(565,368)
Gross profit		**243,810**	201,784
Other income		**3,858**	1,350
Other gains – net	3	**1,130**	874
Selling and distribution costs		**(110,592)**	(82,800)
Administration expenses		**(126,794)**	(106,794)
Profit from operations		**11,412**	14,414
Finance income		**1,976**	1,427
Finance costs	4	**(3,177)**	(3,367)
Profit before income tax	5	**10,211**	12,474
Income tax expense	6	**(3,993)**	(4,841)
Profit for the year		**6,218**	7,633

* *For identification purpose only*

	Note	**2013** ***HK$'000***	2012 *HK$'000*
Attributable to:			
Owners of the Company		**7,366**	8,659
Non-controlling interests		**(1,148)**	(1,026)
		6,218	7,633
Earnings per share attributable to owners of the Company	*7*		
Basic		**1.8 HK cents**	2.2 HK cents
Diluted		**1.8 HK cents**	2.2 HK cents
Dividends	*8*	**7,972**	15,944

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2013

	2013	2012
	HK$'000	*HK$'000*
Profit for the year	**6,218**	7,633
Other comprehensive income		
– Items that may be reclassified to profit or loss:		
Exchange differences on translation of financial statements of foreign operations	**3,611**	3,423
Total comprehensive income for the year, net of tax	**9,829**	11,056
Attributable to:		
Owners of the Company	**11,194**	12,088
Non-controlling interests	**(1,365)**	(1,032)
Total comprehensive income for the year	**9,829**	11,056

CONSOLIDATED BALANCE SHEET

As at 31 December 2013

	Note	**2013** ***HK$'000***	2012 *HK$'000*
ASSETS			
Non-current assets			
Property, plant and equipment		**126,040**	93,802
Investment properties		**12,889**	–
Land use rights		**402**	545
Goodwill		**33,798**	31,342
Other intangible assets		**28,775**	40,301
Available-for-sale financial assets		**222**	–
Deferred income tax assets		**3,023**	1,416
Other non-current receivables	*9*	**21,157**	25,268
Pledged bank deposits		**1,750**	1,750
		228,056	194,424
Current assets			
Inventories		**163,711**	161,455
Trade and other receivables	*9*	**179,591**	204,645
Amount due from a related party		**–**	1,321
Financial assets at fair value through profit or loss		**2,657**	3,083
Derivative financial instruments		**42**	601
Cash and cash equivalents		**146,209**	146,382
		492,210	517,487
Total assets		**720,266**	711,911
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company			
Share capital		**39,858**	39,858
Other reserves		**228,297**	224,583
Retained earnings			
– Proposed final dividend		**3,986**	7,972
– Others		**218,552**	219,158
		490,693	491,571
Non-controlling interests		**(734)**	(361)
Total equity		**489,959**	491,210
LIABILITIES			
Non-current liabilities			
Other non-current payables	*10*	**4,695**	7,847
Long service payment payable		**440**	367
		5,135	8,214

	Note	2013 HK$'000	2012 HK$'000
Current liabilities			
Trade and other payables	*10*	**171,019**	152,423
Amounts due to related parties		**1,885**	517
Derivative financial instruments		**–**	135
Current income tax liabilities		**25,268**	19,412
Borrowings		**27,000**	40,000
		225,172	212,487
Total liabilities		**230,307**	220,701
Total equity and liabilities		**720,266**	711,911
Net current assets		**267,038**	305,000
Total assets less current liabilities		**495,094**	499,424

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 available-for-sale financial assets, financial assets at fair value through profit or loss, derivative financial instruments and investment properties which are carried at fair value.

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 new and amendments to standards and interpretations are mandatory for accounting periods beginning on or after 1 January 2013. The adoption of these new and amendments to standards and interpretations does not have any significant impact to the results and financial position of the Group.

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

(ii) New and amended standards have been issued but are not effective for the financial year beginning 1 January 2013 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 2013 and have not been early adopted by the Group:

HKFRS 7 and HKFRS 9 (Amendment)	Financial instruments: Disclosures – Mandatory effective date of HKFRS 9 and transition disclosures[2]
HKFRS 9	Financial instruments[2]
HKFRS 10, HKFRS 12 and HKAS 27 (2011) (Amendment)	Investment entities[1]
HKAS 32 (Amendment)	Offsetting financial assets and financial liabilities[1]
HKAS 36 (Amendment)	Impairment of assets[1]
HKAS 39 (Amendment)	Novation of derivatives[1]
HK(IFRIC) – Int 21	Levies[1]

(1) Effective for the Group for annual period beginning on 1 January 2014.

(2) Effective for the Group for annual period beginning on 1 January 2015.

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

2. 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 and Bangladesh. Customers are mainly located in the USA and Europe.

(ii) Trading Business: The trading and distribution of headwear and other products of the Group is operating through Drew Pearson International (Europe) Ltd., which focuses on the Europe market, H3 Sportgear LLC ("H3") and San Diego Hat Company ("SDHC"), which focus on the US market.

(iii) Retail Business: The Group operates headwear stores in the PRC and Hong Kong, and SANRIO stores in the PRC.

	Manufacturing		Trading		Retail		Total	
	2013	2012	**2013**	2012	**2013**	2012	**2013**	2012
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Revenue from external customers	**602,144**	545,197	**190,731**	94,982	**129,750**	126,973	**922,625**	767,152
Inter-segment revenue	**67,936**	53,807	**801**	–	**–**	–	**68,737**	53,807
Reportable segment revenue	**670,080**	599,004	**191,532**	94,982	**129,750**	126,973	**991,362**	820,959
Reportable segment profit/(loss)	**30,294**	50,124	**(4,159)**	472	**(5,778)**	(26,097)	**20,357**	24,499
Gain from disposal of financial assets at fair value through profit or loss							**–**	179
Financial assets at fair value through profit or loss and derivative financial instruments – fair value (loss)/gain							**(850)**	879
Gain on settlement of derivative financial instruments							**1,146**	658
Share-based payment expense							**(128)**	(1,176)
Unallocated corporate expenses							**(9,113)**	(10,625)
Profit from operations							**11,412**	14,414
Finance income							**1,976**	1,427
Finance costs							**(3,177)**	(3,367)
Income tax expense							**(3,993)**	(4,841)
Profit for the year							**6,218**	7,633
Depreciation of property, plant and equipment and amortisation of land use rights	**19,727**	20,109	**927**	511	**4,721**	4,726	**25,375**	25,346
Amortisation of other intangible assets	**–**	–	**8,117**	7,472	**7,113**	6,937	**15,230**	14,409
Impairment loss on goodwill	**–**	–	**–**	–	**–**	4,958	**–**	4,958
Loss on disposal of property, plant and equipment	**–**	–	**166**	–	**281**	381	**447**	381
Gain on disposal of a subsidiary	**–**	–	**–**	–	**(1,626)**	–	**(1,626)**	–
Provision/(reversal of provision) for impairment of inventories	**15,257**	4,600	**(123)**	131	**(2,194)**	4,406	**12,940**	9,137
Provision for impairment and write-off of trade and other receivables	**89**	772	**1**	–	**–**	–	**90**	772
Provision for impairment of property, plant and equipment	**1,873**	–	**–**	–	**487**	–	**2,360**	–
Reportable segment assets	**349,933**	333,525	**137,726**	142,593	**63,480**	77,770	**551,139**	553,888
Investment properties							**12,889**	–
Available-for-sale financial assets							**222**	–
Deferred income tax assets							**3,023**	1,416
Financial assets at fair value through profit or loss							**2,657**	3,083
Derivative financial instruments							**42**	601
Cash and cash equivalents							**146,209**	146,382
Other corporate assets							**4,085**	6,541
Total assets							**720,266**	711,911
Reportable segment liabilities	**117,105**	78,870	**22,342**	26,652	**35,242**	49,994	**174,689**	155,516
Current income tax liabilities							**25,268**	19,412
Derivative financial instruments							**–**	135
Bank borrowings							**27,000**	40,000
Other corporate liabilities							**3,350**	5,638
Total liabilities							**230,307**	220,701
Capital expenditure incurred during the year	**51,171**	7,108	**2,328**	26,471	**3,730**	5,413	**57,229**	38,992

The Group's revenue from external customers is divided into the following geographical areas based on the location at which the goods were delivered:

(i) Revenue from external customers

	2013	2012
	HK$'000	*HK$'000*
Hong Kong	**25,622**	28,762
USA	**561,355**	488,537
PRC	**118,299**	109,121
Europe	**141,348**	89,076
Others	**76,001**	51,656
Total	**922,625**	767,152

The geographical location of the non-current assets is based on the location of operations and physical location of the asset.

(ii) Non-current assets

	2013	2012
	HK$'000	*HK$'000*
Hong Kong	**25,708**	23,798
PRC	**71,676**	93,468
Bangladesh	**46,953**	–
Europe	**1,868**	2,152
USA	**50,053**	33,289
	196,258	152,707
Other intangible assets	**28,775**	40,301
Deferred income tax assets	**3,023**	1,416
	228,056	194,424

During 2013, revenue derived from the Group's largest customer amounted to HK$305,140,000 or 33.1% of the Group's revenue (2012: HK$267,246,000 or 34.8%). Revenue derived from the second largest customer amounted to HK$93,780,000 or 10.2% (2012: HK$69,870,000 or 9.1%).

3. OTHER GAINS – NET

	2013	2012
	HK$'000	*HK$'000*
Gain from disposal of financial assets at fair value through profit or loss	**–**	179
Financial assets at fair value through profit or loss and derivative financial instruments – fair value (loss)/gain	**(850)**	879
Gain on settlement of derivative financial instruments	**1,146**	658
Net foreign exchange loss	**(345)**	(461)
Loss on disposal of property, plant and equipment	**(447)**	(381)
Gain on disposal of a subsidiary	**1,626**	–
	1,130	874

4. FINANCE COSTS

	2013	2012
	HK$'000	*HK$'000*
Interest on overdrafts and other borrowings	**(1,588)**	(792)
Interest on amounts due to a related company	**(25)**	(11)
Interest on other non-current payables	**(1,564)**	(2,564)
	(3,177)	(3,367)

5. PROFIT BEFORE INCOME TAX

Profit before income tax is stated after charging:

	2013	2012
	HK$'000	*HK$'000*
Depreciation of property, plant and equipment	**25,215**	25,190
Amortisation on land use rights	**160**	156
Amortisation of other intangible assets	**15,230**	14,409
Provision for impairment and write-off of trade and other receivables	**90**	772
Provision for slow-moving and obsolete inventories	**12,940**	9,137
Provision for impairment of property, plant and equipment	**2,360**	–
Impairment loss on goodwill	**–**	4,958

6. INCOME TAX EXPENSE

	2013	2012
	HK$'000	*HK$'000*
Hong Kong profits tax		
– Current year	**1,030**	719
– Over-provision in prior years	**(319)**	–
	711	719
Overseas tax		
– Current year	**4,887**	4,258
– Under-provision in prior years	**–**	299
	5,598	5,276
Deferred income tax	**(1,605)**	(435)
	3,993	4,841

Hong Kong profits tax has been provided at the rate of 16.5% (2012: 16.5%) on the estimated assessable profits for the year ended 31 December 2013.

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

(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.

	2013	2012
Profit attributable to owners of the Company *(HK$'000)*	**7,366**	8,659
Weighted average number of ordinary shares in issue	**398,583,284**	398,583,284

(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 exercise of the share options.

	2013	2012
Profit attributable to owners of the Company *(HK$'000)*	**7,366**	8,659
Weighted average number of ordinary shares in issue	**398,583,284**	398,583,284
Adjustment for share options	**152,747**	173,280
Weighted average number of ordinary shares for diluted earnings per share	**398,736,031**	398,756,564
Diluted earnings per share *(HK cent)*	**1.8**	2.2

8. DIVIDENDS

A final dividend in respect of the year ended 31 December 2013 of 1 HK cent per share, amounting to a total dividend of HK$3,986,000, is to be proposed at the upcoming annual general meeting. These financial statements do not reflect this dividend payable. The amount of proposed final dividend for 2013 was based on 398,583,284 (2012: 398,583,284) shares in issue as at 31 December 2013.

	2013	2012
	HK$'000	*HK$'000*
Interim dividend of 1 HK cent (2012: 2 HK cents) per share	**3,986**	7,972
Proposed final dividend of 1 HK cent (2012: 2 HK cents) per share	**3,986**	7,972
	7,972	15,944

The aggregate amounts of the dividends paid and proposed during 2012 and 2013 have been disclosed in the consolidated income statement in accordance with the Hong Kong Companies Ordinance.

9. TRADE AND OTHER RECEIVABLES

	2013	2012
	HK$'000	*HK$'000*
Trade and bills receivables	**142,214**	154,234
Deposits, prepayments and other receivables	**68,302**	86,121
	210,516	240,355
Less: provision for impairment	**(7,475)**	(8,178)
Less: provision for sales return	**(2,293)**	(2,264)
	200,748	229,913
Less: non-current portion of other receivables	**(21,157)**	(25,268)
Current portion	**179,591**	204,645

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

(a) The majority of the Group's sales are with credit terms of 30-60 days. The ageing analysis of trade and bills receivables at the balance sheet date is as follows:

	2013	2012
	HK$'000	*HK$'000*
0 – 30 days	**86,431**	63,210
31 – 60 days	**31,545**	37,484
61 – 90 days	**8,259**	19,569
Over 90 days	**15,979**	33,971
	142,214	154,234

(b) The ageing analysis of trade and bills receivables that were past due but not impaired is as follows:

	2013	2012
	HK$'000	*HK$'000*
1 – 30 days past due	**16,217**	24,135
31 – 60 days past due	**4,496**	8,036
Over 60 days past due	**9,812**	20,715
	30,525	52,886

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment provision is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered not impaired.

(c) Included in trade receivables is a balance past due over 60 days from a customer of HK$434,000 (2012: HK$808,000). 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.

(d) Included in other receivables are two note receivables from two customers of HK$18,996,000 (2012: HK$21,012,000).

One note receivable of HK$3,436,000 (2012: HK$5,452,000) 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 2013, provision was made against the note receivable to the extent of HK$3,436,000 (2012: HK$3,965,000).

Another note receivable of HK$15,560,000 (2012: HK$15,560,000) 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 the duration of the loan, whichever is shorter.

(e) During the year, the Group completed its acquisition of Unimas Sportswear Ltd. ("Unimas"), a company incorporated in Bangladesh. As at 31 December 2012, the Group had advanced HK$14,300,000 to Unimas for expansion of production facilities. The advance was unsecured, interest-free, and repayable on demand.

10. TRADE AND OTHER PAYABLES

	2013	2012
	HK$'000	*HK$'000*
Trade and bills payables	**79,171**	69,571
Accrued charges and other payables	**96,543**	90,699
	175,714	160,270
Less: other non-current payables	**(4,695)**	(7,847)
Current portion	**171,019**	152,423

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

	2013	2012
	HK$'000	*HK$'000*
0 – 30 days	**41,587**	32,814
31 – 60 days	**27,057**	25,013
61 – 90 days	**4,656**	4,916
Over 90 days	**5,871**	6,828
	79,171	69,571

11. EVENTS AFTER THE BALANCE SHEET DATE

Subsequent to the year-end, the Group has entered into a tenancy agreement to lease out the factory in Panyu, PRC to third parties for a monthly rent of RMB400,000. The factory, which has a carrying amount of HK$12,800,000 and classified within property, plant and equipment on the consolidated balance sheet as at 31 December 2013, will be reclassified as investment properties and carried at fair value upon the commencement of the tenancy.

BUSINESS REVIEW

Overview

In 2013, the Group's turnover for the year ended 31 December 2013 increased by 20.3% to HK$922,625,000 attributable to continuing steady growth in the Manufacturing Business and greater contribution from the Trading Business. Gross profit rose by 20.8% to HK$243,810,000 (2012: HK$201,784,000) and gross profit margin increased slightly by 0.1 percentage point to 26.4%. In general, the Group's successful long-term cooperative relationship with customers has facilitated a satisfactory growth in orders. The Manufacturing Business remained to be the Group's main profit source. On the other hand, production capacity of the Group's production plants has been constrained by the acute labour shortage in the PRC. To address this issue, the Group temporarily outsourced some production processes, which incurred in additional manufacturing costs. The Group also announced its intention to scale down the operations of its factory in Panyu, Guangdong Province, PRC in July 2013 to cut manufacturing costs. In this regard, the Group has made a provision of approximately HK$13,700,000 for the plant, equipment, inventories and costs owing to scale down the factory. The above factors contributed to a profit attributable to shareholders of HK$7,366,000 (2012: HK$8,659,000).

Leveraging its strength and brand reputation established over the years in the Manufacturing Business, the Group has maintained a solid cooperative relationship with its existing customers, including New Era, and has succeeded in expanding its customer base. However, business growth was impeded by the rising labour and material costs of the Group's production plants in the PRC, as well as by the inadequate production capacity to meet customers' orders. To overcome this predicament, the management has stepped up the development of the Bangladesh factory Unimas Sportswear Limited ("Unimas") which the Group has 80% interest. The 2nd phase of the 7-storeyed production plant construction has completed and there are about 1,000 employees at the moment. In December 2013, it has produced approximately 600,000 pieces of headwear, representing about 16% of the Group's monthly output in that month. It is expected that Unimas will make further contributions in the future.

The Trading Business has also made significant progress during the year. H3 Sportgear and DPI have continued to help the Group's penetration in the US and European markets by signing up more English Premier League ("EPL") football clubs for the distribution rights of headwear in Europe, and expanded its product mix to other segments. Meanwhile, the Group is in the process of integrating the business of San Diego Hat Company ("SDHC"), a leading high-end designer, importer and marketer of women's hats in the US that it acquired in late 2012, into its existing business. Measures being implemented include the merging of administration departments and warehousing facilities so as to enhance operation efficiency. The management believes that the acquisition of SDHC is an important step for the Group toward the establishment and operation of its-own brand. This initiative does not only create greater synergies with the Group's Manufacturing Business, but also enables Mainland Headwear to consolidate the midstream and downstream in the industry chain, and mark another milestone in the course of its development.

Maintenance of profit is the Group's first priority in the Retail Business. Thanks to the flexibility in the adjustment of product sales strategy and the continuous reduction in costs of sales, the Group was successful in narrowing the operating loss.

Financial Review

Benefitting from the increased volume of orders in the Manufacturing Business and new income streams in the Trading Business, the Group's turnover increased by 20.3% to HK$922,625,000 during the period under review (2012: HK$767,152,000). Gross profit increased by 20.8% year-on-year to HK$243,810,000 (2012: HK$201,784,000). Although the Group continued to face challenges including rising staff and rental costs, the overall gross profit margin increased slightly by 0.1 percentage point to 26.4% during the year, thanks to continued implementation of stringent cost control measures.

On the other hand, taking into account of the provision of about HK$13,700,000 for the plant and equipment, inventories and the related costs as a result of scaling down the operation of the Group's production plant in Panyu, PRC during the year, the Group recorded a profit attributable to shareholders of HK$7,366,000 (2012: HK$8,659,000). Excluding the provision, the Group's profit would have been similar to that of the previous year.

Manufacturing Business

During the period under review, customers' demand for the Group's products continued to be keen, spurring a rapid growth in orders. Turnover from the Manufacturing Business grew by 11.9% year-on-year to HK$670,080,000, accounting for 67.5% of the Group's total turnover. However, the overall production capacity of the Group's Mainland plants has been constrained by continuously rising labour costs and the high staff turnover in the PRC. Despite completing the acquisition of the Unimas factory in Bangladesh during the year, the production scale of the factory is yet to be fully realised, as the factory is still in an initial stage of operation. To fill its rising volume of orders, the Group has outsourced some production processes to other factories during the year, which has incurred additional costs for the Group. The outsourcing together with the impact of increasing material costs have led to the decline of gross profit of this segment by 6.3% to HK$103,072,000. Moreover, as a result of scaling down its Panyu factory in the first half of the year, the Group had to make a provision of HK$13,700,000 for the plant, equipment, inventories and the related costs, thus reducing the operating profit of the Manufacturing Business to HK$30,294,000 (2012: an operating profit of HK$50,124,000).

As the Group scales down the operations of its Panyu factory, all of the workers from the factory will be relocated to another nearby factory with smaller scale, while the existing factory will be leased out to broaden the Group's income stream. To strike a balance between increased orders and rising costs, the Group will expedite the development of its Bangladesh production plant. Currently, the factory has hired more than 1,000 workers. As its staff cost is just one-eighth of that of the PRC factories, it will help balance the impact of the soaring costs in the PRC. In the future, the Group will focus its resources in the development of its factories in Shenzhen and Bangladesh and will assign orders to different factories for production according to different specifications, with the aim to enhance the Group's overall efficiency through a clear division of labour.

The Group continued to maintain close collaboration with its strategic partner New Era. During the year, the Group received orders amounting to approximately US$40,000,000 from New Era, which met the minimum order value stated in the manufacturing agreement.

Trading Business

Turnover from the Trading Business has surged by 101.7% to HK$191,532,000, attributable to new income streams from Trading Business for the Group during the year. The Group strived to consolidate operation of the Trading Business to cut costs and enhance efficiency through restructuring and integrating its administration departments and warehousing facilities. SDHC, which was acquired by the Group in late 2012, is still in an initial stage of investment and not much profit contribution was recorded. Moreover, the Group has invested substantial resources in product development and marketing for SDHC. The Trading Business recorded a loss attributable to shareholders of HK$4,159,000 (2012: a profit attributable to shareholders of HK$472,000).

During the year, the Group has signed up more English Premier League ("EPL") soccer clubs for the headwear distribution right in Europe. The Group has also further diversified its brand development, changing from focusing on design sports and men's headwear in the past to expanding into diverse high-end markets currently encompassing women and children's collection and accessories.

In late 2012, the Group completed the acquisition of SDHC, a leading high-end designer, importer and marketer of women's hats in the US. It has been about a year after the acquisition and the progress has been gratifying. SDHC's customer base has extended from the US to Russia and Asia. The acquisition of SDHC represented an important step for the Group to enter the downstream market, enabling the Group to set foot on its own brand business, consolidating the mid-and down-stream of the industry chain. The Group last year has devoted substantial resources to research and development of products and the development of online sales tools. It plans to enrich its product mix to include clothing and accessories such as handbags and scarves, with a aim to broaden the Group's customer base in the high-end market and further diversify Mainland Headwear's variety of products.

Retail Business

During the year under review, the Group has proactively adjusted its product sales strategy and pushed forward cost control measures to maintain profit. Consequently, turnover of the Retail Business increased by 2.2% year-on-year to HK$129,750,000 and gross profit margin rose by 7.7 percentage point to 61.3%. Operating loss dropped substantially to HK$5,778,000 (2012: HK$26,097,000).

Sanrio

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. Nevertheless, the introduction of the online sales platform for the Sanrio business last year has driven the turnover of this business segment to HK$96,031,000 (2012: HK$95,898,000). The Group has managed to boost gross profit margin to 54.6% (2012: 50.5%) and narrow the operating loss significantly by 93.3% to HK$1,196,000 (2012: HK$17,733,000), thanks to the stringent cost control measures.

The Group has decided to close those self-owned stores with unsatisfactory performances for cost reduction, and followed the strategy of expanding Sanrio business through addition of franchise stores. As at 31 December 2013, the Group operated a total of 31 self-owned stores and 97 franchise stores. (2012: 50 self-owned stores and 74 franchise stores).

Headwear Sales

The business segment of Headwear Sales comprises “LIDS” and “NOP” self-owned stores and franchise stores in the PRC, and “LIDS,” “NOP” and “New Era” self-owned stores in Hong Kong. Turnover of the Headwear Sales Business rose by 8.5% from HK$31,064,000 in 2012 to HK$33,719,000 during the year. The Group was able to narrow the operating loss of this segment to HK$4,582,000 (2012: HK$7,831,000), attributable to its close monitoring of sales performances of all retail stores and its flexible adjustment of operational strategies.

As at 31 December 2013, the Group operated a total of 7 self-owned “LIDS” stores, 2 of which were in the PRC with 5 in Hong Kong, and 1 “LIDS” franchise store in the PRC. Besides, the Group had 14 self-owned “NOP” stores, 9 of which were in the PRC with the remaining 5 in Hong Kong, and 9 “NOP” franchise stores in the PRC. The Group also operated 2 “New Era” retail stores in Hong Kong (2012: 21 “LIDS” self-owned stores and 6 “LIDS” franchise stores, 10 “NOP” self-owned stores and 12 “NOP” franchise stores as well as 1 self-owned “New Era” retail store).

Propsects

The Group expects to face a range of intractable challenges in the PRC, most notably the labour shortage and the rising salaries and rentals. It will continue to closely monitor the market trends and developments so as to formulate appropriate measures to enhance business efficiency and to drive sustainable business growth.

As for the Manufacturing Business, the Group believes that its orders should continue to be satisfactory in the future thanks to its long term solid cooperative relationship with customers. To this end, the Group plans to emphasize on the development of the Bangladesh factory in order to reduce its reliance on PRC production plants; thereby alleviating the problem of labour shortage and rising labour costs in the PRC. The Group will increase the number of staff at the Bangladesh factory from the current 1,000 to 2,000 staff by the end of 2014. By then, at which time the production capacity of the Bangladesh factory is expected to be similar to that of the Shenzhen plant. The Group has defined clear responsibility guidelines for all of its production plants. As the staff in factories in the PRC are more experienced and efficient, they will be responsible for the production of high value-added products that call for complicated production skills. Whereas the factories in Bangladesh will be mainly responsible for manufacturing products with simpler specifications requiring less complex production processes.

The production plants will coordinate with each other, for not only in complementing each other in respect of their respective advantages but also in the improvement of overall efficiency. Lastly, after the scaling down the operation of the Panyu factory in the first half of this year, the Group will rent out the plant site to broaden its income stream.

The Group believes that European and US markets still have enormous development potential and therefore will divert more resources to the Trading Business and hopes to generate more powerful synergies with the Manufacturing Business. H3 Sportgear has made a significant contribution by securing more orders from the famous retailers in the US, which has helped the Group's products enter the U.S. department store market. The sales team in Europe, DPI, will also strive to secure more licenses for distribution rights of headwear from EPL soccer clubs, and develop other business in "football and children's headwear". The performance of SDHC has met the Group's expectations. On top of exploring development opportunities in European and US markets, it will also strive to develop emerging markets in Asia with an aim to expand the Group's customer base. Regarding the Retail Business, the Group will retain its hybrid operation model with self-owned and franchise stores in the development of the Sanrio operation. Faced with the intense competition in the PRC's retail market, the Group will enrich its product mix by introducing products with higher quality, and in particular, will increase the direct import of fine products from Japan. We believe the unique position as the exclusive distributor of Sanrio products in the PRC enables us to capture the demand for high-end, fashionable and quality products. In the Headwear Sales Business, the Group has determined to follow the strategy of gradually changing "LIDS" retail stores to "NOP" retail stores, owing to the remarkable performance of "NOP" retail store and its popularity among customers. The Group has established an extensive sales network in Hong Kong. In the future, we will maintain the number of stores at the current level, and stay away from the blind pursuit of growth by adding the number of stores.

MANAGEMENT DISCUSSION AND ANALYSIS

Liquidity and Financial Resources

As at 31 December 2013, the Group had cash, bank balances and a portfolio of liquid investments totaling HK$148.9 million (2012: HK$149.5 million). About 45% and 32% of these liquid funds were denominated in US dollars and Renminbi respectively and the remainder mainly in HK dollars and Pound Sterling.

As at 31 December 2013, the Group had banking facilities of HK$241.1 million (2012: HK$172.9 million), of which HK$210.3 million (2012: HK$119.9 million) was not utilised.

The gearing ratio (being the Group's net borrowings over total equity) of the Group is at 5.5%. 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 Unimas Sportswear Ltd.

On 13 March 2013, the Group acquired 80% equity interest in Unimas Sportswear Ltd. ("Unimas"). Unimas principally operates a factory in Bangladesh for the production of headwear products.

According to the original sales and purchase agreement signed, the aggregate consideration for the acquisition amounted to US$1,720,000 which was to 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 the Company's ordinary shares at the price of HK$1.03 per share, for a total of 3,247,960 shares. A supplemental sales and purchase agreement was signed with the vendor on 20 December 2013 that the consideration is to be wholly settled in the form of cash. Also, the consideration has been adjusted to US$658,000 (HK$5,122,000) based on certain adjustments as provided in the original and supplemental sales and purchase agreements.

Capital Expenditure

During the year, the Group spent approximately HK$21.5 million (2012: HK$7.1 million) on additions to plant and equipment to upgrade its manufacturing capability and expansion in the Bangladesh factory. The Group had also spent HK$3.7 million (2012: HK$5.4 million) on the retail systems and opening of new retail stores in 2013, and HK$2.3 million (2012: HK$1.9 million) on equipments and systems of trading business. The group also spent HK$12.9 million to acquire two houses in the US for investment purpose.

For the year 2013, the Group has budgeted HK$26.3 million for capital expenditure. Under Manufacturing business, HK$23.3 million is for the expansion in the Bangladesh factory. The remaining HK$3.0 million is for opening of new shops under Retail business and acquisition of equipment under Trading 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, Renminbi or Bangladesh Taka. The Group estimates that any 1% appreciation of the Renminbi is expected to reduce the gross margin of the Manufacturing Business by about 0.5%. 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 2013, the Group employed 113 (2012: 117) employees in Hong Kong and Macau, 2,740 (2012: 2,799) employees in the PRC and 959 (2012: nil) employees in Bangladesh and a total of 48 (2012: 43) employees in the US and UK. The expenditures for employees during the year were approximately HK$251.5 million (2012: HK$202.1 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 1 HK cent (2012: 2 HK cents) per share in respect of the year ended 31 December 2013. Subject to the approval at the forthcoming annual general meeting, the final dividend will be payable on or after 13 June 2014 to the shareholders whose names appear on the register of members at the close of the business on 23 May 2014.

The registered of members of the Company will be closed from 21 May 2014 to 23 May 2014 (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 (change to Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong with effect from 31 March 2014) for registration not later than 4:30 p.m. on 20 May 2014.

ANNUAL GENERAL MEETING

It is proposed that the Annual General Meeting of the Company will be held on 15 May 2014. 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 15 May 2014, the register of members of the Company will be closed from 13 May 2014 to 15 May 2014 (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 (change to Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong with effect from 31 March 2014) for registration not later than 4:30 p.m. on 12 May 2014.

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

During the year ended 31 December 2013, 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 2013 except for the deviations of Code Provisions A.4.1 as explained in the Company's Annual Report for the year ended 31 December 2012.

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 2013, 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, 18 March 2014

As at the date of this announcement, the Board comprises eight 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; one Non-executive Director, 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.