



Mainland Headwear Holdings Limited

(Stock code: 1100)

2020

INTERIM REPORT



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Management Discussion and Analysis

The Board of Directors (the “Board” or the “Directors”) of Mainland Headwear Holdings Limited (the “Company”) hereby presents the unaudited interim results of the Company and its subsidiaries (collectively, “Mainland Headwear” or the “Group”) for the six months ended 30 June 2020 (the “Period”).

FINANCIAL REVIEW

During the Period, the global economy was battered by the COVID-19 outbreak, which affected the global supply chain and consumer market. Although the entire industrial supply chain and factories in the PRC were temporarily affected at the early stages of the pandemic in February and March when China was first hit, Mainland Headwear’s performance for the first quarter was robust and represented a year-on-year improvement as the Bangladesh plant has become its principal production base. However, as the pandemic rapidly spread worldwide since March, which led to Bangladesh’s nationwide shutdown starting 28 March 2020 until late May and affected the economic and retail markets in the US and Europe, the Group’s Manufacturing Business in April and May was inevitably affected by such developments. Its sales performance in June, nonetheless, has shown a quick rebound.

Conversely, the investments made in the Trading Business in the previous years have yielded fruit. In particular, the e-commerce business has witnessed remarkable growth as online consumption has emerged as a prevailing market trend especially during the pandemic.

Due to the aforementioned challenges during the Period, the Group’s revenue from continuing operations contracted by 17.3% to HK\$430,952,000 (2019 Interim: HK\$521,181,000), dragged down by the Manufacturing Business, even though the Trading Business appreciably surged by 17.4%. Notwithstanding the expected decline in gross profit from continuing operations of 14.0% to HK\$129,377,000 (2019 interim: HK\$150,386,000) mainly due to weaker top-line performance, gross profit margin for continuing operations rose to 30.0% (2019 interim: 28.9%). The reason for such growth can be attributed to the management’s successful efforts in implementing effective cost control measures to optimise the management and streamline the structure of the Group, reinforced by improvement in production efficiency due to a higher level of automation at its Bangladesh plant. However, owing to significant top-line drop in the second quarter, profit from continuing operations for the period fell by 96.6% to HK\$1,340,000 (2019 Interim: HK\$39,946,000). As a result of the cessation of the retail business in 2019, no profit/loss has been recorded from this segment during the Period (2019 Interim: loss from discontinued operations of HK\$4,632,000). Profit attributable to shareholders fell by 97.8% to HK\$757,000 (2019 Interim: HK\$34,578,000).

Management Discussion and Analysis

In view of the sound fundamentals of the Group, the Board has resolved to recommend an interim dividend of 2 HK cents per share (2019 Interim: 2 HK cents). The Group remains in a healthy financial position, and has stable operating cash flows. It also holds sufficient cash on hand and total unutilised banking facilities, amounting to approximately HK\$223.6 million and HK\$224.2 million, respectively, as at 30 June 2020 (31 December 2019: HK\$112.5 million and HK\$306.3 million, respectively).

BUSINESS REVIEW

Manufacturing Business

The Manufacturing Business was dealt a blow by the nationwide shutdown in Bangladesh and the delay of shipments and orders from the majority of the Group's US and European customers due to the pandemic. In the aftermath, this segment's revenue dropped by 33.5% to HK\$268,469,000 (2019 Interim: HK\$403,581,000), while revenue from external customers declined by 33.5% to HK\$235,980,000 (2019 Interim: HK\$355,053,000) accounting for approximately 54.8% of the Group's total revenue for continuing operations. Correspondingly, operating profit of the Manufacturing Business decreased by 36.9% to HK\$35,237,000 (2019 Interim: HK\$55,853,000).

Though China bore the brunt of the pandemic in February and March, the Group had largely transferred the majority of production of orders and the relevant raw materials from Shenzhen to Bangladesh before the lockdown, the latter being the Group's principal production base, which has avoided the severing of the supply chain. As a result, the Group's Manufacturing Business not only remained unaffected in the first quarter, but even exceeded the same period last year. However, as the pandemic spread across the world in March, Bangladesh's government has imposed a nationwide shutdown order starting 28 March 2020 until late May, therefore, the Group's Bangladesh factory could only operate on a very limited scale.

On the demand front, the pandemic has already led to the season suspension of all major sporting events. Many US and European customers have thus delayed their shipments and placing orders to the Group in April and May owing to the lockdown measures taken by their respective national governments.

To minimise the negative impact on its operations, the Group has worked closely with customers for necessary adjustment to the delivery schedule so as to tide over the difficult times together, while implementing a series of stringent precautionary and control measures to combat the impact brought by the pandemic. It has seen a gradual sales improvement in June as the

Management Discussion and Analysis

operation and orders of certain partners were swiftly picking up, while at the same time the shutdown in Bangladesh was lifted and the Group's production resumed in an orderly manner with the premise of ensuring the safety of employees.

As at 30 June 2020, the Bangladesh and Shenzhen factory had approximately 4,000 and 600 employees, respectively (31 December 2019: about 5,200 employees and 800 employees, respectively). The drop in number of employees was mainly due to natural attrition as many management staff and workers have not been able to report to duty owing to travel restrictions, and partly due to the reduction in the workforce according to the actual needs to fill orders.

It's worth noting that even though the headcount was reduced by one-fifth, the output of headwear products at the Bangladesh Plant was still satisfactory, thanks to the enhanced efficiency and a higher level of automation.

Trading Business

Despite being impacted by such uncertainties as the lackluster US and UK retail markets and shadowed by the pandemic, top-line growth of the Trading Business still soared by 17.4% to HK\$194,972,000 (2019 Interim: HK\$166,128,000), accounting for 45.2% of the Group's total revenue for continuing operations. The surge was mainly attributable to (i) consolidation of the financial results of Aquarius Ltd. ("Aquarius") from 1 June 2019 subsequent to the Group's acquisition; and (ii) the accelerated growth in e-commerce business, clear evidence of the success of its business strategy to invest in this area in the past two years, which allowed it to capture the rising online shopping trend during the pandemic. However, owing to lockdown measure taken by US and UK government in the second quarter, apart from e-commerce business, Group's trading subsidiaries in these countries were adversely affected, the operating loss of the business amounted to HK\$18,026,000 (2019 Interim: loss of HK\$9,164,000).

The management had set its eyes on the online consumption trend in recent years, and made a foray into the e-commerce business two years ago. With two years of investment in building a competitive product mix and promoting this new business, the Group started to reap the benefits in the review period as e-commerce started to contribute profits. With an expanding product offering, the management has full confidence in this segment as the pandemic has further boosted online shopping.

Discontinued operations

The Group elected to cease all retail operations in both Hong Kong and Mainland China in 2019, so no profit/loss has been recorded from this segment during the Period (2019 Interim: loss from discontinued operations of HK\$4,632,000). With the conclusion of all retail operations on both sides of the border, the Group has been able to direct greater attention and resources towards the Manufacturing and Trading segments.

Management Discussion and Analysis

PROSPECTS

Going forward, the pandemic and protracted China-US trade tensions are expected to bring unprecedented challenges and more uncertainties to the global economy. Despite the uncertain outlook, the management is convinced that the worst time has passed and the market is bottoming out, as reflected by the faster-than-expected rebounding orders since June and the order visibility for the third quarter is almost back on track based on the preliminary assessment. The management is looking forward to the rapid recovery of all sectors after the pandemic.

The Group is poised to seize the opportunities ahead as the monthly capacity at the Bangladesh factory is set to reach five million pieces of headwear products following the completed construction of Phase II in late 2019. Apart from production scale, the Group has also made unremitting efforts to ramp up the efficiency. To this end the management has also taken this opportunity to fully review its internal operations and laid a solid foundation for long-term development. With the efficiency remarkably improved under a streamlined structure and optimised management, the Group is fully confident that this factory would bring greater contributions as production efficiency will further increase when the production capacity expands as the orders approach normal levels when the pandemic recedes, and subsequently raise its profitability to an optimal level.

Still another opportunity that the management has observed is the change of global consumer habits after the pandemic. Recognising that online shopping has become even more popular as “stay at home” has become the “new normal” in the wake of pandemic, the Group will allocate greater resources towards capitalising on such developments. This includes further diversification of product categories under its Trading umbrella to capture the momentum.

While leaving no stone unturned in its quest for new opportunities, the Group is well aware of the importance of financial prudence, especially during such a difficult period. It will therefore implement appropriate cost control measures. The Group, nonetheless, continues to have stable operational cash flow, and has ample cash on hand and undrawn bank credit that will enable it to withstand market fluctuations.

Given the Group’s strengthened presence in Bangladesh and broadened product portfolio, it possesses the strength necessary to ride out the storm with its business partners. The management will continue its endeavour to bolster the two major business operations, while enhancing efficiency across all areas of operation, which will, in turn, steer Mainland Headwear towards the breaking of new business ground and the creation of greater long-term value for shareholders.

Management Discussion and Analysis

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2020, the Group had cash and bank balances and a portfolio of liquid investments totaling Hong Kong dollars (“HK\$”) 228.9 million (31 December 2019: HK\$127.8 million). About 62%, 20% and 10% of these liquid funds were denominated in United States dollars, Renminbi and Hong Kong dollars respectively. As at 30 June 2020, the Group had banking facilities of HK\$558.7 million (31 December 2019: HK\$581.3 million), of which HK\$224.2 million (31 December 2019: HK\$306.3 million) were not utilised.

The bank borrowing over total equity ratio of the Group is at 44.8% (31 December 2019: 36.1%). In view of the strong financial and liquidity position, the Group has sufficient financial resources to meet its commitments and working capital requirements.

CAPITAL EXPENDITURE

During the Period, the Group spent approximately HK\$8.6 million (2019 Interim: HK\$14.5 million) on additions to equipment to further upgrade and expand its manufacturing capabilities. The construction of a new factory building in Bangladesh was completed by the end of 2019 (2019 Interim: HK\$18.6 million on the construction). Also HK\$1.7 million (2019 Interim: HK\$2.7 million) on additions of equipment and systems of Trading Business.

As at 30 June 2020, the Group had authorised a capital commitment of HK\$10.9 million in respect of manufacturing plants and equipment. The Group had also authorised a capital commitment of HK\$2.5 million in respect of equipment upgrade for Trading business.

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 1% appreciation of the Renminbi and Bangladesh Taka is expected to reduce the gross margin of the Manufacturing Business by about 0.1% and 0.1% respectively.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2020, the Group employed a total of 663 (2019 Interim: 1,076) workers and employees in the PRC (include Hong Kong), 4,087 (2019 Interim: 5,432) workers and employees in Bangladesh, and 148 (2019 Interim: 153) employees in the USA and the UK. The expenditures for the employees during the Period were approximately HK\$113.4 million (2019 Interim: HK\$138.6 million). The Group ensures that the pay levels of its employees are competitive and employees are 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.

Interim Dividend and Closure of Register of Members

INTERIM DIVIDEND

The Board has declared an interim dividend of 2 HK cents (2019: 2 HK cents) per share, payable on or after 8 October 2020.

CLOSURE OF REGISTER OF MEMBERS

To determine the identity of members who are entitled to the interim dividend of the Company for the period ended 30 June 2020, the register of members of the Company will be closed from 14 September 2020 to 16 September 2020 (both dates inclusive). In order to qualify for the interim 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 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on 11 September 2020.

Interim Condensed Consolidated Statement of Profit or Loss (Unaudited)

For the six months ended 30 June 2020

	Note	Six months ended 30 June	
		2020 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000
Continuing operations			
Revenue	6&7	430,952	521,181
Cost of sales		(301,575)	(370,795)
Gross profit		129,377	150,386
Other income		5,550	4,924
Other (losses)/gains — net		(5,506)	7,476
Selling and distribution costs		(48,579)	(45,765)
Administration expenses		(67,546)	(69,808)
Net impairment loss on financial assets		(3,682)	(512)
Profit from operations	8(a)	9,614	46,701
Finance income		363	717
Finance costs		(6,409)	(1,809)
Finance costs — net	8(b)	(6,046)	(1,092)
Profit before income tax		3,568	45,609
Income tax expense	9	(2,228)	(5,663)
Profit from continuing operations		1,340	39,946
Discontinued operations			
Loss from discontinued operations (attributable to owners of the Company)		—	(4,632)
Profit for the period		1,340	35,314
Attributable to:			
Owners of the Company		757	34,578
Non-controlling interests		583	736
		1,340	35,314

Interim Condensed Consolidated Statement of Profit or Loss (Unaudited)

For the six months ended 30 June 2020

		Six months ended 30 June	
		2020	2019
		(Unaudited)	(Unaudited)
Note			
Earnings per share attributable to owners of the Company			
From continuing and discontinued operations			
	Basic (HK cents per share)	0.19	8.53
	Diluted (HK cents per share)	0.19	8.52
From continuing operations			
	Basic (HK cents per share)	0.19	9.67
	Diluted (HK cents per share)	0.19	9.66

The notes on pages 16 to 39 form an integral part of these interim condensed consolidated financial information.

Interim Condensed Consolidated Statement of Comprehensive Income (Unaudited)

For the six months ended 30 June 2020

	Six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Profit for the period	1,340	35,314
Other comprehensive loss		
Items that may be subsequently reclassified to profit or loss:		
Exchange differences on translation of financial statements of foreign operations	<u>(3,684)</u>	<u>(425)</u>
Total comprehensive (loss)/income for the period, net of tax	<u>(2,344)</u>	<u>34,889</u>
Attributable to:		
Owners of the Company	<u>(2,801)</u>	34,153
Non-controlling interests	<u>457</u>	<u>736</u>
Total comprehensive (loss)/income for the period	<u>(2,344)</u>	<u>34,889</u>
Attributable to:		
Continuing operations	<u>(2,344)</u>	40,313
Discontinued operations	<u>—</u>	<u>(5,424)</u>
	<u>(2,344)</u>	<u>34,889</u>

The notes on pages 16 to 39 form an integral part of these interim condensed consolidated financial information.

Interim Condensed Consolidated Balance Sheet (Unaudited)

As at 30 June 2020

		30 June 2020 (Unaudited) HK\$'000	31 December 2019 (Audited) HK\$'000
	Note		
ASSETS			
Non-current assets			
Property, plant and equipment	12	415,602	425,480
Right-of-use assets	13	29,019	23,861
Investment properties	12	41,864	42,375
Goodwill		22,511	22,511
Other intangible assets	12	41,024	27,538
Deferred income tax assets		3,532	2,404
Financial assets at fair value through profit or loss		7,513	7,513
Other financial assets at amortised cost	14	1,284	821
		562,349	552,503
Current assets			
Inventories		240,431	275,402
Other current assets		13,640	10,637
Other financial assets at amortised cost		21,138	26,102
Trade receivable	14	260,857	319,553
Financial assets at fair value through profit or loss		5,245	31,348
Tax recoverable		2,345	—
Cash and cash equivalents		223,623	112,549
		767,279	775,591
Total assets		1,329,628	1,328,094

Interim Condensed Consolidated Balance Sheet (Unaudited)

As at 30 June 2020

	Note	30 June 2020 (Unaudited) HK\$'000	31 December 2019 (Audited) HK\$'000
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company			
Share capital	15	40,532	40,532
Other reserves		218,467	221,523
Retained earnings		468,725	480,128
		727,724	742,183
Non-controlling interests		14,208	13,751
Total equity		741,932	755,934
LIABILITIES			
Non-current liabilities			
Other payables	16	27,389	13,096
Lease liabilities	13	21,420	15,584
Deferred tax liabilities		4,821	4,221
		53,630	32,901
Current liabilities			
Trade and other payables	16	177,678	244,717
Amount due to a non-controlling interest		—	537
Borrowings	17	332,679	272,919
Lease liabilities	13	8,509	8,899
Current income tax liabilities		15,200	12,187
		534,066	539,259
Total liabilities		587,696	572,160
Total equity and liabilities		1,329,628	1,328,094
Net current assets		233,213	236,332
Total assets less current liabilities		795,562	788,835

The notes on pages 16 to 39 form an integral part of these interim condensed consolidated financial information.

Interim Condensed Consolidated Statement of Changes in Equity (Unaudited)

For the six months ended 30 June 2020

	(Unaudited)									
	Attributable to owners of the Company								Non-controlling	
	Share capital	Share premium	Capital reserve	Share based compensation reserve	Other reserve	Exchange reserve	Retained earnings	Total	interests	Total equity
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2020	40,532	167,016	25,878	9,385	8,042	11,202	480,128	742,183	13,751	755,934
Profit for the period	–	–	–	–	–	–	757	757	583	1,340
Other comprehensive loss	–	–	–	–	–	(3,558)	–	(3,558)	(126)	(3,684)
Total comprehensive (loss)/income for the period net of tax	–	–	–	–	–	(3,558)	757	(2,801)	457	(2,344)
2019 final dividends paid	–	–	–	–	–	–	(12,160)	(12,160)	–	(12,160)
Share option scheme:										
– Value of service provided	–	–	–	502	–	–	–	502	–	502
Total contributions by and distribution to owners of the Company	–	–	–	502	–	–	(12,160)	(11,658)	–	(11,658)
At 30 June 2020	40,532	167,016	25,878	9,887	8,042	7,644	468,725	727,724	14,208	741,932

Interim Condensed Consolidated Statement of Changes in Equity (Unaudited)

For the six months ended 30 June 2020

	(Unaudited)										
	Attributable to owners of the Company								Non-controlling interests		Total equity HK\$'000
	Share capital	Share premium	Capital reserve	Share based compensation reserve	Other reserve	Exchange reserve	Retained earnings	Total			
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000			
At 1 January 2019	40,532	167,016	25,878	11,950	8,042	14,052	437,856	705,326	9,168	714,494	
Profit for the period	–	–	–	–	–	–	34,578	34,578	736	35,314	
Other comprehensive loss	–	–	–	–	–	(425)	–	(425)	–	(425)	
Total comprehensive (loss)/income for the period net of tax	–	–	–	–	–	(425)	34,578	34,153	736	34,889	
2018 final dividends paid	–	–	–	–	–	–	(12,160)	(12,160)	–	(12,160)	
Share option scheme:											
– Value of service provided	–	–	–	879	–	–	–	879	–	879	
– Share options lapsed	–	–	–	(4,324)	–	–	4,324	–	–	–	
Total contributions by and distribution to owners of the Company	–	–	–	(3,445)	–	–	(7,836)	(11,281)	–	(11,281)	
At 30 June 2019	40,532	167,016	25,878	8,505	8,042	13,627	464,598	728,198	9,904	738,102	

The notes on pages 16 to 39 form an integral part of these interim condensed consolidated financial information.

Interim Condensed Consolidated Cash Flow Statement (Unaudited)

For the six months ended 30 June 2020

	Six months ended 30 June	
	2020 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000
Cash flows from operating activities		
Cash generated from operations	72,012	30,248
Income tax paid	(2,088)	(2,632)
Lease interest	(549)	(317)
Interest paid	(5,860)	(3,887)
Net cash generated from operating activities	63,515	23,412
Cash flows from investing activities		
Interest received	363	728
Purchase of property, plant and equipment	(10,289)	(35,823)
Proceed from disposal of financial assets at fair value through profit or loss	21,268	9,121
Acquisition of a subsidiary, net of cash acquired	—	(54,279)
Short-term bank deposits	—	575
Net cash generated from/(used in) investing activities	11,342	(79,678)
Cash flows from financing activities		
Dividends paid	(12,160)	(12,160)
Proceeds from bank borrowings	110,523	136,664
Repayment of bank borrowings	(50,763)	(25,407)
Principal elements of lease payments	(8,093)	(3,529)
Net cash generated from financing activities	39,507	95,568
Net increase in cash and cash equivalents	114,364	39,302
Cash and cash equivalents at beginning of the period	112,549	97,254
Effect of foreign exchange rate changes	(3,290)	(237)
Cash and cash equivalents at end of the period	223,623	136,319

The notes on pages 16 to 39 form an integral part of these interim condensed consolidated financial information.

Notes to the Unaudited Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2020

1. GENERAL INFORMATION

Mainland Headwear Holdings Limited (“The Company”) is a public limited liability company incorporated in Bermuda and its shares are listed on The Stock Exchange of Hong Kong Limited (“Stock Exchange”). The address of its registered office is Clarendon House, 2 Church Street, Hamilton HM11, Bermuda.

The principal activity of the Company is investment holding. The principal activities of the subsidiaries are engaged in manufacturing and sales of headwear products, trading and distribution of headwear and other products.

This interim condensed consolidated financial information is presented in Hong Kong dollars (“HK\$’000”), unless otherwise stated.

This interim condensed consolidated financial information has not been audited.

2. BASIS OF PREPARATION

This interim condensed consolidated financial information for the six months ended 30 June 2020 has been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim financial reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). This interim condensed consolidated financial information does not include all the notes of the type normally included in annual consolidated financial statements. Accordingly, this interim condensed consolidated financial information should be read in conjunction with the annual consolidated financial statements for the year ended 31 December 2019, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”).

3. ACCOUNTING POLICIES

The accounting policies applied are consistent with those of the annual consolidated financial statements for the year ended 31 December 2019, as described in those annual consolidated financial statements, except for estimation of income tax and the adoption of new and amended standards as set out below.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected annual earnings.

Notes to the Unaudited Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2020

3. ACCOUNTING POLICIES (CONTINUED)

(a) New and amended standards adopted by the Group

A number of new or amended standards became applicable for the current reporting period. The Group did not have to change its accounting policies or make retrospective adjustments as a result of adopting these standards.

(b) Impact of standards issued but not yet applied by the Group

Certain new accounting standards and interpretations have been published that are not mandatory for this reporting period and have not been early adopted by the Group. These standards are not expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

4. ESTIMATES

The preparation of interim condensed consolidated financial information requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

In preparing this interim condensed consolidated financial information, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2019.

5. FINANCIAL RISK MANAGEMENT

5.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk.

The interim condensed consolidated financial information does not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2019.

Compared to year end, there was no material change in the contractual undiscounted cash outflows for financial liabilities.

There have been no changes in any risk management policies since year end.

Notes to the Unaudited Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2020

5. FINANCIAL RISK MANAGEMENT (*CONTINUED*)

5.2 Fair value estimation

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the Group's assets measured at fair values in the interim condensed consolidated balance sheet in accordance with the fair value hierarchy at 30 June 2020.

	Level 1 (Unaudited) HK\$'000	Level 2 (Unaudited) HK\$'000	Level 3 (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
Assets				
Financial assets at fair value through profit or loss				
– Unlisted equity investment in the USA	–	–	7,513	7,513
– Listed securities in Hong Kong	5,245	–	–	5,245
Total financial assets	<u>5,245</u>	<u>–</u>	<u>7,513</u>	<u>12,758</u>

Notes to the Unaudited Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2020

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.2 Fair value estimation (Continued)

The following table presents the Group's assets measured at fair values in the consolidated balance sheet in accordance with the fair value hierarchy at 31 December 2019.

	Level 1 (Audited) HK\$'000	Level 2 (Audited) HK\$'000	Level 3 (Audited) HK\$'000	Total (Audited) HK\$'000
Assets				
Financial assets at fair value through profit or loss				
– Unlisted convertible bonds in Hong Kong	–	–	16,117	16,117
– Unlisted equity investment in the USA	–	–	7,513	7,513
– Listed securities in Hong Kong	15,231	–	–	15,231
Total financial assets	15,231	–	23,630	38,861

There were no transfers of financial assets between the fair value hierarchy classifications during the period (six months ended 30 June 2019: same).

There were no other changes in valuation techniques during the period (six months ended 30 June 2019: same). There were no reclassifications of financial assets for the six months ended 30 June 2020.

Notes to the Unaudited Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2020

5. FINANCIAL RISK MANAGEMENT (*CONTINUED*)

5.3 Fair value measurements using significant unobservable inputs (Level 3)

	Financial asset at fair value through profit or loss		
	Unlisted equity investment in the USA <i>HK\$'000</i>	Unlisted convertible bonds in Hong Kong <i>HK\$'000</i>	Total <i>HK\$'000</i>
As at 1 January 2020	7,513	16,117	23,630
As at 30 June 2020	7,513	—	7,513

The unlisted equity investment classified as financial asset at fair value through profit or loss (“FVPL”) represents an investment in a 18% equity interest of an unlisted company incorporated in the USA. It is principally engaged in acquisition and management of a retail plaza and related properties for re-development or rental appreciation.

The unlisted convertible bonds classified as financial assets at FVPL represent investment in an unlisted callable convertible bond issued by an unlisted company in Hong Kong, which is not traded in an active market. It was fully redeemed in the six months ended 30 June 2020.

The Group considers the fair values of the financial assets at fair value through profit or loss as at 30 June 2020 approximate the values as last annual reporting date as there are no indication of significant change in the values since then.

Notes to the Unaudited Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2020

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.3 Fair value measurements using significant unobservable inputs (Level 3) (Continued)

5.3.1 Group's valuation process

The Group's finance department reviews the valuations of the Group's financial instruments and non-financial assets that are stated at fair values for financial reporting purposes, including Level 3 fair values. These valuation results are then reported to the directors for discussions in relation to the valuation processes and the reasonableness of the valuation results.

5.4 Fair value of financial assets and liabilities measured at amortised cost

The fair values of the following financial assets and liabilities approximate their carrying values:

- Other financial assets at amortised cost
- Financial assets at fair value through profit or loss
- Trade receivables
- Cash and cash equivalents
- Trade and other payables
- Amount due to a non-controlling interest
- Lease liabilities
- Borrowings

6. REVENUE

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

Notes to the Unaudited Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2020

7. 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.

The executive directors assess the performance of the operating segments based on reportable segment profit/(loss) excluding fair value (loss)/gain and interest income on financial assets at FVPL, (loss)/gain on disposal of a financial asset at FVPL, share-based payment expense, finance income and costs and income tax expense.

The executive directors considers the business from a business perspective whereby management assesses the performance of business operations by segment as follows:

Continuing operations:

- (i) Manufacturing Business: The Group manufactures headwear products for sale to its Trading Business as well as to external customers. The principal manufacturing facilities are located in Bangladesh and Shenzhen, the People's Republic of China ("PRC"). Customers are mainly located in the USA and Europe.
- (ii) Trading Business: The trading and distribution business of headwear, small leather goods, bags and accessories of the Group is operating through Drew Pearson International (Europe) Ltd., ("DPI") which focuses on the Europe market, and H3 Sportgear LLC ("H3"), San Diego Hat Company ("SDHC") and Aquarius Ltd. ("Aquarius") which focus on the United States ("US") market.

Discontinued operations:

Retail Business: The Group operates headwear stores in Hong Kong and Sanrio stores in the PRC.

Notes to the Unaudited Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2020

7. SEGMENT INFORMATION (CONTINUED)

	Continuing operations						Discontinued operations	
	Manufacturing		Trading		Total		Retail	
	Six months ended		Six months ended		Six months ended		Six months ended	
	2020 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000	2020 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000	2020 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000	2020 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000
Revenue from external customers	235,980	355,053	194,972	166,128	430,952	521,181	–	22,157
Inter-segment revenue	32,489	48,528	–	–	32,489	48,528	–	–
Reportable segment revenue	268,469	403,581	194,972	166,128	463,441	569,709	–	22,157
Reportable segment profit/(loss)	35,237	55,853	(18,026)	(9,164)	17,211	46,689	–	(4,643)
Fair value (loss)/gain on financial assets at FVPL					(2,029)	2,613	–	–
(Loss)/gain on disposal of financial assets at FVPL					(2,806)	5,068	–	–
Share-based payment expenses					(502)	(879)	–	–
Unallocated corporate income					5,483	4,793	–	–
Unallocated corporate expenses					(7,743)	(11,583)	–	–
Profit/(loss) from operations					9,614	46,701	–	(4,643)
Finance (costs)/income – net					(6,046)	(1,092)	–	11
Income tax expense					(2,228)	(5,663)	–	–
Profit/(loss) for the period					1,340	39,946	–	(4,632)

Segment assets exclude investment properties, deferred income tax assets, financial assets at FVPL, tax recoverable and cash and cash equivalents. In addition, corporate assets which are not directly attributable to the business activities of any operating segment are not allocated to a segment, which primarily applies to the Group's headquarters.

Notes to the Unaudited Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2020

7. SEGMENT INFORMATION (CONTINUED)

	Continuing operations				Discontinued operations				Total	
	Manufacturing		Trading		Retail					
	30 June 2020 (Unaudited) HK\$'000	31 December 2019 (Audited) HK\$'000	30 June 2020 (Unaudited) HK\$'000	31 December 2019 (Audited) HK\$'000	30 June 2020 (Unaudited) HK\$'000	31 December 2019 (Audited) HK\$'000	30 June 2020 (Unaudited) HK\$'000	31 December 2019 (Audited) HK\$'000		
Reportable segment assets	531,971	579,949	504,430	540,119	–	–	1,036,401	1,120,068		
Investment properties							41,864	42,375		
Deferred income tax assets							3,532	2,404		
Financial assets at FVPL							12,758	38,861		
Tax recoverable							2,345	–		
Cash and cash equivalents							223,623	112,549		
Other corporate assets							9,105	11,837		
Total assets							1,329,628	1,328,094		

Segment liabilities exclude current and deferred income tax liabilities, bank borrowings and other corporate liabilities which are not directly attributable to the business activities of any operating segment.

	Continuing operations				Discontinued operations				Total	
	Manufacturing		Trading		Retail					
	30 June 2020 (Unaudited) HK\$'000	31 December 2019 (Audited) HK\$'000	30 June 2020 (Unaudited) HK\$'000	31 December 2019 (Audited) HK\$'000	30 June 2020 (Unaudited) HK\$'000	31 December 2019 (Audited) HK\$'000	30 June 2020 (Unaudited) HK\$'000	31 December 2019 (Audited) HK\$'000		
Reportable segment liabilities	139,965	192,305	82,615	76,998	–	–	222,580	269,303		
Deferred income tax liabilities							4,821	4,221		
Current income tax liabilities							15,200	12,187		
Borrowings							332,679	272,919		
Other corporate liabilities							12,416	13,530		
							587,696	572,160		
Additions to non-current assets	8,815	91,969	37,336	39,811	–	–	46,151	131,780		

Notes to the Unaudited Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2020

8. PROFIT BEFORE INCOME TAX

An analysis of the amounts debited/(credited) to profit before income tax in the interim condensed consolidated financial information is given below:

	Six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Continuing operations		
(a) Operating profit		
Loss/(gain) on disposal of financial assets at FVPL	2,806	(5,068)
Fair value loss/(gain) on financial assets at FVPL	2,029	(2,613)
Net exchange loss	878	235
Depreciation of property, plant and equipment	19,053	14,101
Depreciation of right-of-use assets	7,832	3,660
Short-term lease expenses	213	3,571
Amortisation of other intangible assets	9,336	4,356
Net provision for inventories (<i>note (i)</i>)	3,416	1,990
Net impairment loss on trade receivables (<i>note (iii)</i>)	3,682	512
	3,682	512
(b) Finance costs — net		
Interest on bank loans, overdrafts and other borrowings	(5,009)	(3,738)
Interest accretion on license fee payables	(851)	(149)
Interest on lease liabilities	(549)	(317)
	(6,409)	(4,204)
Amount capitalised	—	2,395
	(6,409)	(1,809)
Finance costs	(6,409)	(1,809)
Finance income	363	717
	(6,046)	(1,092)
	(6,046)	(1,092)

Notes:

- (i) Provision for obsolete inventories of HK\$3,416,000 has been made during the six months ended 30 June 2020 (six months ended 30 June 2019: HK\$1,990,000), after considering their physical condition, market demand and historical usage of those inventories.

Notes to the Unaudited Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2020

8. PROFIT BEFORE INCOME TAX (CONTINUED)

Notes: (continued)

- (ii) Provision for the expected credit losses made during the six months ended 30 June 2020 was mainly related to the trade receivables of customers in the US and Europe after assessing the customers' business outlook and past repayment pattern. Based on the assessment of expected credit loss, the Group has made a provision of HK\$3,682,000 during the period ended 30 June 2020 (2019: HK\$512,000).

9. INCOME TAX EXPENSE

	Six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Current year		
— Hong Kong profits tax	—	350
— Overseas tax	2,884	6,001
	2,884	6,351
Over-provision in prior years		
— Hong Kong profits tax	(128)	(987)
— Overseas tax	—	(98)
	(128)	(1,085)
Deferred income tax	(528)	397
	2,228	5,663

Income tax expense in the interim periods is recognised based on management's estimate of the weighted average annual income tax rate expected for the full financial year.

Hong Kong profits tax has been provided at the rate of 16.5% (six months ended 30 June 2019: 16.5%) on the estimated assessable profits for the period. Taxation on overseas profits has been calculated on the estimated assessable profits for the period at the rates of taxation prevailing in the countries in which the Group operates.

Notes to the Unaudited Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2020

10. 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 period.

	Six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
Profit/(loss) attributable to owners of the Company (<i>HK\$'000</i>)		
– Continuing operations	757	39,210
– Discontinued operations	–	(4,632)
	757	34,578
Weighted average number of ordinary shares in issue	405,323,284	405,323,284
Basic earnings per share (<i>HK cents</i>)		
– Continuing operations	0.19	9.67
– Discontinued operations	–	(1.14)
	0.19	8.53

(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.

Notes to the Unaudited Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2020

10. EARNINGS PER SHARE (CONTINUED)

(b) Diluted (Continued)

For the six months ended 30 June 2020, the share options issued were not assumed to be exercised as they would have an antidilutive impact to the basic earnings per share. For the six months ended 30 June 2019, the calculation of diluted earnings per share was based on the profit attributable to owners of the Company and the weighted average number of ordinary shares, which was calculated as follows:

	Six months ended 30 June 2019 (Unaudited)
Profit/(loss) attributable to owners of the Company (HK\$'000)	
— Continuing operations	39,210
— Discontinued operations	(4,632)
	<u>34,578</u>
Weighted average number of ordinary shares in issue	405,323,284
Adjustment for share options	<u>453,120</u>
Weighted average number of ordinary shares for diluted earnings per share	<u><u>405,776,404</u></u>
Diluted earnings per share (HK cents)	
— Continuing operations	9.66
— Discontinued operations	(1.14)
	<u><u>8.52</u></u>

Notes to the Unaudited Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2020

11. DIVIDENDS

(a) Dividends attributable to the period

	Six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Interim dividend declared of 2 HK cents (2019: 2 HK cents) per share	8,106	8,106

The interim dividend declared after the balance sheet date has not been recognised as a liability at the balance sheet date, but will be reflected as an appropriation of retained earnings for the six months ended 30 June 2020.

(b) Dividends attributable to the previous financial year, approved and paid during the period

	Six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Final dividend paid in respect of 2019 of 3 HK cents (2018: 3 HK cents) per share	12,160	12,160

12. CAPITAL EXPENDITURE

During the six months ended 30 June 2020, the Group acquired property, plant and equipment of HK\$10,289,000, (six months ended 30 June 2019: HK\$36,763,000, including HK\$940,000 arising from acquisition of a subsidiary) and intangible assets of HK\$22,871,000 (six months ended 30 June 2019: HK\$24,637,000, including HK\$24,637,000 arising from acquisition of a subsidiary).

As at 30 June 2020, other intangible assets represent acquired customer relationship of HK\$3,132,000 (31 December 2019: HK\$3,901,000) and licensing rights for the use of certain licensed trademark, brands and logos in the Group's products of HK\$37,892,000 (31 December 2019: HK\$23,637,000).

The Group's investment properties were revalued at 31 December 2019. No valuation was performed during the period as there was no indication of significant changes in the value since last annual reporting date (six months ended 30 June 2019: same).

Notes to the Unaudited Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2020

13. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

(i) **Amounts recognised in the interim condensed consolidated balance sheet**

The interim condensed consolidated balance sheet shows the following amounts relating to the leases in respect of properties and a motor vehicle:

	At 30 June 2020 (Unaudited) HK\$'000	At 31 December 2019 (Audited) HK\$'000
Right-of-use assets		
Properties	28,448	23,194
Motor vehicle	571	667
	<u>29,019</u>	<u>23,861</u>
Lease liabilities		
Non-current	21,420	15,584
Current	8,509	8,899
	<u>29,929</u>	<u>24,483</u>

Lease liabilities as at 30 June 2020 of HK\$515,000 (31 December 2019: HK\$609,000) of the Group was secured by a legal charge on a motor vehicle of the Group recognised as right-of-use assets with carrying amount of HK\$571,000 (31 December 2019: HK\$667,000).

Additions to the right-of-use assets during the six months ended 30 June 2020 is HK\$12,990,000 (six months ended 30 June 2019: HK\$12,196,000).

Notes to the Unaudited Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2020

13. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES (CONTINUED)

(ii) Amounts recognised in the interim condensed consolidated statement of profit or loss

The interim condensed consolidated statement of profit or loss shows the following amounts relating to the leases in respect of properties and motor vehicle:

	Six months ended 30 June	
	2020 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000
Depreciation charge of right-of-use assets (Note 8a)	7,832	3,660
Interest expenses (included in finance costs) (Note 8b)	549	317
Expenses relating to short-term leases (Note 8a)	213	3,571
	<u>7,832</u>	<u>3,571</u>

The total cash outflow for leases in the six months ended 30 June 2020 is HK\$8,306,000 (six months ended 30 June 2019: HK\$11,402,000).

(iii) The Group's lease activities

The Group leases various properties and a motor vehicle. Rental contracts are typically made for 2 to 10 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Notes to the Unaudited Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2020

14. TRADE RECEIVABLES AND OTHER FINANCIAL ASSETS AT AMORTISED COST

	30 June 2020 (Unaudited) HK\$'000	31 December 2019 (Audited) HK\$'000
Trade receivables	266,736	324,841
Less: provision for impairment loss	(5,879)	(5,288)
Trade receivables, net	260,857	319,553
Other financial assets at amortised cost	22,422	26,923
	283,279	346,476
Less: non-current portion of other financial assets at amortised cost	(1,284)	(821)
Current portion	281,995	345,655

The carrying amounts approximate their fair values.

The majority of the Group's sales are with credit terms of 30–180 days. The ageing analysis of trade receivables based on invoice date is as follows:

	30 June 2020 (Unaudited) HK\$'000	31 December 2019 (Audited) HK\$'000
0–30 days	74,798	109,326
31–60 days	44,368	82,083
61–90 days	9,622	59,834
91–120 days	45,960	31,525
Over 121 days	91,988	42,073
	266,736	324,841

Notes to the Unaudited Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2020

15. SHARE CAPITAL

(a) Share capital

	Number of shares of HK\$0.10 each	<i>HK\$'000</i>
Authorised:		
At 1 January 2019, 30 June 2019, 1 January 2020 and 30 June 2020	1,000,000,000	<u>100,000</u>
Issued and fully paid:		
At 1 January 2019, 30 June 2019, 1 January 2020 and 30 June 2020	405,323,284	<u>40,532</u>

(b) Equity settled share-based payment transactions

On 23 May 2002, a share option scheme (the "Old Scheme") was adopted whereby the Board of Directors may, at their absolute discretion, grant options to any eligible employee including directors of the Company or any of its subsidiaries or any investee entity, any suppliers of goods or services to any member of the Group or any investee entity, or any customer of the Group or any invested entity to subscribe for shares in the Company.

On 29 December 2011, share option scheme (the "Share Option Scheme") was adopted whereby the Board of Directors, may, at their absolute discretion, grant options to any eligible employee, including directors of the Company, any of its subsidiaries or any investee entity, any suppliers of goods or services to any member of the Group or any investee entity, or any customer of the Group or any investee entity to subscribe for shares in the Company.

The total number of shares which may be issued upon exercise of all options to be granted under the Old Scheme and any other share option schemes of the Group may not in aggregate exceed 39,858,328, being 10% of the shares in issue of the Company as at 29 December 2011, the date of adoption of the Share Option Scheme. The scheme mandate limit was refreshed on 16 May 2018. Upon refreshing of the scheme mandate limit, the Company may grant options entitling holders thereof to subscribe for up to a maximum of 40,532,828 shares, representing 10% of the shares in issue of the Company as at 16 May 2018.

Notes to the Unaudited Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2020

15. SHARE CAPITAL (CONTINUED)

(b) Equity settled share-based payment transactions (Continued)

On 15 July 2015 and 13 April 2017, a total of 11,900,000 and 20,370,000 share options were granted to certain directors and employees of the Group. The share option period shall be ten years from the date of grant and the share option shall lapse at the expiry date of the option period. 20% of the options shall vest on the first to fifth anniversary dates of the date of grant each year.

The exercise price of the options is the highest of the nominal value of the shares, the closing price of the shares on the Stock Exchange on the date of offer of the options and the average closing price of the shares on the Stock Exchange for the five trading days immediately preceding the date of offer of the options.

There is no new share option granted during the six months ended 30 June 2020 (six months ended 30 June 2019: same).

(i) Movement in share option

	2020		2019	
	Number of share options (Unaudited) '000	Weighted average exercise price (Unaudited) HK\$	Number of share options (Unaudited) '000	Weighted average exercise price (Unaudited) HK\$
At 1 January	32,300	1.353	44,200	1.243
Exercise	—	—	—	—
Lapsed	—	—	(11,900)	0.946
At 30 June	32,300	1.353	32,300	1.353
Options vested at closing	22,082	1.316	15,738	1.294

Notes to the Unaudited Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2020

15. SHARE CAPITAL (CONTINUED)

(b) Equity settled share-based payment transactions (Continued)

(i) Movement in share option (Continued)

As at 30 June 2020, the options have a weighted average contractual terms of 5.9 years (31 December 2019: 6.4 years).

Share options outstanding at the end of the year have the following expiry dates and exercise prices:

		30 June 2020	31 December 2019
	Exercise price (Unaudited) HK\$	Number of share options (Unaudited) '000	Number of share options (Audited) '000
7 November 2020	0.920	900	900
29 December 2021	0.800	1,000	1,000
14 July 2025	1.120	11,030	11,030
12 April 2027	1.534	19,370	19,370
		32,300	32,300

As at 30 June 2020, out of total 32,300,000 (31 December 2019: 32,300,000) outstanding options, 22,082,000 options (31 December 2019: 18,208,000) are exercisable. No share option was exercised during six months ended 30 June 2020 (six months ended 30 June 2019: same).

Under this share option scheme, HK\$502,000 (six months ended 30 June 2019: HK\$879,000) of share-based payment expenses has been included in the interim condensed consolidated statement of profit or loss for the six months ended 30 June 2020 and a corresponding amount has been credited to share based compensation reserve.

Notes to the Unaudited Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2020

16. TRADE AND OTHER PAYABLES

	30 June 2020 (Unaudited) HK\$'000	31 December 2019 (Audited) HK\$'000
Trade payables	64,238	126,146
Bills payables	1,304	1,534
Accrued charges and other payables	139,525	130,133
	205,067	257,813
Less: other non-current payables	(27,389)	(13,096)
Current portion	177,678	244,717

The ageing analysis of the Group's trade payables based on invoice date is as follows:

	30 June 2020 (Unaudited) HK\$'000	31 December 2019 (Audited) HK\$'000
0-30 days	19,054	65,867
31-60 days	8,387	35,568
61-90 days	20,158	17,884
Over 90 days	16,639	6,827
	64,238	126,146

Contract liabilities of HK\$280,000 (31 December 2019: HK\$165,000) are recognised when a customer pays consideration, or is contractually required to pay consideration and the amounts are already due, before the Group recognised the related revenue. The Group expects to deliver the goods to satisfy the remaining performance obligation of these contract liabilities within one year or less.

Notes to the Unaudited Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2020

16. TRADE AND OTHER PAYABLES (CONTINUED)

Revenue recognised during the period ended 30 June 2020 that was included in the contract liabilities balance at the beginning of the period amounted to HK\$165,000 (six months ended 30 June 2019: HK\$532,000). The Group recognised its contract liabilities under other payables and accruals in the interim condensed consolidated balance sheet.

17. BORROWINGS

Movement in borrowings is analysed as follows:

	(Unaudited) HK\$'000
Six months ended 30 June 2020	
Opening amount as at 1 January 2020	272,919
Repayment of bank borrowings	(50,763)
Proceeds from bank borrowings	<u>110,523</u>
Closing amount as at 30 June 2020	<u><u>332,679</u></u>
Six months ended 30 June 2019	
Opening amount as at 1 January 2019	149,229
Repayment of bank borrowings	(25,407)
Proceeds from bank borrowings	136,664
Acquisition of a subsidiary	<u>28,397</u>
Closing amount as at 30 June 2019	<u><u>288,883</u></u>

Notes to the Unaudited Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2020

18. CAPITAL COMMITMENTS

Capital expenditure contracted for but not yet incurred as at the balance sheet date is as follows:

	30 June 2020 (Unaudited) HK\$'000	31 December 2019 (Audited) HK\$'000
Contracted but not provided for	867	1,219

19. SIGNIFICANT RELATED PARTY TRANSACTIONS

In addition to those transactions and balances disclosed elsewhere in these interim condensed consolidated financial information, the Group entered into the following significant related party transactions during the period.

(a) Sale and purchase of goods and services

	Six months ended 30 June	
	2020 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000
Sales of goods to affiliated companies of a shareholder	146,735	219,340
Rental paid in respect of office premises to directors and a company controlled by a director	881	871
Claim charges paid to affiliated companies of a shareholder	664	1,375

Notes to the Unaudited Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2020

19. SIGNIFICANT RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Period-end balances arising from sale of goods and services

	30 June 2020 (Unaudited) HK\$'000	31 December 2019 (Audited) HK\$'000
Trade receivables from affiliated companies of a shareholder	<u>142,262</u>	<u>147,596</u>

Trade receivables from affiliated companies of a shareholder arise mainly from sale transactions and are due 60 days after the date of sales. The receivables are unsecured in nature and bear no interest. No provisions are held against such receivables.

(c) Key management personnel remuneration

Remuneration for the Group's key management personnel is as follows:

	Six months ended 30 June 2020 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000
Short-term employee benefits	13,784	12,230
Retirement scheme contributions	<u>81</u>	<u>111</u>
	<u>13,865</u>	<u>12,341</u>

20. APPROVAL OF INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

The interim condensed consolidated financial information was approved by the Board of Directors on 21 August 2020.

Other Information Provided in Accordance with the Listing Rules

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 30 June 2020, the interests of the Directors in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), which had been notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

Long positions in the shares and underlying shares of the Company

	Number of shares			Total	Percentage of interest
	Personal interest	Other direct interest	Underlying shares		
Mr. Ngan Hei Keung	—	221,508,000 <i>(note 1, 2)</i>	44,800,000 <i>(note 3, 4)</i>	266,308,000	65.70%
Madam Ngan Po Ling, Pauline, <i>BBS, JP</i>	37,808,000 <i>(note 2)</i>	183,700,000 <i>(note 1)</i>	44,800,000 <i>(note 3, 4)</i>	266,308,000	65.70%
Mr. James S. Patterson	—	—	1,000,000 <i>(note 5)</i>	1,000,000	0.25%
Mr. Ngan Siu Hon, Alexander	—	—	2,000,000 <i>(note 6)</i>	2,000,000	0.49%
Mr. Lai Man Sing	—	—	1,000,000 <i>(note 7)</i>	1,000,000	0.25%

Notes:

- (1) 183,700,000 shares are legally and beneficially owned by Successful Years International Co., Ltd., a company ultimately and beneficially owned by Mr. Ngan Hei Keung and Madam Ngan Po Ling, Pauline as to 40% and 60% respectively.
- (2) The 37,808,000 shares are beneficially owned by Madam Ngan, Pauline, the spouse of Mr. Ngan.
- (3) Pursuant to the contingent purchase deed renewed on 30 September 2014 between Mr. Ngan, Madam Ngan and New Era Cap Hong Kong LLC ("NEHK"), NEHK is entitled to require Mr. Ngan and Madam Ngan to purchase up to 39,800,000 shares on the terms and conditions of the said deed.

Other Information Provided in Accordance with the Listing Rules

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES (CONTINUED)

Long positions in the shares and underlying shares of the Company (Continued)

Notes: (Continued)

- (4) Mr. Ngan and Madam Ngan are entitled to subscribe for 2,000,000 shares and 3,000,000 shares respectively pursuant to the outstanding options granted under the Company's share options scheme.
- (5) Mr. James S. Patterson is entitled to subscribe for 1,000,000 shares pursuant to the outstanding options granted under the Company's share options scheme.
- (6) Mr. Ngan Siu Hon, Alexander is entitled to subscribe for 2,000,000 shares pursuant to the outstanding options granted under the Company's share options scheme.
- (7) Mr. Lai Man Sing is entitled to subscribe for 1,000,000 shares pursuant to the outstanding options granted under the Company's share options scheme.

Save as disclosed above, none of the Directors or chief executives of the Company including their spouse and children under 18 years of age had any interests in the shares or underlying shares in, or debentures of, the Company or any its specified undertaking or of its associated corporations as defined in the SFO.

SHARE OPTION SCHEMES

On 29 December 2011, share option scheme (the "Share Option Scheme") was adopted, whereby the Board of Directors, may, at their absolute discretion, grant options to any eligible employees, including directors of the Company or any of its subsidiaries or any invested entity, any suppliers of goods or services to any member of the Group or any invested entity, and any customers of the Group or any invested entity to subscribe for shares in the Company.

The total number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes of the Group may not in aggregate exceed 39,858,328, being 10% of the shares in issue of the Company as at 29 December 2011, the date of adoption of the Share Option Scheme. Upon refreshing of the scheme mandate limit, the Company may grant options entitling holders thereof to subscribe for up to a maximum of 40,532,828 shares, representing 10% of the shares in issue of the Company as at 16 May 2018.

Other Information Provided in Accordance with the Listing Rules

SHARE OPTION SCHEMES (CONTINUED)

The exercise price of the options is the highest of the nominal value of the shares, the closing price of the shares on the Stock Exchange on the date of offer of the options and the average closing price of the shares on the Stock Exchange for the five trading days immediately preceding the date of offer of the options.

The Share Option Schemes will remain in force for a period of 10 years from the date of its adoption. The purpose of the Share Option Scheme is to enable the Group to grant options to selected participants as incentive or rewards for their contributions to the Group.

Unless approved by shareholders in general meeting, the total number of shares issued and which may fall to be issued upon exercise of the options of the Share Option Scheme and the options granted under any other schemes of the Group (including both exercised or outstanding options) to each grantee in any 12-month period shall not exceed 1% of the issued share capital of the Company at the relevant time.

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during the period (which may not expire later than 10 years from the date of offer of that option) to be determined and notified by the Directors to the grantee and in the absence of such determination, from the date of acceptance of the offer of such option to the earlier of the date on which such option lapses in accordance with the terms of the Share Option Scheme and 10 years from the date of offer of that option. A consideration of HK\$1 will be payable upon acceptance of the offer.

As at the date of interim report, the total number of shares available for issue, save for those granted but yet to be exercised, under the Share Option Scheme was 40,532,828 shares, which represented 10% of the issued share capital of the Company.

Other Information Provided in Accordance with the Listing Rules

SHARE OPTION SCHEMES (CONTINUED)

At 30 June 2020, the Directors, employees, customers and suppliers of the Group had the following interests in options to subscribe for shares of the Company (market value per share was HK\$1.06 at the balance sheet date) granted at nominal consideration under the share option schemes operated by the Company, each option gives the holder the right to subscribe for one share:

	Date of grant	Period during which options exercisable	Exercise price HK\$	Number of shares	Market value
				Outstanding at 1.1.2020 and 30.6.2020	per share at date of grant HK\$
Director	15.07.2015	15.07.2016–14.07.2025	1.120	1,000,000	1.12
	13.04.2017	13.04.2017–12.04.2027	1.534	8,000,000	1.50
				9,000,000	
Employees	08.11.2010	08.11.2011–07.11.2020	0.920	900,000	0.92
	30.12.2011	30.12.2012–29.12.2021	0.800	1,000,000	0.80
	15.07.2015	15.07.2016–14.07.2025	1.120	10,030,000	1.12
	13.04.2017	13.04.2017–12.04.2027	1.534	11,370,000	1.50
				23,300,000	

Note:

Apart from the foregoing, at no time during the period was the Company, its subsidiaries, its parent company or its associated corporations a party to any arrangements to enable the Company's Directors or chief executives of the Company (including their spouses or children under eighteen years of age) of hold any interests or short positions in the shares or underlying shares in, or debentures, of the Company or its specified undertaking or other associated corporation.

Other Information Provided in Accordance with the Listing Rules

SUBSTANTIAL SHAREHOLDERS

So far as is known to the Directors or chief executives of the Company, as at 30 June 2019, shareholders (other than Directors or chief executives of the Company) who had interests or short positions in the shares or underlying shares of the Company which were required to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Long positions in the shares and underlying shares

Name	Capacity	Number of shares			Total	Percentage of interest
		Personal interest	Other interest	Underlying shares		
Madam Ngan Po Ling, Pauline, <i>BBS, JP</i>	Beneficial owner	37,808,000	—	—	37,808,000	9.33%
	Interest of a controlled corporation (<i>note 1</i>)	—	183,700,000	—	183,700,000	45.32%
					221,508,000	54.65%
Successful Years International Co., Ltd. (<i>note 1</i>)	Beneficial owner	183,700,000	—	—	183,700,000	45.32%
Mr. Christopher Koch (<i>note 2</i>)	Interest of a controlled corporation	—	79,601,000	—	79,601,000	19.64%
NEHK (<i>note 2</i>)	Interest of a controlled corporation	79,601,000	—	—	79,601,000	19.64%

Notes:

- Successful Years International Co., Ltd. is owned by Mr. Ngan Hei Keung and Madam Ngan Po Ling, Pauline as to 40% and 60% respectively. The interests of Mr. Ngan Hei Keung and Madam Ngan Po Ling, Pauline in Successful Years International Co., Ltd. are also disclosed in the section headed "Directors' Interests in Shares and Underlying Shares" above.
- Mr. Christopher Koch owns 75% of the issued share capital of NEHK. As such, Mr. Christopher Koch is deemed to be interested in the 79,601,000 shares.

Other Information Provided in Accordance with the Listing Rules

SUBSTANTIAL SHAREHOLDERS (CONTINUED)

Short positions in the underlying shares

Name	Number of underlying shares	Percentage of interest
Mr. Christopher Koch	39,800,000 (Note)	9.82%
NEHK	39,800,000 (Note)	9.82%

Note: Pursuant to the contingent purchase deed renewed on 30 September 2014 between Mr. Ngan, Madam Ngan and NEHK, NEHK is entitled to sell up to 39,800,000 shares to Mr. Ngan and Madam Ngan on the terms and conditions of the said deed. In view of Mr. Koch's 75% shareholding interest in NEHK, Mr. Koch is also taken to have interest in short position of 39,800,000 underlying shares.

Save as disclosed above, as at 30 June 2020, the Company had not been notified by any persons (other than Directors) who had interests in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws and there was no restrictions against such rights under the laws of Bermuda which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

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

During the six months ended 30 June 2020, 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 six months ended 30 June 2020.

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 enquiries by the Company, that they have complied with the required standard set out in Model Code throughout the period ended 30 June 2020.

Other Information Provided in Accordance with the Listing Rules

AUDIT COMMITTEE

The Company has complied with Rule 3.21 of the Listing Rules in relation to the establishment of an audit committee. The audit committee members comprise of all independent non-executive directors. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control procedures of the Group. The audit committee has reviewed the interim condensed consolidated financial information for the period ended 30 June 2020.

By Order of the Board

Ngan Hei Keung

Chairman

Hong Kong, 21 August 2020

As at the date hereof, the Board of Directors of the Company comprises eight directors, of which five are Executive Directors, namely Mr. Ngan Hei Keung, Madam Ngan Po Ling, Pauline, BBS, JP, Mr. James S. Patterson, Mr. Ngan Siu Hon, Alexander and Mr. Lai Man Sing; and three are Independent Non-executive Directors, namely Mr. Leung Shu Yin, William, Mr. Liu Tieh Ching, Brandon, JP and Mr. Gordon Ng.