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Management Discussion and Analysis

The Board of Directors (the “Board” or the “Directors”) of Mainland Headwear Holdings Limited (the “Company”) is pleased to present the unaudited interim results of the Company and its subsidiaries (collectively, “Mainland Headwear” or the “Group”) for the six months ended 30 June 2024 (the “Period”).

FINANCIAL REVIEW

During the first half of 2024, global manufacturers and trading companies faced the challenge of a weaker-than-expected economic recovery, with sales generally under considerable pressure. Amid a relatively sluggish macro environment, the Group leveraged its superior production technologies to stabilize its existing manufacturing and trading businesses, while making timely acquisitions and improving plant operations to facilitate the Group’s sustainable development.

During the Period, the Group’s revenue amounted to HK\$687,114,000 (2023 interim: HK\$780,258,000), gross profit decreased by 19.9% to HK\$219,510,000 (2023 interim: HK\$273,930,000), and gross profit margin decreased by 3.2 percentage points to 31.9% (2023 interim: 35.1%). Profit attributable to shareholders contracted by 45.8% to HK\$35,269,000 (2023 interim: HK\$65,075,000).

The Board of Directors has resolved to declare an interim dividend of 3 HK cents per share (2023 interim: 3 HK cents). The Group is in a healthy financial position with stable operating cash flows. As at 30 June 2024, it also held sufficient cash on hand and total unutilized banking facilities amounting to approximately HK\$188,628,000 and HK\$803,700,000, respectively (31 December 2023: HK\$317,849,000 and HK\$733,700,000, respectively).

BUSINESS REVIEW

Manufacturing Business

During the Period, revenue from the manufacturing business slid by 5.0% to HK\$445,769,000 (2023 interim: HK\$469,233,000), accounting for approximately 64.9% of the Group’s total revenue. The decline was principally due to the weak retail consumer confidence in Europe and the US, as well as slow sales as major customers were still reducing the large inventories amassed previously.

Management Discussion and Analysis

For the Group's factories, production and sales volume at the Bangladesh factory fell year-on-year as there were two major traditional festivals concentrated in the first half of the year, hence raising the number of days off during the Period. In order to capitalize on its production advantages, the Bangladesh factory started to produce accessories such as wallets and belts for the trading business during the Period. It also bolstered automation of production, reduced manpower, improved operational processes and enhanced production efficiency, which successfully alleviated the pressure on labor costs caused by the drastic rise in minimum wage in the country, as well as maintained a higher gross profit margin level. As for the Shenzhen factory, the combination of lower volume of orders and existing level of overhead and expenses led to an increase in average costs. The factory in Mexico remains at an early production stage, and the newly recruited local staff are grappling with workflow. With production yet to run smoothly, this has translated into high operating costs, resulting in an operating loss for the Period. The Mexico factory will require a longer period of time to expand to the expected level.

Operating profit of the segment amounted to HK\$93,178,000, a decline of 27.8% from HK\$129,083,000 for the same period last year.

As at 30 June 2024, the Bangladesh and Shenzhen factories had approximately 7,200 and 200 employees, respectively (31 December 2023: approximately 7,600 and 300 employees respectively). The Mexican plant had approximately 400 employees.

Trading Business

The trading business was also affected by the weak retail market during the Period, and achieved lower year-on-year sales. Its revenue declined by 22.4% to HK\$241,345,000 (2023 interim: HK\$311,025,000), accounting for 35.1% of the Group's total revenue.

During the Period, the trading segment actively promoted budget management, streamlined structure and reduced manpower, which resulted in an increase in gross profit margin by 2.3 percentage points year-on-year. However, as distribution costs remained high, the segment recorded an operating loss of HK\$37,739,000 (2023 interim: operating loss of HK\$28,039,000).

In order to expand market coverage and enrich its product portfolio, the Group during the Period acquired a property in Missouri, the US, for warehousing. It also acquired 55% interest in a Dutch design company to support subsidiaries of the Group that are engaged in trading and distribution in the UK, help explore the European and other overseas markets, and drive greater synergies.



Management Discussion and Analysis

PROSPECTS

Looking ahead, geopolitical tensions and the US presidential election will add uncertainties to global economic growth, consumer confidence will continue to be weak, and the business environment will be fraught with challenges. Nonetheless, the Group remains cautiously optimistic about its prospects as it believes that the appeal of headwear and accessories is enduring. The Group will leverage its production edge, flexibly respond to market changes, seize opportunities, optimize its business layout, and continue to expand in scale.

Regarding the manufacturing business, the Group will further improve operations and enhance overall efficiency. With respect to the factory in Mexico, the Group will focus on refining factory processes and enhancing production stability. It will also strengthen staff training to improve worker attendance and product quality, so as to eliminate losses, reduce costs, and increase competitiveness. After the Bangladesh factory introduces production lines for wallets and belts, it will reinforce cooperation between various production lines to further boost production efficiency.

Although the Mexico factory is still at an initial stage of operation and will require time to rationalize the production plan, it has already received a large number of inquiries from customers. The positive market response shows that the business outlook for the factory is quite promising, and is expected to provide a good foundation for the Group's future business growth. The Group will actively explore new sources of customers in Mexico and the US through its new factory, and cooperate with the Bangladesh factory to jointly improve the efficiency and flexibility of the overall supply chain and further enhance the Group's competitiveness in the global market.

In respect of the trading business, the Group will take advantage of its acquisition of a Dutch design company this year to expand market coverage. The target company possesses extensive experience in developing and distributing clothing and fashion accessories under entertainment, fashion, sports and consumer goods brands, and has grown to become one of the biggest licensee organizations in Europe, Middle East and Africa (EMEA). The Group trusts that through this acquisition, the trading business will expand its market coverage from Europe and the US at present, to the Middle East and Africa, and obtain more brand licenses to generate greater overall sales revenue.

The warehouse property in Missouri, the US, acquired by the Group during the Period is expected to commence operation in the fourth quarter of 2024. The spacious facility will not only help the Group to cut the costs of renting offices and warehouses from third parties, but also help to improve operational efficiency and cater for the future development of its trading business.

Management Discussion and Analysis

At the same time, the Group will continue to implement various cost control measures, simplify its operating structure to improve efficiency and alleviate rising cost pressure, and mitigate risks by diversifying supply.

Over the past thirty-eight years, Mainland Headwear has successfully weathered various economic cycles and challenges to become a market leader in the headwear manufacturing industry. With its leading market position, diversified production layout, extensive product portfolio covering headwear and accessories, and business insights, the Group is confident that it can overcome various challenges and create long-term value for its customers and shareholders.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2024, the Group had cash and bank balances (including short-term deposits) and a portfolio of liquid investments totaling Hong Kong dollars (“HK\$”) 205.2 million (31 December 2023: HK\$331.0 million). About 60.6%, 17.4% and 8.1% of these liquid funds were denominated in United States dollars, Renminbi and Hong Kong dollars respectively. As at 30 June 2024, the Group had banking facilities of HK\$912.1 million (31 December 2023: HK\$842.7 million), of which HK\$803.7 million (31 December 2023: HK\$733.7 million) were not utilised.

The borrowings over total equity ratio of the Group is at 13.4% (31 December 2023: 13.8%). 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\$102.4 million to acquire a property in Missouri, the USA as office and warehouse. The Group also spent HK\$24.2 million (30 June 2023: HK\$23.7 million) on additions to equipment and machineries to further upgrade and expand its manufacturing capabilities. Also the Group spent HK\$1.0 million (30 June 2023: HK\$5.6 million) on additions of equipment and systems of Trading Business.

As at 30 June 2024, the Group had authorised a capital commitment of HK\$122.7 million for the construction of a warehouse and dormitory in Mexico and expansion in Bangladesh under manufacturing business. The Group had also authorised a capital commitment of HK\$26.3 million in respect of the renovation of the warehouse acquired in Missouri, the USA and equipment upgrade for Trading business.



Management Discussion and Analysis

ACQUISITION OF A SUBSIDIARY

On 23 August 2024, the Group acquired 55% equity interest of Difuzed B.V., a company incorporated in the Netherlands, at the total consideration of Euro 5,000,000. The ultimate beneficial owner of the 45% equity interest of Difuzed B.V. is Mr. El-Kalaani. He owns 10% shareholding in H3 Sportgear LLC which is a non-wholly owned subsidiary of the Group.

By acquiring Difuzed B.V., the Group will broaden its market geographical coverage to include European Union, Middle East and Africa whilst the Difuzed B.V. can take advantage of the Group's US establishment and enter its products and services to the US market. This acquisition also allows the Group to diversify its product lines focusing on headwear only to a more comprehensive full range of apparel and accessories lines.

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/depreciation of Bangladesh Taka is expected to reduce/increase the gross margin of the Manufacturing Business by about 0.28%. Rental income in the PRC provides a hedge against the adverse effect of any appreciation of Renminbi to the manufacturing costs.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2024, the Group employed a total of 335 (30 June 2023: 386) workers and employees in the PRC ("People's Republic of China") (include Hong Kong), 7,222 (30 June 2023: 8,830) workers and employees in Bangladesh, 389 workers and employees in Mexico (30 June 2023: nil), and 158 (30 June 2023: 163) employees in the USA ("United States of America") and the UK ("United Kingdom"). The expenditures for the employees during the Period were approximately HK\$192.3 million (30 June 2023: HK\$181.8 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 3 HK cents (2023: 3 HK cents) per share, payable on or after 10 October 2024.

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 2024, the register of members of the Company will be closed from 17 September 2024 to 20 September 2024 (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 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong for registration not later than 4:30 p.m. on 16 September 2024.



Interim Condensed Consolidated Statement of Profit or Loss (Unaudited)

For the six months ended 30 June 2024

		Six months ended 30 June	
		2024 (Unaudited) HK\$'000	2023 (Unaudited) HK\$'000
Note			
	Revenue	687,114	780,258
	Cost of sales	(467,604)	(506,328)
	Gross profit	219,510	273,930
	Other income	15,700	15,713
	Other gains/(losses) – net	5,298	(4,008)
	Selling and distribution costs	(71,705)	(77,650)
	Administration expenses	(101,592)	(105,933)
	Net impairment on financial assets	(2,163)	(2,052)
	Profit from operations	65,048	100,000
	Finance income	2,047	516
	Finance costs	(8,637)	(8,890)
	Finance costs – net	(6,590)	(8,374)
	Share of loss from an investment accounted for using equity method	(15)	(14)
	Profit before income tax	58,443	91,612
	Income tax expense	(18,464)	(20,009)
	Profit for the period	39,979	71,603
	Attributable to:		
	Owners of the Company	35,269	65,075
	Non-controlling interests	4,710	6,528
		39,979	71,603
	Earnings per share attributable to owners of the Company		
	Basic (HK cents per share)	8.218	15.230
	Diluted (HK cents per share)	8.141	14.900

The above interim condensed consolidated statement of profit or loss should be read in conjunction with the accompanying notes.

Interim Condensed Consolidated Statement of Comprehensive Income (Unaudited)

For the six months ended 30 June 2024

	Six months ended 30 June	
	2024 (Unaudited) HK\$'000	2023 (Unaudited) HK\$'000
Profit for the period	39,979	71,603
Other comprehensive income		
Items that may be subsequently reclassified to profit or loss:		
Exchange differences on translation of financial statements of foreign operations	(1,906)	(1,131)
Fair value losses on cash flow hedges	—	(3,554)
Total comprehensive income for the period, net of tax	38,073	66,918
Attributable to:		
Owners of the Company	33,363	60,273
Non-controlling interests	4,710	6,645
Total comprehensive income for the period	38,073	66,918

The above interim condensed consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

Interim Condensed Consolidated Balance Sheet (Unaudited)

As at 30 June 2024

		30 June 2024 (Unaudited) HK\$'000	31 December 2023 (Audited) HK\$'000
	Note		
ASSETS			
Non-current assets			
Property, plant and equipment	12	649,795	551,407
Right-of-use assets	13	44,451	50,467
Investment properties	12	49,455	50,065
Other intangible assets	12	31,368	14,685
Deferred income tax assets		6,209	6,850
Investment accounted for using equity method		407	422
Financial assets at fair value through profit or loss		45,679	42,233
Other financial assets at amortised cost	14	2,012	2,012
Other non-current assets		7,016	6,881
		<u>836,392</u>	<u>725,022</u>
Current assets			
Inventories		349,537	373,652
Trade receivable	14	352,257	321,399
Financial assets at fair value through profit or loss		4,146	4,219
Other financial assets at amortised cost	14	5,203	8,176
Other current assets		23,899	24,080
Tax recoverable		3,251	3,251
Short-term deposits		12,438	8,955
Cash and cash equivalents		188,628	317,849
		<u>939,359</u>	<u>1,061,581</u>
Total assets		<u><u>1,775,751</u></u>	<u><u>1,786,603</u></u>

Interim Condensed Consolidated Balance Sheet (Unaudited)

As at 30 June 2024

	30 June 2024 (Unaudited) HK\$'000	31 December 2023 (Audited) HK\$'000
Note		
EQUITY AND LIABILITIES		
Equity attributable to owners of the Company		
Share capital	15 42,916	42,916
Other reserves	218,109	220,015
Retained earnings	857,161	847,642
	1,118,186	1,110,573
Non-controlling interests	55,320	50,610
Total equity	1,173,506	1,161,183
LIABILITIES		
Non-current liabilities		
Other payables	16 18,427	6,595
Borrowings	17 7,197	7,197
Lease liabilities	13 34,952	41,175
Deferred income tax liabilities	21,427	21,453
	82,003	76,420
Current liabilities		
Trade and other payables	16 299,530	332,755
Amount due to a non-controlling interest	537	537
Borrowings	17 150,459	153,506
Lease liabilities	13 14,023	13,595
Current income tax liabilities	55,693	48,607
	520,242	549,000
Total liabilities	602,245	625,420
Total equity and liabilities	1,775,751	1,786,603
Net current assets	419,117	512,581
Total assets less current liabilities	1,255,509	1,237,603

The above interim condensed consolidated balance sheet should be read in conjunction with the accompanying notes.

Interim Condensed Consolidated Statement of Changes in Equity (Unaudited)

For the six months ended 30 June 2024

	(Unaudited)									
	Attributable to owners of the Company								Non-controlling interests	Total equity
	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	HK\$'000	
At 1 January 2024	42,916	169,606	25,878	9,650	10,139	4,742	847,642	1,110,573	50,610	1,161,183
Profit for the period	-	-	-	-	-	-	35,269	35,269	4,710	39,979
Other comprehensive income										
- Exchange differences on translation of financial statements of foreign operations	-	-	-	-	-	(1,906)	-	(1,906)	-	(1,906)
Total comprehensive income for the period net of tax	-	-	-	-	-	(1,906)	35,269	33,363	4,710	38,073
2023 final dividend paid	-	-	-	-	-	-	(25,750)	(25,750)	-	(25,750)
Total contributions by and distribution to owners of the Company	-	-	-	-	-	-	(25,750)	(25,750)	-	(25,750)
At 30 June 2024	42,916	169,606	25,878	9,650	10,139	2,836	857,161	1,118,186	55,320	1,173,506

Interim Condensed Consolidated Statement of Changes in Equity (Unaudited)

For the six months ended 30 June 2024

	(Unaudited)										
	Attributable to owners of the Company										
	Share capital HK\$'000	Share premium HK\$'000	Hedging reserve HK\$'000	Capital reserve HK\$'000	Share based compensation reserve HK\$'000	Other reserve HK\$'000	Exchange reserve HK\$'000	Retained earnings HK\$'000	Total HK\$'000	Non-controlling interests HK\$'000	Total equity HK\$'000
At 1 January 2023	42,660	166,117	(2,314)	25,878	10,284	10,139	5,134	768,269	1,026,167	42,814	1,068,981
Profit for the period	-	-	-	-	-	-	-	65,075	65,075	6,528	71,603
Other comprehensive income											
- Exchange differences on translation of financial statements of foreign operations	-	-	-	-	-	-	(1,248)	-	(1,248)	117	(1,131)
- Fair value losses on cash flow hedges	-	-	(3,554)	-	-	-	-	-	(3,554)	-	(3,554)
Total comprehensive income for the period net of tax	-	-	(3,554)	-	-	-	(1,248)	65,075	60,273	6,645	66,818
2022 final dividend paid	-	-	-	-	-	-	-	(25,703)	(25,703)	-	(25,703)
Dividends paid to non-controlling interests	-	-	-	-	-	-	-	-	-	(2,193)	(2,193)
Share option scheme:											
- Share options exercised	208	2,955	-	-	(564)	-	-	-	2,599	-	2,599
Total contributions by and distribution to owners of the Company	208	2,955	-	-	(564)	-	-	(25,703)	(23,104)	(2,193)	(25,297)
At 30 June 2023	42,868	169,072	(5,868)	25,878	9,720	10,139	3,886	807,641	1,063,336	47,266	1,110,602

The above interim condensed consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Interim Condensed Consolidated Cash Flow Statement (Unaudited)

For the six months ended 30 June 2024

	Six months ended 30 June	
	2024 (Unaudited) HK\$'000	2023 (Unaudited) HK\$'000
Cash flows from operating activities		
Cash generated from operations	49,183	158,377
Income tax paid	(10,763)	(4,647)
Interest paid	(6,655)	(7,458)
Net cash generated from operating activities	31,765	146,272
Cash flows from investing activities		
Interest received	2,047	516
Short-term deposits	(3,483)	–
Purchase of property, plant and equipment	(120,581)	(23,685)
Purchase of financial assets at fair value through profit and loss	(1,051)	(3,605)
Proceeds from disposal of a financial asset at fair value through profit and loss	–	17,065
Net cash used in investing activities	(123,068)	(9,709)
Cash flows from financing activities		
Dividends paid	(25,750)	(25,703)
Dividends paid to non-controlling interests	–	(2,193)
Proceeds from exercise of share options	–	2,599
Proceeds from borrowings	37,469	68,340
Repayment of borrowings	(40,516)	(94,515)
Principal elements of lease payments	(7,602)	(7,158)
Net cash used in from financing activities	(36,399)	(58,630)
Net (decrease)/increase in cash and cash equivalents	(127,702)	77,933
Cash and cash equivalents at beginning of the period	317,849	246,949
Effect of foreign exchange rate changes	(1,519)	(1,634)
Cash and cash equivalents at end of the period	188,628	323,248

The above interim condensed consolidated cash flow statement should be read in conjunction with the accompanying notes.

Notes to the Unaudited Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2024

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 and its principal place of business in Hong Kong is Units 2301-2305, 23rd Floor, CTF Life Tower, No. 18 Sheung Yuet Road, Kowloon Bay, Kowloon, Hong Kong.

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 2024 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 2023, 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 2023, as described in those annual consolidated financial statements, except for adoption of new and amended standards 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 2024

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, amendments to 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 2023.

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 2023.

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 2024

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 2024.

	2024			
	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	-	-	10,262	10,262
- Unlisted equity investment in the British Virgin Islands	-	-	20,473	20,473
- Unlisted equity investment fund in the PRC	-	-	12,230	12,230
- Unlisted equity investment fund in Hong Kong	-	-	2,714	2,714
- Listed securities in Hong Kong	4,146	-	-	4,146
Total financial assets	4,146	-	45,679	49,825

Notes to the Unaudited Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2024

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 2023.

	2023			Total HK\$'000
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	
Assets				
Financial assets at fair value through profit or loss				
– Unlisted equity investment in the USA	–	–	10,262	10,262
– Unlisted equity investment in the British Virgin Islands	–	–	17,815	17,815
– Unlisted equity investment in the PRC	–	–	12,483	12,483
– Unlisted equity investment in Hong Kong	–	–	1,673	1,673
– Listed securities in Hong Kong	4,219	–	–	4,219
Total financial assets	4,219	–	42,233	46,452

There were no transfers of financial assets between the fair value hierarchy classifications during the period (six months ended 30 June 2023: same).

There were no other changes in valuation techniques during the period (six months ended 30 June 2023: same). There were no reclassifications of financial assets for the six months ended 30 June 2024.

Notes to the Unaudited Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2024

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

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

Unlisted equity investment in the USA

The unlisted equity investment in the USA classified as financial asset at FVPL represents an investment in a 18% equity interest of an unlisted fund in the USA. It is principally engaged in the acquisition and management of a retail plaza and related properties for re-development or rental appreciation. The Group determines the net asset value of the fund is approximates the fair value of the unlisted equity fund in the USA.

Unlisted equity investment in British Virgin Islands

The unlisted equity investment in British Virgin Islands classified as financial asset at FVPL represents an investment in 2.3% equity interest of an unlisted fund in British Virgin Islands, which is not traded in an active market. The Group determines the net asset value of the fund is approximates the fair value of the unlisted equity fund in British Virgin Islands.

Unlisted equity investment in the PRC

The unlisted equity investment in the PRC classified as financial asset at FVPL represents a capital contribution agreement in relation to a contribution of RMB30 million (approximately HK\$36.6 million) to a limited partnership established in the PRC (the "PRC Fund"), which the Group executed on 15 December 2021. The contribution by the Group represents about 3.05% of the targeted contribution of the PRC Fund. A partnership agreement was signed on 28 January 2022. As at 30 June 2024, capital contribution of RMB12.1 million (approximately HK\$13.7 million) was made. The PRC Fund is not traded in an active market. The Group considers the net asset value of the PRC Fund approximates the fair value of the PRC Fund.

Unlisted equity investment in Hong Kong

The unlisted equity investment in Hong Kong classified as financial asset at FVPL represents a subscription agreement in relation to a contribution of US\$0.5 million (approximately HK\$3.9 million) to a limited partnership established in Hong Kong (the "Hong Kong Fund"), which the Group executed on 14 March 2022. The contribution by the Group represents about 2% of the targeted contribution of the Hong Kong Fund. As at 30 June 2024, capital contribution of US\$0.375 million (approximately HK\$2.9 million) was made. The Hong Kong Fund is not traded in an active market. The Group considers the net asset value of the Hong Kong Fund approximates the fair value of the Hong Kong Fund.

Notes to the Unaudited Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2024

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
- Trade receivables
- Short-term deposits
- 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 and trading of headwear, small leather goods, bags, apparel and accessories.

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 gain/(loss) on financial assets at FVPL, change in value of investment in insurance contracts, finance income and costs, share of loss from an investment accounted for using equity method 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:

- (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, Mexico and Shenzhen, the PRC. Customers are mainly located in the USA and Europe.

Notes to the Unaudited Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2024

7. SEGMENT INFORMATION (CONTINUED)

- (ii) Trading Business: The trading and distribution business of headwear, small leather goods, bags and accessories of the Group is operating through H3 Sportgear LLC (“H3”), San Diego Hat Company (“SDHC”) and Aquarius Ltd. (“Aquarius”) which focus on the USA market, and Drew Pearson International (Europe) Ltd. (“DPI”) which focuses on the Europe market.

	Manufacturing		Trading		Total	
	Six months ended 30 June		Six months ended 30 June		Six months ended 30 June	
	2024 (Unaudited) HK\$'000	2023 (Unaudited) HK\$'000	2024 (Unaudited) HK\$'000	2023 (Unaudited) HK\$'000	2024 (Unaudited) HK\$'000	2023 (Unaudited) HK\$'000
Revenue from external customers	445,769	469,233	241,345	311,025	687,114	780,258
Inter-segment revenue	23,954	30,163	–	–	23,954	30,163
Reportable segment revenue	469,723	499,396	241,345	311,025	711,068	810,421
Reportable segment profit/(loss)	93,178	129,083	(37,739)	(28,039)	55,439	101,044
Fair value gain/(loss) on financial assets at FVPL					2,322	(1,191)
Change in value of investment in insurance contracts					135	(4,166)
Unallocated corporate income					14,710	15,042
Unallocated corporate expenses					(7,558)	(10,729)
Profit from operations					65,048	100,000
Finance costs – net					(6,590)	(8,374)
Share of loss from an investment accounted for using equity method					(15)	(14)
Income tax expense					(18,464)	(20,009)
Profit for the period					39,979	71,603

Segment assets exclude investment properties, deferred income tax assets, investment accounted for using equity method, financial assets at FVPL, tax recoverable, short-term deposits 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 2024

7. SEGMENT INFORMATION (CONTINUED)

	Manufacturing		Trading		Total	
	30 June 2024 (Unaudited) HK\$'000	31 December 2023 (Audited) HK\$'000	30 June 2024 (Unaudited) HK\$'000	31 December 2023 (Audited) HK\$'000	30 June 2024 (Unaudited) HK\$'000	31 December 2023 (Audited) HK\$'000
Reportable segment assets	813,237	794,939	652,301	557,820	1,465,538	1,352,759
Investment properties					49,455	50,065
Deferred income tax assets					6,209	6,850
Investment accounted for using equity method					407	422
Financial assets at FVPL					49,825	46,452
Tax recoverable					3,251	3,251
Short-term deposits					12,438	8,955
Cash and cash equivalents					188,628	317,849
Total assets					1,775,751	1,786,603

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

	Manufacturing		Trading		Total	
	30 June 2024 (Unaudited) HK\$'000	31 December 2023 (Audited) HK\$'000	30 June 2024 (Unaudited) HK\$'000	31 December 2023 (Audited) HK\$'000	30 June 2024 (Unaudited) HK\$'000	31 December 2023 (Audited) HK\$'000
Reportable segment liabilities	169,904	186,589	190,966	199,900	360,870	386,489
Deferred income tax liabilities					21,427	21,453
Current income tax liabilities					55,693	48,607
Borrowings					157,656	160,703
Other corporate liabilities					6,599	8,168
					602,245	625,420
Capital expenditure incurred during the period/year	24,164	145,653	133,326	7,986	157,490	153,639

Notes to the Unaudited Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2024

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	
	2024	2023
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
(a) Operating profit		
Fair value (gain)/loss on financial assets at FVPL	(2,322)	1,191
Change in value of investment in insurance contracts	(135)	4,166
Net exchange gain	(2,841)	(1,349)
Depreciation of property, plant and equipment	28,078	25,675
Depreciation of right-of-use assets	7,101	9,807
Short-term lease expenses	3,938	3,550
Amortisation of other intangible assets	11,995	13,664
Net provision for inventories (<i>note (i)</i>)	1,162	1,936
Net impairment on trade receivables (<i>note (ii)</i>)	2,163	2,052

Notes:

- (i) Provision for obsolete inventories of HK\$1,162,000 has been made during the six months ended 30 June 2024 (six months ended 30 June 2023: HK\$1,936,000), after considering their physical condition, market demand and historical usage of those inventories.
- (ii) Provision for the expected credit losses made during the six months ended 30 June 2024 was mainly related to the trade receivables of customers in the USA 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\$2,163,000 during the period ended 30 June 2024 (six months ended 30 June 2023: HK\$2,052,000).

Notes to the Unaudited Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2024

8. PROFIT BEFORE INCOME TAX (CONTINUED)

	Six months ended 30 June	
	2024 (Unaudited) HK\$'000	2023 (Unaudited) HK\$'000
(b) Finance costs – net		
Interest on bank loans, overdrafts and other borrowings	(6,655)	(7,458)
Interest accretion on license fee payables	(1,239)	(563)
Interest on lease liabilities	(743)	(869)
	<u>(8,637)</u>	<u>(8,890)</u>
Finance costs	(8,637)	(8,890)
Finance income	2,047	516
	<u>(6,590)</u>	<u>(8,374)</u>

9. INCOME TAX EXPENSE

	Six months ended 30 June	
	2024 (Unaudited) HK\$'000	2023 (Unaudited) HK\$'000
Current year		
– Hong Kong profits tax	770	1,110
– Overseas tax	17,079	18,486
	<u>17,849</u>	<u>19,596</u>
Deferred income tax	615	413
	<u>18,464</u>	<u>20,009</u>

Notes to the Unaudited Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2024

9. INCOME TAX EXPENSE (CONTINUED)

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 2023: 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.

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	
	2024	2023
	(Unaudited)	(Unaudited)
Profit attributable to owners of the Company (HK\$'000)	35,269	65,075
Weighted average number of ordinary shares in issue	429,164,448	427,289,401
Basic earnings per share (HK cents)	8.218	15.230

(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 2024

10. EARNINGS PER SHARE (CONTINUED)

(b) Diluted (Continued)

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	
	2024 (Unaudited)	2023 (Unaudited)
Profit attributable to owners of the Company (HK\$'000)	<u>35,269</u>	<u>65,075</u>
Weighted average number of ordinary shares in issue	<u>429,164,448</u>	427,289,401
Adjustment for share options	<u>4,077,891</u>	<u>9,452,381</u>
Weighted average number of ordinary shares for diluted earnings per share	<u>433,242,339</u>	<u>436,741,782</u>
Diluted earnings per share (HK cents)	<u>8.141</u>	<u>14.900</u>

11. DIVIDENDS

(a) Dividends attributable to the period

	Six months ended 30 June	
	2024 (Unaudited) HK\$'000	2023 (Unaudited) HK\$'000
Interim dividend declared of 3 HK cents (2023: 3 HK cents) per share	<u>12,875</u>	<u>12,861</u>

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 2024. The amount of proposed interim dividend was based on 429,164,448 (30 June 2023: 428,684,448) shares in issued as at 30 June 2024.

Notes to the Unaudited Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2024

11. DIVIDENDS (CONTINUED)

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

	Six months ended 30 June	
	2024 (Unaudited) HK\$'000	2023 (Unaudited) HK\$'000
Final dividend paid in respect of 2023 of 6 HK cents (2022: 6 HK cents) per share	<u>25,750</u>	<u>25,703</u>

12. PROPERTY, PLANT AND EQUIPMENT, INVESTMENT PROPERTIES AND OTHER INTANGIBLE ASSETS

During the six months ended 30 June 2024, the Group acquired property, plant and equipment of HK\$127,615,000 (six months ended 30 June 2023: HK\$23,685,000) and intangible assets of HK\$28,678,000 (six months ended 30 June 2023: HK\$5,581,000).

The Group's investment properties were revalued at 31 December 2023. 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 2023: same).

As at 30 June 2024, other intangible assets represent licensing rights for the use of certain licensed trademark, brands and logos in the Group's products of HK\$31,368,000 (31 December 2023: HK\$14,672,000) and acquired customer relationship of HK\$Nil (31 December 2023: HK\$13,000).



Notes to the Unaudited Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2024

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:

	At 30 June 2024 (Unaudited) HK\$'000	At 31 December 2023 (Audited) HK\$'000
Right-of-use assets		
Properties	<u>44,451</u>	<u>50,467</u>
Lease liabilities		
Non-current	<u>34,952</u>	41,175
Current	<u>14,023</u>	<u>13,595</u>
	<u>48,975</u>	<u>54,770</u>

Additions to the right-of-use assets during the six months ended 30 June 2024 is HK\$1,197,000 (six months ended 30 June 2023: nil).

Notes to the Unaudited Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2024

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	
	2024	2023
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Depreciation charge of right-of-use assets (<i>Note 8a</i>)	7,101	9,807
Interest expenses (included in finance costs) (<i>Note 8b</i>)	743	869
Expenses relating to short-term leases (<i>Note 8a</i>)	3,938	3,550
	<u>3,938</u>	<u>3,550</u>

The total cash outflow for leases in the six months ended 30 June 2024 is HK\$11,540,000 (six months ended 30 June 2023: HK\$10,708,000).

(iii) The Group's lease activities

The Group leases various properties. Rental contracts are typically made for 2 to 20 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 2024

14. TRADE RECEIVABLES AND OTHER FINANCIAL ASSETS AT AMORTISED COST

	30 June 2024 (Unaudited) HK\$'000	31 December 2023 (Audited) HK\$'000
Trade receivables	370,820	339,151
Less: provision for impairment losses	(18,563)	(17,752)
Trade receivables, net	352,257	321,399
Other financial assets at amortised cost	7,215	10,188
	359,472	331,587
Less: non-current portion of other financial assets at amortised cost	(2,012)	(2,012)
Current portion	357,460	329,575

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 2024 (Unaudited) HK\$'000	31 December 2023 (Audited) HK\$'000
0–30 days	114,403	122,466
31–60 days	107,156	96,349
61–90 days	64,915	53,259
91–120 days	32,439	19,328
121–180 days	14,039	17,261
Over 180 days	37,868	30,488
	370,820	339,151

Notes to the Unaudited Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2024

15. SHARE CAPITAL

(a) Share capital

	Number of shares of HK\$0.10 each	HK\$'000
Authorised:		
At 1 January 2023, 30 June 2023, 1 January 2024 and 30 June 2024	1,000,000,000	100,000
Issued and fully paid:		
At 1 January 2023	426,601,448	42,660
Share options scheme:		
– Exercise of share option	2,083,000	208
As at 30 June 2023	428,684,448	42,868
Share options scheme:		
– Exercise of share option	480,000	48
At 31 December 2023 and 30 June 2024	429,164,448	42,916

These newly issued shares rank pari passu with the existing shares.

Notes to the Unaudited Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2024

15. SHARE CAPITAL (CONTINUED)

(b) Equity settled share-based payment transactions

The Company adopted the former share option scheme ("Former Share Option Scheme") on 29 December 2011 and the Former Share Option Scheme expired on 28 December 2021. As at 30 June 2024, there was 28,345,000 outstanding Options with 28,345,000 underlying Shares, which will remain valid and exercisable with their respective terms of issue.

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.

On 24 May 2024, a share option scheme (the "Share Option Scheme") was adopted whereby the Board of Directors, may, at their absolute discretion, grant options to Eligible Participants, include any Employee Participant, Related Entity Participant or Service Provider who the Board or the remuneration committee considers, in their sole discretion, to have contributed or may bring benefits to the Group. Definition of Eligible Participants is set out in the Company's circular dated 19 April 2024.

The total number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and other share option schemes of the Group may not in aggregate exceed 42,916,444, being 10% of the shares in issue of the Company as at 24 May 2024, the date of adoption of the Share Option Scheme. Within the 10% limit, the Service Provider sublimit must not in aggregate exceed 4,291,644, being 1% of the total number of shares in issue of the Company as at 24 May 2024.

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.

Notes to the Unaudited Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2024

15. SHARE CAPITAL (CONTINUED)

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

There is no new share option granted during the six months ended 30 June 2024 (six months ended 30 June 2023: same).

(i) Movement in share options

	2024		2023	
	Number of share options (Unaudited) '000	Weighted average exercise price (Unaudited) HK\$ (note)	Number of share options (Unaudited) '000	Weighted average exercise price (Unaudited) HK\$
At 1 January	28,345	1.335	30,908	1.325
Exercised	–	–	(2,083)	1.248
At 30 June	28,345	1.335	28,825	1.330
Options vested at closing	28,345	1.335	28,825	1.330



Notes to the Unaudited Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2024

15. SHARE CAPITAL (CONTINUED)

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

(i) Movement in share option (Continued)

As at 30 June 2024, the options have a weighted average contractual terms of 2.2 years (31 December 2023: 2.7 years).

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

		30 June 2024	31 December 2023
	Exercise price (Unaudited) (note) HK\$	Number of share options (Unaudited)	(Audited)
		'000	'000
14 July 2025	1.066	9,005	9,005
12 April 2027	1.460	19,340	19,340
		28,345	28,345

As at 30 June 2024, out of total 28,345,000 (31 December 2023: 28,345,000) outstanding options, 28,345,000 options (31 December 2023: 28,345,000) are exercisable. No share option was exercised during six months ended 30 June 2024 (six months ended 30 June 2023: 2,083,000).

Under this share option scheme, no (six months ended 30 June 2023: same) share-based payment expenses has been included in the interim condensed consolidated statement of profit or loss for the six months ended 30 June 2024 and a corresponding amount has been credited to share based compensation reserve.

Note: Weighted average exercise prices have been adjusted for the bonus issued in June 2022.

Notes to the Unaudited Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2024

16. TRADE AND OTHER PAYABLES

	30 June 2024 (Unaudited) HK\$'000	31 December 2023 (Audited) HK\$'000
Trade payables	150,752	169,544
Accrued charges and other payables	167,205	169,806
	317,957	339,350
Less: other non-current payables	(18,427)	(6,595)
Current portion	299,530	332,755

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

	30 June 2024 (Unaudited) HK\$'000	31 December 2023 (Audited) HK\$'000
0–30 days	79,654	76,350
31–60 days	21,652	26,702
61–90 days	12,699	14,375
Over 90 days	36,747	52,117
	150,752	169,544

Contract liabilities of HK\$75,000 (31 December 2023: HK\$1,031,000) 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.

Revenue recognised during the period ended 30 June 2024 that was included in the contract liabilities balance at the beginning of the period amounted to HK\$1,031,000 (six months ended 30 June 2023: HK\$1,133,000). The Group recognised its contract liabilities under other payables and accruals in the interim condensed consolidated balance sheet.

Notes to the Unaudited Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2024

17. BORROWINGS

Movement in borrowings is analysed as follows:

	(Unaudited) HK\$'000
Six months ended 30 June 2023	
Opening amount as at 1 January 2023	243,280
Repayment of bank borrowings	(89,536)
Repayment of other borrowings	(4,979)
Proceeds from bank borrowings	68,340
Closing amount as at 30 June 2023	217,105
Six months ended 30 June 2024	
Opening amount as at 1 January 2024	160,703
Repayment of bank borrowings	(30,558)
Repayment of other borrowings	(9,958)
Proceeds from bank borrowings	30,000
Proceeds from other borrowings	7,469
Closing amount as at 30 June 2024	157,656

Note:

	30 June 2024 (Unaudited) HK\$'000	31 December 2023 (Audited) HK\$'000
Current:		
Bank borrowings	108,409	108,965
Other borrowings	42,050	44,541
	150,459	153,506
Non-current:		
Other borrowings	7,197	7,197
	157,656	160,703

As at 30 June 2024, other borrowings represent borrowings from an affiliated company of New Era Cap Hong Kong LLC ("NEHK"), a shareholder of the Company, in which US\$4,480,000 (HK\$34,854,000) (31 December 2023: US\$4,800,000 (HK\$37,344,000)) was unsecured, interest bearing at 8% per annum and mature in 1 year, while US\$1,850,000 (HK\$14,393,000) (31 December 2023: US\$1,850,000 (HK\$14,393,000)) was unsecured, interest bearing at 7% per annum and mature in 1.5 years.

Notes to the Unaudited Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2024

18. COMMITMENTS

(a) Capital commitments

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

	30 June 2024 (Unaudited) HK\$'000	31 December 2023 (Audited) HK\$'000
Contracted but not provided for	<u>4,739</u>	<u>3,867</u>

The above commitment represents capital expenditure commitment relating to purchase of machineries, construction of a factory building and upgrade in IT system.

(b) Other commitment

On 15 December 2021, the Group executed a capital contribution agreement in relation to a contribution of RMB30 million (approximately HK\$36.6 million) to a limited partnership established in the PRC (the "Fund"). The contribution by the Group represents about 3.05% of the targeted contribution of the Fund. A partnership agreement was signed for the purpose of the establishment of the partnership on 28 January 2022. As at 30 June 2024, capital contribution of RMB12.1 million (approximately HK\$13.7 million) was made. As a result, the Group has a commitment of RMB17.9 million (approximately HK\$19.2 million) as at 30 June 2024.

On 14 March 2022, the Group executed a capital contribution agreement in relation to a contribution of US\$0.5 million (approximately HK\$3.9 million) to a limited partnership established in Hong Kong (the "Hong Kong Fund"). The contribution by the Group represents about 2% of the targeted contribution of the Hong Kong Fund. As at 30 June 2024, capital contribution of US\$0.375 million (approximately HK\$2.9 million) was made. As a result, the Group has a commitment of US\$0.125 million (approximately HK\$1.0 million) as at 30 June 2024.



Notes to the Unaudited Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2024

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	
	2024	2023
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Sales of goods to affiliated companies of a shareholder	315,467	343,535
Rental paid in respect of office premises to directors and a company controlled by a director	101	101
Claim charges paid to affiliated companies of a shareholder	1,190	1,527
Interest on borrowings from an affiliated company of a shareholder	1,153	1,104
	<u>1,153</u>	<u>1,104</u>

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

	30 June	31 December
	2024	2023
	(Unaudited)	(Audited)
	HK\$'000	HK\$'000
Trade receivables from affiliated companies of a shareholder	173,723	144,585
	<u>173,723</u>	<u>144,585</u>

Trade receivables from affiliated companies of a shareholder arise mainly from sale transactions and are due 60–90 days after the date of sales. The receivables are unsecured in nature and bear no interest. No provisions are held against such receivables.

Notes to the Unaudited Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2024

19. SIGNIFICANT RELATED PARTY TRANSACTIONS (CONTINUED)

(c) Period-end balances arising from borrowing

	30 June 2024 (Unaudited) HK\$'000	31 December 2023 (Audited) HK\$'000
Borrowings from an affiliated company of a shareholder	<u>49,247</u>	<u>51,737</u>

(d) Key management personnel remuneration

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

	Six months ended 30 June	
	2024 (Unaudited) HK\$'000	2023 (Unaudited) HK\$'000
Short-term employee benefits	14,380	15,861
Retirement scheme contributions	<u>66</u>	<u>84</u>
	<u>14,446</u>	<u>15,945</u>

20. SUBSEQUENT EVENT

On 23 August 2024, the Group acquired 55% equity interest of Difuzed B.V., a company incorporated in the Netherlands, at the total consideration of Euro 5,000,000 (approximately HK\$42,500,000). The ultimate beneficial owner of the 45% equity interest of Difuzed B.V. is Mr. El-Kalaani. He owns 10% shareholding in H3 Sportgear LLC which is a non-wholly owned subsidiary of the Group.

21. APPROVAL OF INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

The interim condensed consolidated financial information was approved by the Board of Directors on 27 August 2024.



Other Information Provided in Accordance with the Listing Rules

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 30 June 2024, 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	-	232,583,400 <i>(note 1, 2)</i>	47,040,000 <i>(note 3, 4)</i>	279,623,400	65.23%
Madam Ngan Po Ling, Pauline, <i>BBS, JP</i>	39,698,400 <i>(note 2)</i>	192,885,000 <i>(note 1)</i>	47,040,000 <i>(note 3, 4)</i>	279,623,400	65.23%
Mr. James S. Patterson	-	-	1,050,000 <i>(note 5)</i>	1,050,000	0.24%
Mr. Ngan Siu Hon, Alexander	-	-	2,100,000 <i>(note 6)</i>	2,100,000	0.49%
Mr. Lai Man Sing	-	-	1,050,000 <i>(note 7)</i>	1,050,000	0.24%

Notes:

- (1) 192,885,000 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 39,698,400 shares are beneficially owned by Madam Ngan, Pauline, the spouse of Mr. Ngan Hei Keung.
- (3) Pursuant to the contingent purchase deed renewed on 22 November 2019 between Mr. Ngan Hei Keung, 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. The number of underlying shares has been adjusted to 41,790,000 after adjustment for bonus shares issued in June 2022.

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 Hei Keung and Madam Ngan are entitled to subscribe for 2,100,000 shares and 3,150,000 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 1,050,000 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 2,100,000 shares pursuant to the outstanding options granted under the Company's share options scheme.
- (7) Mr. Lai Man Sing is entitled to subscribe for 1,050,000 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

The Company adopted the former share option scheme ("Former Share Option Scheme") on 29 December 2011 and the Former Share Option Scheme expired on 28 December 2021. As at 30 June 2024, there was 28,345,000 outstanding Options with 28,345,000 underlying Shares, which will remain valid and exercisable with their respective terms of issue.

On 24 May 2024, a share option scheme (the "Share Option Scheme") was adopted whereby the Board of Directors, may, at their absolute discretion, grant options to Eligible Participants, include any Employee Participant, Related Entity Participant or Service Provider who the Board or the remuneration committee considers, in their sole discretion, to have contributed or may bring benefits to the Group. Definition of Eligible Participants is set out in the Company's circular dated 19 April 2024.

The total number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and other share option schemes of the Group may not in aggregate exceed 42,916,444, being 10% of the shares in issue of the Company as at 24 May 2024, the date of adoption of the Share Option Scheme. Within the 10% limit, the Service Provider sublimit must not in aggregate exceed 4,291,644, being 1% of the total number of shares in issue of the Company as at 24 May 2024.

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 42,916,444 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 2024, 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\$1.65 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 (note 1) HK\$	Number of shares Outstanding at 1.1.2024 and 30.6.2024	Market value per share at date of grant (note 1) HK\$
Director	15.07.2015	15.07.2016–14.07.2025	1.066	1,050,000	1.066
	13.04.2017	13.04.2017–12.04.2027	1.460	8,400,000	1.460
				<u>9,450,000</u>	
Employees	15.07.2015	15.07.2016–14.07.2025	1.066	7,954,500	1.066
	13.04.2017	13.04.2017–12.04.2027	1.460	10,940,500	1.460
				<u>18,895,000</u>	
Total				<u>28,345,000</u>	

Note:

- (1) The number of share option outstanding, exercise price and market value per share at date of grant have been adjusted for the bonus share issued in June 2022.

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 2024, 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	39,698,400	-	-	39,698,400	9.25%
	Interest of a controlled corporation (<i>note 1</i>)	-	192,885,000	-	192,885,000	44.94%
					232,583,400	54.19%
Successful Years International Co., Ltd. (<i>note 1</i>)	Beneficial owner	192,885,000	-	-	192,885,000	44.94%
Mr. Christopher Koch (<i>note 2</i>)	Interest of a controlled corporation	-	83,581,050	-	83,581,050	19.48%
NEHK (<i>note 2</i>)	Interest of a controlled corporation	83,581,050	-	-	83,581,050	19.48%

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 83,581,050 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	41,790,000 (Note)	9.74%
NEHK	41,790,000 (Note)	9.74%

Note: Pursuant to the contingent purchase deed renewed on 22 November 2019 between Mr. Ngan Hei Keung, 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. The number of underlying shares have been adjusted for bonus shares issued in June 2022.

Save as disclosed above, as at 30 June 2024, 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.



Other Information Provided in Accordance with the Listing Rules

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

During the six months ended 30 June 2024, 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 2024.

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 2024.

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 2024.

By Order of the Board
Ngan Hei Keung
Chairman

Hong Kong, 27 August 2024

As at the date hereof, the Board of Directors of the Company comprises nine directors, of which six are Executive Directors, namely Mr. Ngan Hei Keung, Madam Ngan Po Ling, Pauline, BBS, JP, Mr. James S. Patterson, Mr. Ngan Siu Hon, Alexander, Mr. Lai Man Sing and Mr. Andrew Ngan; and three are Independent Non-executive Directors, namely Mr. Gordon Ng, Mr. Cheung Tei Sing Jamie and Mr. Li Yinquan.