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 2014

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 2014.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2014

	Note	**2014** *HK$'000*	2013 *HK$'000*
Revenue	*2*	**917,533**	922,625
Cost of sales		**(667,780)**	(678,815)
Gross profit		**249,753**	243,810
Other income		**9,010**	3,858
Other (losses)/gains – net	*3*	**(578)**	1,130
Selling and distribution costs		**(95,216)**	(110,592)
Administration expenses		**(127,720)**	(126,794)
Profit from operations		**35,249**	11,412
Finance income	*4*	**1,959**	1,976
Finance costs	*4*	**(1,256)**	(3,177)
Profit before income tax	*5*	**35,952**	10,211
Income tax expense	*6*	**(5,532)**	(3,993)
Profit for the year		**30,420**	6,218

* *For identification purpose only*

	Note	2014 HK$'000	2013 HK$'000
Attributable to:			
Owners of the Company		**33,042**	7,366
Non-controlling interests		**(2,622)**	(1,148)
		30,420	6,218
Earnings per share attributable to owners of the Company	*7*		
Basic		**8.3 HK cents**	1.8 HK cents
Diluted		**8.3 HK cents**	1.8 HK cents
Dividends	*8*	**11,958**	7,972

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2014

	2014	2013
	HK$'000	*HK$'000*
Profit for the year	**30,420**	6,218
Other comprehensive income		
– Item that may be reclassified to profit or loss:		
Exchange differences on translation of financial statements of foreign operations	**(5,914)**	3,611
– Items that will not be reclassified to profit or loss:		
Revaluation surplus upon transfer of land use rights and buildings to investment properties	**10,723**	–
Deferred tax arising from revaluation surplus upon transfer of land use rights and buildings to investment properties	**(2,681)**	–
Total comprehensive income for the year, net of tax	**32,548**	9,829
Attributable to:		
Owners of the Company	**35,167**	11,194
Non-controlling interests	**(2,619)**	(1,365)
Total comprehensive income for the year	**32,548**	9,829

CONSOLIDATED BALANCE SHEET

As at 31 December 2014

	Note	**2014** *HK$'000*	2013 *HK$'000*
ASSETS			
Non-current assets			
Property, plant and equipment		**129,785**	126,040
Investment properties		**38,764**	12,889
Land use rights		**–**	402
Goodwill		**33,798**	33,798
Other intangible assets		**21,593**	28,775
Available-for-sale financial assets		**218**	222
Deferred income tax assets		**3,385**	3,023
Other non-current receivables	*9*	**14,654**	21,157
Pledged bank deposits		**–**	1,750
		242,197	228,056
Current assets			
Inventories		**201,453**	163,711
Trade and other receivables	*9*	**176,705**	179,591
Financial assets at fair value through profit or loss		**2,563**	2,657
Derivative financial instruments		**–**	42
Pledged bank deposits		**1,750**	–
Cash and cash equivalents		**123,862**	146,209
		506,333	492,210
Total assets		**748,530**	720,266
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company			
Share capital		**39,858**	39,858
Other reserves		**230,458**	228,297
Retained earnings			
– Proposed final dividend		**7,972**	3,986
– Others		**239,636**	218,552
		517,924	490,693
Non-controlling interests		**(4,003)**	(734)
Total equity		**513,921**	489,959
LIABILITIES			
Non-current liabilities			
Other non-current payables	*10*	**1,112**	4,695
Long service payment payable		**457**	440
Deferred income tax liabilities		**2,681**	–
		4,250	5,135

	Note	**2014** HK$'000	2013 HK$'000
Current liabilities			
Trade and other payables	*10*	**168,712**	171,019
Amounts due to related parties		**943**	1,885
Current income tax liabilities		**27,814**	25,268
Borrowings		**32,890**	27,000
		230,359	225,172
Total liabilities		**234,609**	230,307
Total equity and liabilities		**748,530**	720,266
Net current assets		**275,974**	267,038
Total assets less current liabilities		**518,171**	495,094

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 amendments to standards and interpretations are mandatory for accounting periods beginning on or after 1 January 2014. 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 10, HKFRS 12 and HKAS 27 (2011) (Amendment)	Investment entities
HKAS 32 (Amendment)	Offsetting financial assets and financial liabilities
HKAS 36 (Amendment)	Impairment of assets
HKAS 39 (Amendment)	Novation of derivatives
HK(IFRIC) – Int 21	Levies

(ii) New and amended standards have been issued but are not effective for the financial year beginning 1 January 2014 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 2014 and have not been early adopted by the Group:

HKFRS 9	Financial instruments[4]
HKFRS 11 (Amendment)	Accounting for acquisitions of interests in joint operations[2]
HKFRS 14	Regular deferral accounts[2]
HKFRS 15	Revenue from contracts with customers[3]
HKAS 16 and HKAS 38 (Amendment)	Classification of acceptable methods of depreciation and amortisation[2]
HKAS 19 (2011) (Amendment)	Defined benefit plans: employee contributions[1]
Annual improvements project	Annual improvements 2010-2012 cycle[1]
Annual improvements project	Annual improvements 2011-2013 cycle[1]
Annual improvements project	Annual improvements 2012-2014 cycle[2]

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

(2) Effective for the Group for annual period beginning on 1 January 2016.

(3) Effective for the Group for annual period beginning on 1 January 2017.

(4) Effective for the Group for annual period beginning on 1 January 2018.

The expected impacts from the adoption of the above standards and amendments are still being assessed in details by management and is not yet in a position to state whether they would have a significant impact on the Group's results of operations and financial position.

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 principal manufacturing facilities are located in Shenzhen, 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., ("DPI Europe") which focuses on the Europe market, and 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	
	2014	2013	**2014**	2013	**2014**	2013	**2014**	2013
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Revenue from external customers	**571,276**	602,144	**214,143**	190,731	**132,114**	129,750	**917,533**	922,625
Inter-segment revenue	**78,420**	67,936	**477**	801	**–**	–	**78,897**	68,737
Reportable segment revenue	**649,696**	670,080	**214,620**	191,532	**132,114**	129,750	**996,430**	991,362
Reportable segment profit/(loss)	**39,784**	30,294	**185**	(4,159)	**2,389**	(5,778)	**42,358**	20,357
Financial assets at fair value through profit or loss and derivative financial instruments – fair value loss							**(136)**	(850)
Gain on settlement of derivative financial instruments							**42**	1,146
Share-based payment expense							**(36)**	(128)
Unallocated corporate income							**5,593**	–
Unallocated corporate expenses							**(12,572)**	(9,113)
Profit from operations							**35,249**	11,412
Finance income							**1,959**	1,976
Finance costs							**(1,256)**	(3,177)
Income tax expense							**(5,532)**	(3,993)
Profit for the year							**30,420**	6,218
Depreciation of property, plant and equipment and amortisation of land use rights	**19,765**	19,727	**982**	927	**4,587**	4,721	**25,334**	25,375
Amortisation of other intangible assets	**–**	–	**8,531**	8,117	**–**	7,113	**8,531**	15,230
Loss on disposal of property, plant and equipment	**–**	–	**–**	166	**125**	281	**125**	447
Gain on disposal of a subsidiary	**–**	–	**–**	–	**–**	(1,626)	**–**	(1,626)
Net provision for slow-moving and obsolete inventories	**(1,652)**	15,257	**28**	(123)	**1,974**	(2,194)	**350**	12,940
Net provision for impairment of trade and other receivables	**273**	(16)	**(70)**	1	**–**	–	**203**	(15)
Provision for impairment of property, plant and equipment	**–**	1,873	**–**	–	**–**	487	**–**	2,360
Reportable segment assets	**369,153**	349,933	**138,026**	137,726	**72,360**	63,480	**579,539**	551,139
Investment properties							**38,764**	12,889
Available-for-sale financial assets							**218**	222
Deferred income tax assets							**3,385**	3,023
Financial assets at fair value through profit or loss							**2,563**	2,657
Derivative financial instruments							**–**	42
Cash and cash equivalents							**123,862**	146,209
Other corporate assets							**199**	4,085
Total assets							**748,530**	720,266
Reportable segment liabilities	**109,463**	117,105	**21,231**	22,342	**36,384**	35,242	**167,078**	174,689
Current income tax liabilities							**27,814**	25,268
Deferred income tax liabilities							**2,681**	–
Bank borrowings							**32,890**	27,000
Other corporate liabilities							**4,146**	3,350
Total liabilities							**234,609**	230,307
Capital expenditure incurred during the year	**41,256**	51,171	**686**	2,328	**3,380**	3,730	**45,322**	57,229

(i) Revenue from external customers

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

	2014	2013
	HK$'000	*HK$'000*
Hong Kong	**29,888**	25,622
USA	**537,957**	561,355
PRC	**116,125**	118,299
Europe	**167,192**	141,348
Others	**66,371**	76,001
Total	**917,533**	922,625

During 2014, revenue derived from the Group's largest customer (who are affiliated companies of a shareholder) amounted to HK$295,072,000 or 32.2% of the Group's revenue (2013: HK$305,140,000 or 33.1%). Revenue derived from the second largest customer amounted to HK$88,559,000 or 9.7% (2013: HK$93,780,000 or 10.2%).

(ii) Non-current assets

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

	2014	2013
	HK$'000	*HK$'000*
Hong Kong	**18,706**	25,708
PRC	**76,348**	71,676
Bangladesh	**72,291**	46,953
Europe	**109**	1,868
USA	**49,765**	50,053
	217,219	196,258
Other intangible assets	**21,593**	28,775
Deferred income tax assets	**3,385**	3,023
	242,197	228,056

3. OTHER (LOSSES)/GAINS – NET

	2014	2013
	HK$'000	*HK$'000*
Financial assets at fair value through profit or loss and derivative financial instruments – fair value loss	**(136)**	(850)
Gain on settlement of derivative financial instruments	**42**	1,146
Net foreign exchange loss	**(359)**	(345)
Loss on disposal of property, plant and equipment	**(125)**	(447)
Gain on disposal of a subsidiary *(Note)*	**–**	1,626
	(578)	1,130

Note:

In 2013, the Group disposed of its 70% equity interest in 杭州成顏豐商貿有限公司 for a consideration of RMB874,000 (HK$1,113,000). The Group's equity interest in 杭州成顏豐商貿有限公司 was reduced from 80% to 10% after the disposal. The Group's remaining 10% equity interest in 杭州成顏豐商貿有限公司 is recognised as available-for-sale financial assets carried at cost.

	HK$'000
Proceeds	1,113
Share of net liabilities of the disposed subsidiary	291
Recognition of remaining equity interest as available-for-sale financial assets	222
Gain on disposal of subsidiary	1,626

The net cash flow in respect of the disposal of the subsidiary is as follows:

	HK$'000
Proceeds	1,113
Less: Cash retained in the disposed subsidiary	(2,347)
Net cash outflow on disposal of subsidiary	(1,234)

4. FINANCIAL INCOME/(COSTS) – NET

	2014	2013
	HK$'000	*HK$'000*
Interest on overdrafts and other borrowings	**(670)**	(1,588)
Interest on amounts due to a related company	**(25)**	(25)
Interest on other non-current payables	**(561)**	(1,564)
Interest costs	**(1,256)**	(3,177)
Interest income	**1,959**	1,976
Net finance income/(costs)	**703**	(1,201)

5. PROFIT BEFORE INCOME TAX

Profit before income tax is stated after charging:

	2014	2013
	HK$'000	*HK$'000*
Depreciation of property, plant and equipment	**25,303**	25,215
Amortisation on land use rights	**31**	160
Amortisation of other intangible assets	**8,531**	15,230
Net provision for impairment of trade and other receivables	**203**	(15)
Net provision for slow-moving and obsolete inventories	**350**	12,940
Provision for impairment of property, plant and equipment	**–**	2,360

6. INCOME TAX EXPENSE

	2014	2013
	HK$'000	*HK$'000*
Hong Kong profits tax		
– Current year	**2,614**	1,030
– Over-provision in prior years	**(998)**	(319)
	1,616	711
Overseas tax		
– Current year	**3,581**	4,887
– Under-provision in prior years	**697**	–
	5,894	5,598
Deferred income tax	**(362)**	(1,605)
	5,532	3,993

Hong Kong profits tax has been provided at the rate of 16.5% (2013: 16.5%) on the estimated assessable profits for the year ended 31 December 2014.

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.

	2014	2013
Profit attributable to owners of the Company *(HK$'000)*	**33,042**	7,366
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.

	2014	2013
Profit attributable to owners of the Company *(HK$'000)*	**33,042**	7,366
Weighted average number of ordinary shares in issue	**398,583,284**	398,583,284
Adjustment for share options	**244,417**	152,747
Weighted average number of ordinary shares for diluted earnings per share	**398,827,701**	398,736,031
Diluted earnings per share *(HK cent)*	**8.3**	1.8

8. DIVIDENDS

A final dividend in respect of the year ended 31 December 2014 of 2 HK cents per share, amounting to a total dividend of HK$7,972,000, 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 2014 was based on 398,583,284 (2013: 398,583,284) shares in issue as at 31 December 2014.

	2014	2013
	HK$'000	*HK$'000*
Interim dividend of 1 HK cent (2013: 1 HK cent) per share	**3,986**	3,986
Proposed final dividend of 2 HK cents (2013: 1 HK cent) per share	**7,972**	3,986
	11,958	7,972

The aggregate amounts of the dividends paid and proposed during 2013 and 2014 have been disclosed in the consolidated income statement in accordance with the Hong Kong Companies Ordinance.

9. TRADE AND OTHER RECEIVABLES

	2014	2013
	HK$'000	*HK$'000*
Trade and bills receivables	**144,735**	142,214
Deposits, prepayments and other receivables	**56,588**	68,302
	201,323	210,516
Less: provision for impairment	**(7,671)**	(7,475)
Less: provision for sales return	**(2,293)**	(2,293)
	191,359	200,748
Less: non-current portion of other receivables	**(14,654)**	(21,157)
Current portion	**176,705**	179,591

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:

	2014	2013
	HK$'000	*HK$'000*
0 – 30 days	**67,105**	86,431
31 – 60 days	**34,992**	31,545
61 – 90 days	**11,521**	8,259
Over 90 days	**31,117**	15,979
	144,735	142,214

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

	2014	2013
	HK$'000	*HK$'000*
1 – 30 days past due	**15,856**	16,217
31 – 60 days past due	**3,799**	4,496
Over 60 days past due	**22,522**	9,812
	42,177	30,525

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 other receivables are notes receivable from two customers totalling HK$16,834,000 (2013: HK$18,996,000).

A note receivable of HK$1,274,000 (2013: HK$3,436,000) 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 2014, provision was made against the note receivable to the extent of HK$1,274,000 (2013: HK$3,436,000).

Another note receivable of HK$15,560,000 (2013: 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.

(d) As of 31 December 2014, trade and other receivables of HK$7,671,000 (2013: HK$7,475,000) were fully impaired and provided for. All these receivables were overdue over 90 days.

The movement in provision for impairment of trade and other receivables during the year is as follows:

	2014	2013
	HK$'000	*HK$'000*
At 1 January	**7,475**	8,178
Impairment loss recognised	**1,043**	90
Impairment loss written back	**(840)**	(105)
Uncollectible amounts written off	**–**	(698)
Exchange difference	**(7)**	10
At 31 December	**7,671**	7,475

The Group does not hold any collateral over the impaired receivables other than the balance as described in note (c) above.

10. TRADE AND OTHER PAYABLES

	2014	2013
	HK$'000	*HK$'000*
Trade and bills payables	**76,782**	79,171
Accrued charges and other payables	**93,042**	96,543
	169,824	175,714
Less: other non-current payables	**(1,112)**	(4,695)
Current portion	**168,712**	171,019

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

	2014	2013
	HK$'000	*HK$'000*
0 – 30 days	**40,229**	41,587
31 – 60 days	**21,382**	27,057
61 – 90 days	**7,420**	4,656
Over 90 days	**7,751**	5,871
	76,782	79,171

BUSINESS REVIEW

Overview

In 2014, with the strong market demand for the Group's headwear products and continued growth in orders from customers, the Group has achieved satisfactory results during the year under review. The Manufacturing Business remained as the Group's main income source. However, the labour shortage in the PRC faced by the Group is more acute than expected. Although the production capacity of the Group's Bangladesh factory had been expanded rapidly, still it could not fill the stepped-up demand for orders. Therefore, the turnover has decreased slightly by 0.6% to HK$917,533,000 (2013: HK$922,625,000). Gross profit rose by 2% to HK$249,753,000 (2013: HK$243,810,000) and gross profit margin increased slightly by 0.8 percentage point to 27.2%. With continued implementation of cost control measures and reduction of the number of staff at the Shenzhen factory, the Group's overall operating expenses and staff cost have decreased. On top of this, as the Group did not have to make any one-off provisions in 2014 (2013: a provision of HK$13,700,000 was made to reflect the scaling down of the factory at Panyu, Guangdong Province), the profit attributable to shareholders skyrocketed by 349% to HK$33,042,000 (2013: HK$7,366,000).

As for the Manufacturing Business, leveraging the Group's brand reputation and stable foundation established over the years, the Group has maintained a solid relationship with its existing customers, including New Era, and has also succeeded in expanding its customer base. However, due to reduction in the number of staff at the Group's Shenzhen factory, its production capacity has decreased faster than expected. The Group has actively expanded its Bangladesh factory and has made satisfactory progress. To meet the increasing order volume from customers, the Group continues to accelerate development of its Bangladesh factory, which it believes will deliver a greater contribution in the future. The Shenzhen factory will continue to focus on product design and development and manufacture high value-added products to complement the development of the Group's Manufacturing Business.

The Trading Business has achieved a satisfactory performance during the year and has contributed greater income to the Group. This was mainly because the Group has continued to enhance its penetration in the Europe and US markets and has secured more distribution rights of headwear products. The Group's strategic planning has proven successful, with DPI particularly outperforming, and significant growth in turnover and higher gross margins from product distribution were recorded, proving the wisdom of the Group's strategy of entering the franchise market three years ago. The Group believes that the Europe and US markets will present huge potential in the future, so it will continue to ride on its diversified product strategy and the synergies between its businesses to bolster its long-term business growth.

The Retail Business has also made tremendous progress. Starting the implementation of its new business development strategy last year, the Group has adopted a prudent approach to open self-owned stores in the PRC and actively reinforced development of its franchise operations, thereby turning around the Sanrio business to generate a profit, underscoring the success of its franchise business strategy.

Financial Review

Due to insufficient production capacity to meet the demand of orders, the Group's turnover decreased slightly by 0.6% to HK$917,533,000 (2013: HK$922,625,000), despite the market demand for the Group's headwear remaining keen during the year. Gross profit increased by 2% to HK$249,753,000 (2013: HK$243,810,000). Overall gross profit margin rose slightly by 0.8 percentage points to 27.2%, attributable to the Group's continued implementation of stringent cost reduction measures.

On the other hand, during the year, the Group did not have to make any one-off provisions (2013: a provision of HK$13,700,000 was made to reflect the scaling down of its Panyu factory in Guangdong Province), thus the profit attributable to shareholders skyrocketed by 349% to HK$33,042,000 (2013: HK$7,366,000).

Manufacturing Business

During the year under review, the Manufacturing Business remained as the Group's main income source, accounting for 65.2% of the Group's total turnover. Customers' demand for the Group's products continued to be keen during the review year, spurring a rapid growth in orders. However, staff turnover at its Shenzhen factory was higher than expected and the expanded production capacity of its Bangladesh factory was not able to fill the increase of order volume. Therefore, turnover of the Manufacturing Business decreased slightly by 3% to HK$649,696,000 when compared to the same period last year. The reduction in the number of staff at its Shenzhen factory has led to a decline in its production capacity. With the accelerated expansion of its Bangladesh factory, the number of staff there has grown from 1,000 in the same period last year to 2,500 as at the end of 2014. Its production capacity has also increased to 1 million pieces of headwear per month, still insufficient to fill the huge order volume. The freight charges incurred by air delivery to meet the schedule has also risen. The gross profit of this segment rose by 9% to HK$111,982,000. Moreover, the Group did not have to make any one-off provisions in 2014 (2013: a provision of HK$13,700,000 was made to reflect the scaling down of its Panyu factory in Guangdong Province), operating profit of this segment surged by 31% to a satisfactory level of HK$39,784,000 (2013: HK$30,294,000).

Mainland Headwear continued to maintain close collaboration with its strategic partner New Era. During the year, the Group received orders amounting to approximately US$38,000,000 from New Era. The Group has extended its strategic partnership with New Era by entering into a five-year manufacturing agreement which started from 1 January 2015 until 31 December 2019. Pursuant to the agreement, the Group will provide a planned total order value from US$45,000,000 in the first year and the minimum annual output value in the subsequent four years will be determined year by year.

Trading Business

The Group has actively developed its Trading Business. Consequently, turnover rose by 12% to HK$214,620,000, mainly attributable to the growth in turnover of H3 Sportgear, DPI and San Diego Hat Company ("SDHC") during the year.

H3 Sportgear has achieved a significant improvement in performance, while DPI outperformed and achieved strong growth with relatively high gross profit gained from headwear distribution. On the other hand, as the unsatisfactory economy in the US has affected the business of SDHC's retail customers, the Group has strategically wholesaled some of its headwear to national retailers to promote sales. As a result, the Trading Business has recorded profit attributable to shareholders of HK$185,000 (2013: loss attributable to shareholders of HK$4,159,000).

On top of English Premier League soccer clubs, DPI has secured more cartoon character distribution rights of headwear during the year. Securing these distribution rights will not only significantly enhance the Group's brand recognition, but also enlarge its mass market share in Europe.

SDHC will continue to further diversify by enriching its product mix to include clothing and accessories such as handbags and scarves, with an aim to boost the Group's overall market competitiveness.

Retail Business

During the year under review, the Group has managed its self-owned stores more efficiently on the one hand, while on the other hand it has proactively strengthened the development of its franchise stores and flexibly adjusted its product sales strategy. Consequently, the Retail Business recorded a rise of 1.8% in turnover to HK$132,114,000, and achieved a turnaround with an operating profit of HK$2,389,000 (2013: operating loss of HK$5,778,000), underpinning the success of the Group's franchise business strategy.

Sanrio

During the year under review, the Group has enhanced the efficiency of Sanrio's self-owned stores, adopted a prudent strategy of opening self-owned stores and strived to develop franchise store operations, thus driving the turnover of this business unit to increase by 1.5% to HK$97,439,000 (2013: HK$96,031,000). To better manage and reduce administrative expenses, the Group has adopted a regional franchise strategy and has successfully achieved a turnover with an operating profit of HK$3,538,000 (2013: operating loss of HK$1,196,000) demonstrating the effectiveness of the franchise store business strategy.

As at 31 December 2014, the Group operated a total of 31 self-owned stores and 117 franchise stores (2013: 31 self-owned stores and 97 franchise stores).

Headwear Sales

During the year, the Group has closed the self-owned stores in the PRC and decided to strengthen its franchise store operations. The business segment of Headwear Sales comprises "NOP" franchise stores in the PRC, and "NOP" and "New Era" self-owned stores in Hong Kong. Therefore, the performance of Headwear Sales business has improved and recorded a turnover of HK$34,675,000, representing an increase of 2.8% from HK$33,719,000 last year. The Group was able to narrow the operating loss of this segment to HK$1,149,000 (2013: HK$4,582,000), attributable to its close monitoring of sales performances of all retail stores and its flexible adjustment of operational strategies.

During the year, gross profit of the Group's Headwear Sales segment decreased, partly attributable to the one-off expenses incurred by closure of the self-owned stores in the PRC, but the one-off expenses will not appear in the new financial year again. Starting from the fourth quarter of the year, the retail market in Hong Kong has been affected by the special market environment, which dragged the business performance of the Group's self-owned stores in Mongkok, Tsim Sha Tsui and Central. Currently, the affected retail market has been recovering gradually and the performance of related business is expected to pick up in the future.

As at 31 December 2014, the Group operated a total of 8 self-owned "NOP" stores in Hong Kong, and 20 "NOP" franchise stores in the PRC encompassing Beijing, Chongqing, Suzhou and Dalian. Besides, the Group also operated 1 "New Era" retail store in Hong Kong (2013: 7 self-owned "LIDS" stores and 1 "LIDS" franchise store; 14 self-owned "NOP" stores, and 9 "NOP" franchise stores as well as 2 self-owned "New Era" retail stores). In the future, the Group intends to step up efforts to develop the franchise store segment through expansion to the third tier cities in the PRC, and plans to open new "NOP" image stores in strategic areas in 2015.

Prospects

Through successful implementation of specific measures formulated for different business segments in the past year, the Group has achieved progress in its three major business segments. As such, the Group is continuing to adjust its future business development strategies according to the market environment and business development needs in a bid to create more growth drivers.

As for the Manufacturing Business, continued development of its Bangladesh factory is one of the Group's core strategies, in view of the continued robust demand for the Group's products. To address the rising staff cost and the shortage of labour in the PRC in recent years, the Group has begun further expanding its Bangladesh factory in the fourth quarter of 2014 to enhance its production capacity to satisfy the increasing volume of orders from customers. To meet the strong market demand, the Group will strive to expedite capacity expansion of the Bangladesh factory. It is expected that the production capacity will increase to 1.5 million pieces of headwear each month in the second quarter of 2015, enabling it to fulfil the order needs of the customers. To date, customers have been satisfied with the quality of products manufactured by the Bangladesh factory. In view of this, the Group is confident to consign more orders to the factory for production.

In addition, as the staff in the PRC has a more advanced skill set and the design team is closely attuned to the market needs, they are key pillars to product development. Therefore, its factory in the PRC has continued to play a major role in the Group's overall strategy. The Group is continuing to improve its internal management so as to reduce the staff turnover, and at the same time will optimise its supply chain management so as to complement its factory in Bangladesh, maximise synergies and boost business performance.

For the Trading Business, the Group has proactively captured opportunities in the market to explore new revenue sources, including securing distribution rights of popular cartoon characters in Europe to enrich its product mix during the year. As movies for these characters are planned to be released every year, the Group believes these initiatives will spur a craze for those cartoon characters and stimulate the demand of related headwear products, thus further enhancing the brand value and expanding the Group's customer base to realise the growth potential of the Trading Business.

With the improving economic conditions in the US, it is believed that the retail market will continue to improve. The Group believes that the growth potential of the Europe and US markets remains strong. SDHC is also continuing to enrich its product mix and launch an accessory collection such as handbags and scarves to meet the needs of different customers, enlarge its market share and broaden its customer base, while developing other emerging Asian markets to pursue long-term business growth.

Regarding the Retail Business, the Group has successfully boosted the performance of this segment by adopting a business strategy of expanding on franchise operations. Therefore, the Group intends to follow this strategy in the future, and collaborate with potential franchisees in a regional franchise business model and also explore other markets such as the third-tier cities in the PRC. As for the Sanrio Business, the Group is continuing to increase the proportion of products imported directly from Japan as it believes that the niche of high quality products will attract customers. In the Headwear Sales Business, the Group intends to open "NOP" image stores in strategic areas.

MANAGEMENT DISCUSSION AND ANALYSIS

Liquidity and Financial Resources

As at 31 December 2014, the Group had cash, bank balances and a portfolio of liquid investments totaling HK$126.4 million (2013: HK$148.9 million). About 46% and 25% of these liquid funds were denominated in Renminbi and US dollars respectively and the remainder mainly in HK dollars and Pound Sterling.

As at 31 December 2014, the Group had banking facilities of HK$243.1 million (2013: HK$241.1 million), of which HK$205.2 million (2013: HK$210.3 million) was not utilised.

The gearing ratio (being the Group's net borrowings over total equity) of the Group is at 6.4% (2013: 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.

Capital Expenditure

During the year, the Group spent approximately HK$41.2 million (2013: HK$21.5 million) on additions to plant and equipment to upgrade its manufacturing capability and expansion in the Bangladesh factory. The Group had also spent HK$3.4 million (2013: HK$3.7 million) on the retail systems and opening of new retail stores in 2014, and HK$0.7 million (2013: HK$2.3 million) on equipments and systems of trading business.

For the year 2014, the Group has budgeted HK$12 million for capital expenditure. Under Manufacturing business, HK$9 million is for the expansion in the Bangladesh factory and equipment upgrade in the Shenzhen factory. The remaining HK$3 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. The Group estimated that any 1% appreciation of the Bangladesh Taka is not expected to have material impact on the gross margin.

Employees and Remuneration Policies

At 31 December 2014, the Group employed 108 (2013: 113) employees in Hong Kong and Macau, 1,829 (2013: 2,740) employees in the PRC and 2,452 (2013: 959) employees in Bangladesh and a total of 45 (2013: 48) employees in the US and UK. The expenditures for employees during the year were approximately HK$230.0 million (2013: HK$251.5 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 (2013: 1 HK cent) per share in respect of the year ended 31 December 2014. Subject to the approval at the forthcoming annual general meeting, the final dividend will be payable on or after 11 June 2015 to the shareholders whose names appear on the register of members at the close of the business on 21 May 2015.

The registered of members of the Company will be closed from 19 May 2015 to 21 May 2015 (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 Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on 18 May 2015.

ANNUAL GENERAL MEETING

It is proposed that the Annual General Meeting of the Company will be held on 13 May 2015. 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 13 May 2015, the register of members of the Company will be closed from 11 May 2015 to 13 May 2015 (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 Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on 8 May 2015.

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

During the year ended 31 December 2014, 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 2014.

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 2014, including the accounting principles and practices adopted by the Group. The figures in respect of the preliminary announcement of the Group's results for the year ended 31 December 2014 have been agreed by the Company's auditor, PricewaterhouseCoopers ("PwC"), to the amounts set out in the Group's draft consolidated financial statements for the year. The work performed by PwC in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PwC on the preliminary announcement.

By Order of the Board
Ngan Hei Keung
Chairman

Hong Kong, 16 March 2015

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. Liu Tieh Ching, Brandon, JP and Mr. Gordon Ng.