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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 2008

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 2008.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2008

	Note	**2008** *HK$'000*	2007 *HK$'000*
Turnover and revenue	*2*	**610,959**	539,041
Cost of sales		**(440,586)**	(365,957)
Gross profit		**170,373**	173,084
Other income		**9,133**	12,620
Selling and distribution costs		**(69,533)**	(55,459)
Administration expenses		**(99,071)**	(76,962)
Other operating expense		**(4,861)**	–
Impairment of goodwill and intangibles	*4*	**(28,348)**	–
(Loss)/profit from operations		**(22,307)**	53,283
Share of results of a jointly controlled entity		**(4,570)**	–
Adjustment to gain on disposal of assets and liabilities of a subsidiary		**–**	(5,475)
Finance costs		**(86)**	(277)

	Note	2008 HK$'000	2007 HK$'000
(Loss)/profit before taxation	*5*		
Continuing operation		**(26,963)**	53,006
Discontinued operation		**–**	(5,475)
		(26,963)	47,531
Taxation			
Continuing operation	*6*	**(2,857)**	(5,940)
(Loss)/profit for the year			
Continuing operation		**(29,820)**	47,066
Discontinued operation		**–**	(5,475)
		(29,820)	41,591
Attributable to:			
Equity holders of the Company			
Continuing operation		**(29,259)**	47,177
Discontinued operation		**–**	(5,475)
		(29,259)	41,702
Minority interests		**(561)**	(111)
(Loss)/profit for the year		**(29,820)**	41,591
Dividends	*7*	**16,423**	25,472
(Loss)/earnings per share	*8*		
Basic			
Continuing operation		**(9.2 HK cents)**	14.8 HK cents
Discontinued operation		**–**	(1.7 HK cents)
		(9.2 HK cents)	13.1 HK cents
Diluted			
Continuing operation		**N/A**	14.7 HK cents
Discontinued operation		**N/A**	(1.7 HK cents)
		N/A	13.0 HK cents

CONSOLIDATED BALANCE SHEET
As at 31 December 2008

	Note	2008 HK$'000	2007 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		**138,696**	146,120
Prepaid premium on leasehold land held for own use under an operating lease		**1,075**	1,141
Interests in a jointly controlled entity		**15,136**	–
Goodwill		**4,958**	8,161
Intangibles		**–**	10,603
Deferred tax assets		**28**	36
		159,893	166,061
Current assets			
Inventories		**119,946**	107,627
Trade and other receivables	9	**144,738**	143,902
Amount due from a related company		**918**	851
Short term investments		**4,322**	81,582
Tax recoverable		**608**	751
Bank balances and cash		**149,148**	95,874
		419,680	430,587
Current liabilities			
Trade and other payables	10	**95,996**	61,422
Amounts due to related companies		**1,412**	843
Taxation		**3,774**	7,927
		101,182	70,192
Net current assets		**318,498**	360,395
Total assets less current liabilities		**478,391**	526,456

	Note	**2008**	2007
		HK$'000	*HK$'000*
Non-current liabilities			
Long term payables		**–**	8,573
Post-employment benefits		**73**	73
Deferred tax liabilities		**2,253**	3,622
		2,326	12,268
NET ASSETS		**476,065**	514,188
CAPITAL AND RESERVES			
Share capital		**31,840**	31,840
Reserves		**441,654**	479,494
Total equity attributable to equity holders of the Company		**473,494**	511,334
Minority interests		**2,571**	2,854
TOTAL EQUITY		**476,065**	514,188

Notes

1. Accounting Policies

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). The financial statements are prepared under the historical cost convention, except for short term investments which are stated at fair value.

In the current year, the Group has applied for the first time the following amendments and interpretations (the new "HKFRSs") issued by the HKICPA, which are relevant to and effective for the Group's financial statements for the annual period beginning on 1 January 2008:

HK (IFRIC) – Int 11	HKFRS 2: Group and Treasury Share Transactions
HKAS 39 (Amendments)	Reclassification of Financial Assets

The new HKFRSs has no material impact on how the results and financial position for the current and prior periods have been prepared and presented. Accordingly, no prior period adjustment is required.

The Group has not early adopted the following new and amended HKFRSs that have been issued and relevant to its operation but are not yet effective. The Group is currently assessing the impact of these HKFRSs but are not yet in a position to state whether they would have material financial impact on the Group's consolidated financial statements.

HKAS 1 (Revised)	Presentation of Financial Statements [1]
HKAS 23 (Revised)	Borrowing Costs [1]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements [2]
HKFRS 1 and HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate [1]
Amendments to HKFRS 2	Share-based Payment – Vesting Conditions and Cancellation [1]
HKFRS 3 (Revised)	Business Combinations [2]
Amendments to HKFRS7	Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments [1]
HKFRS 8	Operating Segments [1]
HKFRSs (Amendments)	Improvements to HKFRSs 2008 [3]

Notes:

1 Effective for annual periods beginning on or after 1 January 2009
2 Effective for annual periods beginning on or after 1 July 2009
3 Generally effective for annual periods beginning on or after 1 January 2009 unless otherwise stated in the specific HKFRSs

2. Turnover and revenue

The principal activities of the Group are manufacture and sales of headwear products, sales of licensed products and tourist-souvenir products. Turnover and revenue represents sales of goods at invoiced value to customers net of returns and discounts.

3. Segment information

(a) Business segments

The Group comprises the following main business segments:

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

(ii) Trading Business: The trading and distribution of headwear and other products business of the Group is operating through Drew Pearson International (Europe) Ltd. which focus on the Europe market.

(iii) Retail Business: The Group operates LIDS stores in the PRC and Hong Kong, and SANRIO stores in the PRC. In addition, the Group has operated tourist-souvenir shops in Beijing, the PRC since January 2008.

	Manufacturing		**Trading**		**Retail**		**Inter-segment elimination**		**Consolidation**	
	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Revenue from external customers	**379,421**	380,780	**45,622**	50,463	**185,916**	107,798	**-**	–	**610,959**	539,041
Inter-segment revenue	**19,947**	15,291	**-**	–	**-**	–	**(19,947)**	(15,291)	**-**	–
Total revenue	**399,368**	396,071	**45,622**	50,463	**185,916**	107,798	**(19,947)**	(15,291)	**610,959**	539,041
Other income	**7,820**	3,224	**-**	54	**370**	1,155	**-**	–	**8,190**	4,433
Total	**407,188**	399,295	**45,622**	50,517	**186,286**	108,953	**(19,947)**	(15,291)	**619,149**	543,474
Segment result and contribution from operations	**364**	41,824	**4,987**	7,133	**(22,838)**	(3,599)	**105**	(184)	**(17,382)**	45,174
Unallocated other income									**944**	8,187
Unallocated operating expenses									**(5,869)**	(78)
(Loss)/profit from operations									**(22,307)**	53,283

(b) **Geographical segment turnover**

The analysis of Group turnover by geographical location is as follows:

	2008	2007
	HK$'000	*HK$'000*
USA	**289,238**	323,261
HK and the PRC	**207,662**	128,632
Europe	**98,074**	80,519
Others	**15,985**	6,629
Total	**610,959**	539,041

4. Impairment of goodwill and intangibles

In accordance with HKAS 36 "Impairment of Assets", the Group completed its annual impairment test for goodwill and intangibles allocated to the Group's various cash generating units by comparing their recoverable amount to their carrying amount as at the balance sheet date.

Goodwill arising from the acquisition of 100% interests in 北京叠翠旅遊紀念品有限責任公司 ("Diecui"), which is engaged in running retail souvenir and gift shops in Beijing, PRC during the year ended 31 December 2008 amounted to HK$17,202,000. The goodwill was principally attributable to the expanding retail channels in Beijing and the capture of business opportunities resulted from 2008 Olympic Games. Management has reviewed its recoverable amount as at year end by reference to the value-in-use calculations and determined that the goodwill is fully impaired. The value-in-use calculation uses pre-tax cashflow projections based on a 3-year financial budgets. An impairment loss of HK$17,202,000 was recognised in the consolidated income statement.

Intangibles represent the fair value of purchase orders committed by the vendor to the Group in respect of the acquisition of Bollman (Hong Kong) Limited and Guang Zhou Jian Hao Headwear Manufacturing Ltd. recognised in 2006. The management has reviewed its carrying amount as at 31 December 2008 and considered that the vendor probably cannot fulfill the purchase orders commitment. An impairment loss of HK$11,146,000 was recognised in the consolidated income statement.

5. (Loss)/profit before taxation

This is stated after charging/(crediting):

	2008	2007
	HK$'000	*HK$'000*
Recognition of negative goodwill	**(5,808)**	–
Net loss/(gain) from short term investments	**4,861**	(3,512)
Depreciation of property, plant and equipment	**30,042**	30,478
Amortisation on prepaid premium on leasehold land held for own use under operating lease	**142**	133
Provisions for impairment of trade receivables	**1,662**	454

6. Taxation

	2008	2007
	HK$'000	*HK$'000*
Hong Kong Profits Tax		
– Current year	**527**	6,391
– Over-provision in prior years	**(839)**	(495)
	(312)	5,896
PRC income tax	**3,488**	676
Overseas tax	**1,035**	557
	4,211	7,129
Deferred taxation		
– Current year	**(1,147)**	(1,189)
– Decrease in tax rate	**(207)**	–
	(1,354)	(1,189)
	2,857	5,940

Hong Kong Profits Tax has been provided at the rate of 16.5% (2007: 17.5%) on the estimated assessable profits for the year. Taxation for PRC and overseas subsidiaries has been calculated at the rates applicable in the respective jurisdictions and based on prevailing legislation, interpretations, and practices in respect thereof.

7. Dividends

	2008	2007
	HK$'000	*HK$'000*
Interim dividend of 2 HK cents (2007: 3 HK cents) per share	**6,368**	9,552
Proposed final dividend of 3 HK cents (2007: 5 HK cents) per share	**10,055**	15,920
	16,423	25,472

A final dividend in respect of 2008 of 3 HK cents (2007: 5 HK cents) per share amounting to approximately HK$10,055,000 (2007: HK$15,920,000) has been proposed by the directors after the balance sheet date.

8. (Loss)/earnings per share

Continuing operation:

The calculation of basic (loss)/earnings per share is based on the loss attributable to equity holders of the Company of HK$29,259,000 (2007: profit of HK$47,177,000) and on the weighted average number of shares of 318,402,284 (2007: 317,514,697) in issue during the year.

No diluted loss per share has been presented for the year ended 31 December 2008 because the impact of exercise of the share options was anti-dilutive. For the year ended 31 December 2007, the calculation of diluted earnings per share was based on the profit attributable to equity holders of the Company of HK$47,177,000 and 320,833,930 shares which was the weighted average number of shares during the year adjusted for the number of dilutive potential shares under the share option schemes.

Discontinued operation:

No basic or diluted loss per share was presented for the year ended 31 December 2008 as there was no discontinued operation. The calculation of basic and diluted loss per share for the year ended 31 December 2007 was based on the loss attributable to equity holders of the Company of HK$5,475,000 and the denominators detailed above.

9. Trade and other receivables

	2008	2007
	HK$'000	*HK$'000*
Trade and bills receivables	**107,713**	99,612
Less: provision for doubtful debts	**(3,566)**	(1,997)
	104,147	97,615
Deposits, prepayments and other debtors	**40,591**	46,287
	144,738	143,902

The ageing analysis of trade and bills receivables (net of provision for doubtful debts) at the balance sheet date is as follows:

	2008	2007
	HK$'000	*HK$'000*
0 – 30 days	**41,651**	41,237
31 – 60 days	**28,258**	20,585
61 – 90 days	**15,033**	7,752
Over 90 days	**19,205**	28,041
	104,147	97,615

Trade receivables are due within 30 to 90 days from the date of billing depending on the trading relationship. Credit evaluations of customers are performed by the Group from time to time to minimise any credit risk associated with receivables. In addition, customers with balances that are more than 3 months overdue are requested to settle all outstanding balances before any further credit is granted.

10. Trade and other payables

	2008	2007
	HK$'000	*HK$'000*
Trade and bills payables	**43,938**	29,180
Accrued charges and other creditors	**52,058**	32,242
	95,996	61,422

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

	2008	2007
	HK$'000	*HK$'000*
0 – 30 days	**19,816**	17,060
31 – 60 days	**9,263**	8,371
61 – 90 days	**1,385**	1,006
Over 90 days	**13,474**	2,743
	43,938	29,180

BUSINESS REVIEW AND PROSPECT

Overview

Mainland Headwear faced unprecedented challenges in 2008 including the financial tsunami and global economic downturn posting immense pressure on the Group's order volume. The Group's gross margin was also squeezed because of the increased production costs as a result of appreciation of the RMB and rocketing material pries and wages.

To mitigate the impacts of external influence on the Group, Manufacturing Business stepped up implementation of the LEAN production management model during the period, which notably enhanced the operational and production efficiency of the factories. In addition, at its effort to secure new customers, the Group signed a manufacturing agreement with New Era Cap Co., Inc. ("New Era"), the World's largest headwear manufacturer in the US, last year. During the year, it also signed an agreement to invest in Keen Idea Group Ltd. ("Keen Idea"). With Vietnam as its manufacturing base, Keen Idea can serve major brand customers of the Group as an alternative choice of production facility.

Regarding Retail Business, the Group acquired the entire equity interest of a tourist-souvenir retailer in Beijing, 北京叠翠旅遊紀念品有限責任公司 ("Diecui"), last January to expand its retail network to major tourist spots in Beijing.

Financial Review

For the year ended 31 December 2008, the Group's turnover increased by approximately 13% to HK$610,959,000 (2007: HK$539,041,000), which was mainly attributable to the recently acquired Diecui. Gross profit and loss attributable to shareholders were HK$170,373,000 (2007: HK$173,084,000) and HK$29,259,000 (2007: profit attributable to shareholders of HK$41,702,000) respectively.

The loss incurred by the Group for this period was mainly due to regression of the manufacturing business, the approximately HK$28,348,000 of impairment of goodwill and intangibles related to Diecui operation and Panyu factory, and the approximately HK$4,570,000 share of loss of Keen Idea.

The Manufacturing Business segment had a drastic drop in orders due to Concept One's breach of the manufacturing agreement. That plus the new orders landed carrying lower gross profit, the weak US market, appreciation of the RMB and increasing wages and material prices had hampered performance of the segment relative to the previous year.

As for the Retail Business, because the PRC government tightened entry policies during the Beijing 2008 Olympic Games, tourist traffic was substantially lower than expected and the business of Diecui also reported less than expected performance. The segment was also affected during the year by risen rental and wages.

Manufacturing Business

During the year under review, the Manufacturing Business continued to be the Group's major revenue contributor. It reported turnover of HK$399,368,000, comparable to that of last year (2007: HK$396,071,000), which accounted for 62.1% of the total turnover of the Group.

With the US market softening and Concept One breaching the manufacturing agreement signed with the Group in May 2007 during the period under review, the number of orders dropped substantially. The agreement with Concept One required it to make minimum purchase from the Group annually, starting from an initial value of US$20,000,000 in the first year, the product amount will gradually increase to US$35,000,000 in the seventh year (or 65% of Concept One's total annual purchase if the order value fell below the stated range). In March 2008, the Group took appropriate legal actions against Concept One to recover related financial losses. To mitigate the impact of the incident, the Group actively looked for new customers in the US market and via its trading arm in Europe and also strived to capture opportunities presented by the Beijing 2008 Olympic Games. However, as it takes time to secure new customers and business was hampered by the authority tightening entry policies during the Olympics, the Group was only able to cushion off part of the impact and maintained turnover of the segment at a level similar to last year.

Having to face various external uncertainties last year, including continuous appreciation of the RMB, rising wages and material prices and new orders carrying lower gross profit, the gross margin of manufacturing business was squeezed and slightly below 20%. Furthermore, as a result of the under-performance of the management from joint venture partners of Keen Idea, the Group had to bear part of the loss incurred by the company in the amount of around HK$4,570,000, and that also affected the overall performance of the Group.

Operating profit amounted HK$364,000 (2007: HK$41,824,000), which was mainly due to the approximately HK$11,146,000 of impairment of intangibles related to Panyu factory and the squeeze in profit margin.

In January 2008, the Group invested in Keen Idea at a cash consideration of US$2,520,000, representing 36% equity interest in the company. Strategically located in Vietnam, Keen Idea offers an alternative manufacturing base to the Group's major customers, hence boosting the Group's competitiveness.

To counter different challenges, the Group adopted the LEAN production management model at its Shenzhen factory in the beginning of last year to help streamline management structure and enhance production efficiency. The move allowed the Group to partially offset the impact of the drop in gross margin of the Manufacturing Business. Heeding the satisfactory results, the Group implemented the model at all its production lines in September 2008.

Efforts of the Group to secure new customers also paid off. In October 2008, the Group signed a 7-year manufacturing agreement with New Era, which was expected to bring stable and promising income to the Group. Pursuant to the agreement, New Era will purchase headwear products manufactured and supplied by Mainland Headwear between 1 January 2009 and 31 December 2015, and it also has the right to acquire a stake in Mainland Headwear to become a strategic shareholder. The total amount of headwear covered in this contract will be up to US$160,000,000, with the minimum purchase amount of US$5,000,000 in the first year. Related orders are expected to be reflected in the financial year of 2009.

Trading Business

During the period under review, turnover from the European Trading Business of the Group amounted to HK$45,622,000 (2007: HK$50,463,000), accounting for 7.5% of the Group total. Operating profit was HK$4,987,000 (2007: HK$7,133,000). The weak Sterling Pound was the main reason for the decrease in turnover and operating profit.

The segment continued to ride on its strong business relations with European retailers to expand the customer base for the Manufacturing Business and create synergies.

Retail Business

Benefited by the increasing turnover of Sanrio and the newly-acquired Diecui operation, turnover surged 73% to HK$185,916,000 (2007: HK$107,798,000), accounting for about 30.4% of the Group's total turnover. Operating loss amounted to HK$22,838,000 (2007 operating loss: HK$3,599,000), which was mainly attributable to the HK$17,202,000 impairment of goodwill related to Diecui operation, increasing staff costs and rental expenses. Excluding the impairment, operating loss of the Retail Business was approximately HK$5,636,000.

Sanrio

Turnover from Sanrio increased by 14% to HK$85,806,000 (2007: HK$75,458,000). However, with salary level and store rental increasing in China pushing up operating costs of the Group, the profit margin of the business was slightly squeezed. Consequently, Sanrio operation recorded an operating loss of HK$3,680,000 for the year.

Determined to capitalise on the tremendous growth potential of the consumer market in China, the Group actively expanded its retail network in the country during the year under review. To boost the exposure and image of the brand, the Gift Gate Jungle Store at Sanlitun, a prime district in Beijing, was opened in November 2008. As at 31 December 2008, the Group had 49 self-owned stores and 60 franchise stores.

LIDS

Turnover from LIDS for the year under review was HK$27,923,000 (2007: HK$32,340,000). Operating loss narrowed by 10% to HK$3,732,000 (2007: operating loss of HK$4,152,000).

Facing rising rental and operating costs in Hong Kong, the Group closed the store in Lee Garden Road in Causeway Bay in October 2008 and opened new stores in Tsuen Wan and Tuen Mun, which promised greater operational flexibility and better returns. Since the stores began operation only in October and November respectively, turnover was temporarily affected.

In the PRC market, the Group continued to expand the operation of LIDS through franchising. As at 31 December 2008, the Group had 31 LIDS self-owned stores in business, of which 23 were in the PRC and 8 in Hong Kong. In addition, the Group had 17 LIDS franchise stores in the PRC.

Diecui

Diecui, which joined the Mainland Headwear family in the beginning of 2008, did not only allow the Group to immediately extend its retail network to popular sightseeing spots in Beijing, but had also given it a new income source. During the year under review, turnover of Diecui business was HK$72,187,000. Excluding the impairment of HK$17,202,000, operating profit of the business was HK$1,776,000. As at 31 December 2008, the Group had 4 self-owned stores, namely Badaling, the Temple of Heaven, the Forbidden City and the Summer Palace, and 36 franchise stores in operation.

Prospects

Looking ahead, the prospects of the global economy will still be uncertain in 2009, meaning the business environment will continue to be tough. Nevertheless, the Group is well-prepared to take on the challenging economic conditions and seize every emerging market opportunity.

Manufacturing Business

Wages and raw material prices are expected to stay steady in 2009, which will be beneficial to the Group in keeping sales cost and other operating expenses stable.

The agreement with New Era has seen it become a strategic shareholder with 5% stake in the Group. The amicable relationship between the two companies is expected to bring stable and significant revenue to the Group, with orders in the first year substantially higher than the previously agreed amount.

In addition, the Group secured a new customer, which is a leading casual wear retail chain in Japan. The first batch of orders was shipped in January 2009, translating into additional incomes for the Group.

The Group implemented the LEAN production management model at all its production lines in September 2008. Related procedures and practices have progressed smoothly, helping to reduce wastage of raw materials and improve output rates, thereby enhancing overall operational and production efficiency.

Moreover, the Group had entered into an acquisition agreement in February 2009 to increase its stake in Keen Idea from 36% to 60% at a consideration of US$560,000. When the acquisition is completed, the Group will be able to consolidate control over the management of Keen Idea and boost the company's performance. In fact, since after the Group appointed a new management to the company in mid 2008 to carry out reforms, the company had reported notably improved turnover and operational efficiency. The Group is confident that Keen Idea will be able to breakeven in the second quarter of 2009.

Regarding the litigation in relation to Concept One breaching the manufacturing agreement it signed with the Group, the Group believes the dispute will be settled within 2009.

Trading Business

As for Trading Business, the trading arm of the Group will continue to build on the strong relationship with leading retailers in Europe to help Manufacturing Business expand customer base, as well as create better synergies to benefit the Group at large.

Retail Business

Sanrio

With the global financial crisis leading to a difficult operating environment, the Group not only has been active in negotiating for lower rentals with landlords, but has also strived to streamline operation, thereby raising the operational efficiency of the business. The Group will also continue to develop the business by increasing the number of franchise stores. It also plans to boost profit by increasing the sales proportion of own designed products with higher margins.

In January 2009, the Group announced that Promotional Partners Worldwide Limited ("PPW") and its substantial shareholder had committed material defaults in fulfilling and observing their obligations under the Shareholders' Agreement. PPW is the joint venture partner of Futureview Investment Limited ("Futureview"), the Group's non wholly-owned subsidiary operating the Sanrio business. Thus, the Group has proposed to buy out the 25% shareholding in Futureview held by PPW at a fair market price determined by a recognised international accounting firm jointly appointed by the Group and PPW. The proposed acquisition is not confirmed to date. The Group will make announcements as and when appropriate pursuant to listing rules.

LIDS

The Group will focus on developing its own brands, which boosts a higher profit margin. It will identify more distribution channels for the brand to increase returns. The Group will also strengthen the image of LIDS and other own brand headwear via its self-owned stores, which is expected to also attract franchisees for the LIDS operation. These measures are expected to help LIDS achieve breakeven in 2009.

Diecui
After the Beijing 2008 Olympic Games, the Group will continue to sell licensed Olympic products and further develop its tourist souvenir retail business.

MANAGEMENT DISCUSSION AND ANALYSIS

Liquidity and Financial Resources

As at 31 December 2008, the Group had cash, bank balances and a portfolio of liquid investments totaling HK$153.5 million (2007: HK$177.5 million). About 44% and 37% of these liquid funds were denominated in US dollars and Renminbi respectively and the remainder mainly in HK dollars and Pound Sterling.

The decrease in liquid funds was mainly attributable to the acquisition of a joint venture by the Group at a consideration of HK$19.7 million in 2008.

As at 31 December 2008, the Group had banking facilities of HK$105.0 million (2007: HK$102.0 million), of which HK$103.3 million (2007: HK$100.4 million) was not utilised.

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

Acquisition of a Subsidiary and a Joint Venture

In October 2007, the Group through its wholly owned subsidiary, entered into an agreement to acquire 100% equity interest of 北京叠翠旅遊紀念品有限責任公司 ("Diecui"), a PRC incorporated company engaging in running souvenir and gift shops in Beijing, the PRC, for a total cash consideration of RMB26 million. Upon the completion of the agreement on 1 January 2008, Diecui becomes a 100% wholly owned subsidiary of the Group.

Goodwill arising from the acquisition of 100% interests in Diecui amounted to HK$17,202,000 which was fully impaired and charged to in the consolidated income statement for the year ended 31 December 2008.

In January 2008, the Group entered into a subscription agreement with Din Tsun Holding Co., Ltd. and Large Forever Ltd. for a 36% equity interest in Keen Idea Group Ltd. ("Keen Idea"). Keen Idea is a company which is engaged in headwear manufacturing business with its factory based in Vietnam. The total investment cost in Keen Idea is HK$19.7 million.

Goodwill arising from the acquisition of 36% interests in Keen Idea amounted to HK$2,897,000.

Capital Expenditure

During the year, the Group spent approximately HK$10.3 million (2007: HK$33.2 million) on the construction of an additional factory building, which was almost ready to use at the end of 2008, and additions to plant and equipment to upgrade its manufacturing capability. The Group had also spent HK$4.4 million (2007: HK$2.8 million) on the retail systems and opening of new retail stores in 2008.

For the year 2009, the Group has budgeted HK$7.6 million for capital expenditure to enhance its production capacity and efficiency, and HK$4.0 million for the enhancement of systems of retail operations.

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

Subsequent Events

(i) Acquisition of additional 24% interests in a joint venture

In February 2009, the Group entered into a sales and purchase agreement with Forever Wise Holdings Limited for a 24% equity interest in Keen Idea. At a consideration of HK$4.4 million. After the acquisition, the Group's interests in Keen Idea increased from 36% to 60% and Keen Idea becomes a non-wholly owned subsidiary of the Group. The increase in shareholding would enable the Group to manage the operation in a more effective and efficient manner.

(ii) Disputes

The Group and Promotional Partners Worldwide Limited ("PPW", now replaced by Licensing Partners Limited) currently hold 75% and 25% equity interest in Futureview Investment Limited ("Futureview"). Futureview and its subsidiaries are principally engaged in the sourcing, production and sale of Sanrio Products in the PRC.

In December 2008, PPW through its lawyer issued a letter to terminate the shareholders' agreement owing to the alleged material defaults and/or observance of the Company's obligation under the shareholders' agreement. In January 2009, the Company served a notice ("Notice") to PPW and Mr. Chan (who is the major shareholder of PPW) to terminate the shareholders' agreement and require them to sell their 25% equity interest in Futureview to the Group in accordance with the termination clause of the Shareholders' Agreement, at fair market price to be determined by a recognised international accountancy firm jointly appointed by the Group and PPW.

Exchange Risk

Most assets and liabilities of the Group are denominated either in HK dollars, US dollars or Renminbi. The Group estimates that any 2% appreciation of the Renminbi is expected to reduce the gross margin of the Manufacturing Business by about 1%. However, as the businesses in the PRC market grow, the expected positive contribution will provide a hedge against the adverse effect of any appreciation of Renminbi to the manufacturing costs.

Employees and Remuneration Policies

At 31 December 2008, the Group employed 109 (2007: 109) employees in Hong Kong and Macau, and 3,249 (2007: 3,595) employees in the PRC and a total of 6 (2007: 6) employees in the UK. The expenditures for employees during the year were approximately HK$152.3 million (2007: HK$134.7 million). The Group ensures that the pay levels of its employees are competitive and employees were remunerated based on their position and performance. Key employees of the Group, including Directors, are also granted share options under the share option schemes operated by the Company.

DIVIDENDS AND CLOSURE OF REGISTER OF MEMBERS

The Directors now recommend the payment of a final dividend of 3 HK cents (2007: 5 HK cents) per share in respect of the year ended 31 December 2008. Subject to the approval at the forthcoming annual general meeting, the final dividend will be payable on or after 9 June 2009 to the shareholders whose names appear on the register of members at the close of the business on 20 May 2009.

The registered of members of the Company will be closed from 21 May 2009 to 26 May 2009 (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 20 May 2009.

ANNUAL GENERAL MEETING

It is proposed that the Annual General Meeting of the Company will be held on 26 May 2009. The Notice of the Annual General Meeting will be published in the Company’s website and sent to the shareholders of the Company in due course.

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

During the year ended 31 December 2008, 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 2008 except for the deviations of Code Provisions A.4.1 and A.4.2 as explained in the Company's Annual Report for the year ended 31 December 2007.

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.

SCOPE OF WORK OF THE AUDITORS

The figures in respect of the preliminary announcement of the Group's results for the year ended 31 December 2008 have been agreed by the Group's auditors, Grant Thornton, ("the Auditors") to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by the Auditors 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 the Auditors on the preliminary announcement.

REVIEW OF FINANCIAL STATEMENTS

The Audit Committee has reviewed the Group's consolidated financial statements for the year ended 31 December 2008, 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, 8 April 2009

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. Luh Yih Ping and Mr. James S. Patterson; one Non-executive Director, Mr. Tse Kam Fow; and three are Independent Non-executive Directors, namely Mr. Leung Shu Yin, William, Mr. Lo Hang Fong and Mr. Liu Tieh Ching, Brandon, JP.

* *For identification purpose only*