# MAINLAND HEADWEAR HOLDINGS LIMITED
# 飛達帽業控股有限公司*

*(Incorporated in Bermuda with limited liability)*

**(Stock code: 1100)**

# ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2016

The board of directors (the "Board"/"Directors") of Mainland Headwear Holdings Limited (the "Company") is pleased to announce the financial results of the Company and its subsidiaries (collectively the "Group"/"Mainland Headwear") for the year ended 31 December 2016.

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS

*For the year ended 31 December 2016*

| | *Note* | **2016** *HK$'000* | 2015 *HK$'000* |
|---|---|---|---|
| **Revenue** | *2* | **870,291** | 870,998 |
| Cost of sales | | **(582,274)** | (605,886) |
| **Gross profit** | | **288,017** | 265,112 |
| Other income | | **12,452** | 12,184 |
| Other gains/(losses) – net | *3* | **1,124** | (1,240) |
| Selling and distribution costs | | **(95,078)** | (85,947) |
| Administration expenses | | **(121,839)** | (134,202) |
| **Profit from operations** | | **84,676** | 55,907 |
| Finance income | *4* | **773** | 1,413 |
| Finance costs | *4* | **(1,627)** | (1,270) |
| **Profit before income tax** | *5* | **83,822** | 56,050 |
| **Income tax expense** | *6* | **(8,630)** | (4,674) |
| **Profit for the year** | | **75,192** | 51,376 |

* *For identification purpose only*

| | Note | 2016 HK$'000 | 2015 HK$'000 |
|---|---|---|---|
| **Attributable to:** | | | |
| Owners of the Company | | **71,586** | 52,554 |
| Non-controlling interests | | **3,606** | (1,178) |
| | | **75,192** | 51,376 |
| **Earnings per share attributable to owners of the Company** | *7* | | |
| Basic (HK cent) | | **17.9 per share** | 13.2 per share |
| Diluted (HK cent) | | **17.5 per share** | 13.0 per share |

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

*For the year ended 31 December 2016*

| | **2016** | 2015 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **Profit for the year** | **75,192** | 51,376 |
| **Other comprehensive income** | | |
| **– Items that may be reclassified to profit or loss:** | | |
| Release of reserve upon deregistration of a subsidiary | **(2,435)** | – |
| Exchange differences on translation of financial statements of foreign operations | **(7,930)** | (2,798) |
| Total comprehensive income for the year, net of tax | **64,827** | 48,578 |
| **Attributable to:** | | |
| Owners of the Company | **61,384** | 49,996 |
| Non-controlling interests | **3,443** | (1,418) |
| **Total comprehensive income for the year** | **64,827** | 48,578 |

## CONSOLIDATED BALANCE SHEET

*As at 31 December 2016*

| | Note | **2016** *HK$'000* | 2015 *HK$'000* |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | | **175,036** | 171,359 |
| Investment properties | | **39,775** | 38,522 |
| Goodwill | | **33,798** | 33,798 |
| Other intangible assets | | **13,974** | 16,834 |
| Deferred income tax assets | | **1,904** | 2,323 |
| Other non-current receivables | *9* | **730** | 6,550 |
| | | **265,217** | 269,386 |
| **Current assets** | | | |
| Inventories | | **181,833** | 166,830 |
| Trade and other receivables | *9* | **173,546** | 163,625 |
| Financial assets at fair value through profit or loss | | **9,304** | 1,314 |
| Short-term bank deposits | | **3,193** | 3,175 |
| Cash and cash equivalents | | **201,881** | 174,510 |
| | | **569,757** | 509,454 |
| **Total assets** | | **834,974** | 778,840 |
| **EQUITY AND LIABILITIES** | | | |
| Equity attributable to owners of the Company | | | |
| Share capital | | **40,501** | 39,858 |
| Other reserves | | **223,483** | 228,069 |
| Retained earnings | | **341,121** | 288,204 |
| | | **605,105** | 556,131 |
| Non-controlling interests | | **202** | (5,421) |
| **Total equity** | | **605,307** | 550,710 |
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Other non-current payables | *10* | **592** | 1,075 |
| Long service payment payable | | **457** | 457 |
| Deferred income tax liabilities | | **3,581** | 3,059 |
| | | **4,630** | 4,591 |

| | Note | 2016 HK$'000 | 2015 HK$'000 |
|---|---|---|---|
| **Current liabilities** | | | |
| Trade and other payables | *10* | **143,995** | 132,779 |
| Amounts due to non-controlling interests | | **1,067** | 1,003 |
| Current income tax liabilities | | **21,354** | 22,161 |
| Borrowings | | **58,621** | 67,596 |
| | | **225,037** | 223,539 |
| **Total liabilities** | | **229,667** | 228,130 |
| **Total equity and liabilities** | | **834,974** | 778,840 |
| **Net current assets** | | **344,720** | 285,915 |
| **Total assets less current liabilities** | | **609,937** | 555,301 |

*Notes*

## 1. ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### (a) Basis of preparation

The consolidated financial statements of the Company and its subsidiaries (together the "Group") have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRS"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss and investment properties which are carried at fair values.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

***Changes in accounting policy and disclosures***

*(i) New and amended standards adopted by the Group*

The following amendments to standards are mandatory for accounting periods beginning on or after 1 January 2016.

| | |
|---|---|
| HKAS 1 (Amendments) | Disclosure initiative |
| HKAS 16 and HKAS 38 (Amendments) | Clarification of acceptable methods of depreciation and amortisation |
| HKAS 16 and HKAS 41 (Amendments) | Agriculture: bearer plants |
| HKAS 27 (Amendments) | Equity method in separate financial statements |
| HKFRS 10, HKFRS12 and HKAS 28 (Amendments) | Investment entities: applying the consolidation exemption |
| HKFRS 11 (Amendments) | Accounting for acquisitions of interests in joint operations |
| HKFRS 14 | Regulatory deferral accounts |
| Annual improvements project | Annual improvements 2012 – 2014 cycle |

The adoption of these amendments to standards does not have any significant impact to the results and financial position of the Group.

*(ii) New and amended standards and interpretations not yet adopted*

The following new and amended standards and interpretations are effective for annual periods beginning after 1 January 2016 and have not been early adopted by the Group:

| | |
|---|---|
| HKFRS 2 (Amendments) | Classification and measurement of share-based payment transactions(2) |
| HKFRS 9 | Financial instruments(2) |
| HKFRS 15 | Revenue from contracts with customers(2) |
| HKFRS 15 (Amendments) | Clarification to HKFRS 15(2) |
| HKFRS 16 | Leases(3) |
| HKAS 7 (Amendments) | Statement of cash flows(1) |
| HKAS 12 (Amendments) | Income taxes(1) |
| HKFRS 10 and HKAS 28 (Amendments) | Sale or contribution of assets between an investor and its associate or joint venture(4) |

(1) Effective for annual periods beginning on or after 1 January 2017

(2) Effective for annual periods beginning on or after 1 January 2018

(3) Effective for annual periods beginning on or after 1 January 2019

(4) Effective date to be determined

The directors of the Company are in the process of assessing the financial impact of the adoption of the above new standards, amendments to standards and annual improvement. The directors of the Company will adopt the new standards, amendments to standards and annual improvements when they become effective.

## 2. SEGMENT INFORMATION

The executive directors have been identified as the chief operating decision maker. The executive directors have determined the operating segments based on the reports reviewed by them that are used to make strategic decisions.

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

(i) Manufacturing Business: The Group manufactures headwear products for sale to its Trading Business and Retail Business as well as to external customers. The principal manufacturing facilities are located in Shenzhen, the People's Republic of China ("PRC") and Bangladesh. Customers are mainly located in the United States of America ("USA") and Europe.

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

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

| | Manufacturing | | Trading | | Retail | | Total | |
|---|---|---|---|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 | **2016** | 2015 | **2016** | 2015 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Revenue from external customers | **596,140** | 539,834 | **185,413** | 218,617 | **88,738** | 112,547 | **870,291** | 870,998 |
| Inter-segment revenue | **48,574** | 76,471 | **62** | 194 | **–** | – | **48,636** | 76,665 |
| Reportable segment revenue | **644,714** | 616,305 | **185,475** | 218,811 | **88,738** | 112,547 | **918,927** | 947,663 |
| Reportable segment profit/(loss) | **83,376** | 65,927 | **12,997** | 322 | **(6,383)** | (5,280) | **89,990** | 60,969 |
| Financial assets at fair value through profit or loss – fair value gain/(loss) | | | | | | | **122** | (751) |
| Gain on disposal of a financial asset at fair value through profit or loss | | | | | | | **–** | 210 |
| Fair value gains on investment properties | | | | | | | **2,503** | 911 |
| Unallocated corporate income | | | | | | | **8,908** | 6,765 |
| Unallocated corporate expenses | | | | | | | **(16,847)** | (12,197) |
| Profit from operations | | | | | | | **84,676** | 55,907 |
| Finance income | | | | | | | **773** | 1,413 |
| Finance costs | | | | | | | **(1,627)** | (1,270) |
| Income tax expense | | | | | | | **(8,630)** | (4,674) |
| Profit for the year | | | | | | | **75,192** | 51,376 |
| Depreciation of property, plant and equipment | **20,576** | 18,136 | **2,049** | 1,021 | **2,359** | 3,462 | **24,984** | 22,619 |
| Amortisation of other intangible assets | **–** | – | **5,088** | 6,685 | **–** | – | **5,088** | 6,685 |
| Reportable segment assets | **350,688** | 317,910 | **183,183** | 185,859 | **45,046** | 55,227 | **578,917** | 558,996 |
| Investment properties | | | | | | | **39,775** | 38,522 |
| Deferred income tax assets | | | | | | | **1,904** | 2,323 |
| Financial assets at fair value through profit or loss | | | | | | | **9,304** | 1,314 |
| Short-term bank deposits | | | | | | | **3,193** | 3,175 |
| Cash and cash equivalents | | | | | | | **201,881** | 174,510 |
| Total assets | | | | | | | **834,974** | 778,840 |
| Reportable segment liabilities | **105,708** | 91,479 | **9,441** | 14,542 | **27,515** | 26,359 | **142,664** | 132,380 |
| Deferred income tax liabilities | | | | | | | **3,581** | 3,059 |
| Current income tax liabilities | | | | | | | **21,354** | 22,161 |
| Borrowings | | | | | | | **58,621** | 67,596 |
| Other corporate liabilities | | | | | | | **3,447** | 2,934 |
| Total liabilities | | | | | | | **229,667** | 228,130 |
| Capital expenditure incurred during the year | **13,546** | 9,143 | **14,583** | 55,252 | **2,309** | 2,403 | **30,438** | 66,798 |

**(i) Revenue from external customers**

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

| | **2016** | 2015 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| USA | **576,955** | 534,487 |
| Europe | **119,554** | 147,606 |
| PRC | **73,456** | 88,541 |
| Hong Kong | **36,466** | 36,768 |
| Others | **63,860** | 63,596 |
| Total | **870,291** | 870,998 |

During 2016, revenue derived from the Group's largest customer (who are affiliated companies of a shareholder) amounted to HK$365,579,000 or 42.0% of the Group's revenue (2015: HK$302,947,000 or 34.8%). This revenue was attributable to the Manufacturing Business.

**(ii) Non-current assets**

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

| | **2016** | 2015 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| USA | **114,475** | 104,024 |
| Bangladesh | **72,817** | 71,692 |
| PRC | **49,845** | 64,893 |
| Hong Kong | **4,797** | 9,543 |
| Europe | **7,405** | 77 |
| | **249,339** | 250,229 |
| Other intangible assets | **13,974** | 16,834 |
| Deferred income tax assets | **1,904** | 2,323 |
| | **265,217** | 269,386 |

## 3. OTHER GAINS/(LOSSES) – NET

| | 2016 | 2015 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Financial assets at fair value through profit or loss | | |
| – fair value gain/(loss) | **122** | (751) |
| Gain on disposal of a financial asset at fair value through profit or loss | **–** | 210 |
| Net foreign exchange loss | **(4,013)** | (1,829) |
| Fair value gains on investment properties | **2,503** | 911 |
| Gain on disposals of property, plant and equipment | **77** | 220 |
| Loss on disposals of subsidiaries | **–** | (1) |
| Gain on deregistration of a subsidiary *(Note)* | **2,435** | – |
| | **1,124** | (1,240) |

*Note:*

During the year ended 31 December 2016, the Group deregistered a subsidiary, Dongguan Mainland Headwear Company Limited. A gain in connection with the deregistration of HK$2,435,000 was recognised in the consolidated statement of profit or loss, which mainly arise from release of exchange reserve of the same amount credited to the consolidated statement of profit or loss.

## 4. FINANCE (COSTS)/INCOME – NET

| | 2016 | 2015 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Interest on bank loans, overdrafts and other borrowings | **(1,577)** | (982) |
| Interest on amounts due to a related company | **(25)** | (25) |
| Interest accretion on license fee payables | **(25)** | (263) |
| Interest costs | **(1,627)** | (1,270) |
| Interest income | **773** | 1,413 |
| Finance (costs)/income – net | **(854)** | 143 |

## 5. PROFIT BEFORE INCOME TAX

Profit before income tax is stated after charging/(crediting):

| | 2016 | 2015 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Depreciation of property, plant and equipment | **24,984** | 22,619 |
| Amortisation of other intangible assets | **5,088** | 6,685 |
| Net provision for impairment of trade and other receivables | **100** | 35 |
| Net (write-back of provision)/provision for slow-moving and obsolete inventories | **(400)** | 7,965 |

## 6. INCOME TAX EXPENSE

| | 2016 | 2015 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Hong Kong profits tax | | |
| – Current year | **3,368** | 1,301 |
| – Over-provision in prior years | **(1,044)** | (874) |
| | **2,324** | 427 |
| Overseas tax | | |
| – Current year | **10,114** | 5,775 |
| – Over-provision in prior years | **(4,859)** | (3,096) |
| | **7,579** | 3,106 |
| Deferred income tax | **1,051** | 1,568 |
| | **8,630** | 4,674 |

Hong Kong profits tax has been provided at the rate of 16.5% (2015: 16.5%) on the estimated assessable profits for the year.

Taxation on overseas profits has been calculated on the estimated assessable profits for the year at the rates of taxation prevailing in the countries in which the Group operates.

## 7. EARNINGS PER SHARE

### (a) Basic

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the year.

| | **2016** | 2015 |
|---|---|---|
| Profit attributable to owners of the Company *(HK$'000)* | **71,586** | 52,554 |
| Weighted average number of ordinary shares in issue | **399,186,969** | 398,583,284 |
| Basic earnings per share *(HK cent)* | **17.9 per share** | 13.2 per share |

### (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.

| | **2016** | 2015 |
|---|---|---|
| Profit attributable to owners of the Company *(HK$'000)* | **71,586** | 52,554 |
| Weighted average number of ordinary shares in issue | **399,186,969** | 398,583,284 |
| Adjustment for share options | **10,589,336** | 4,219,732 |
| Weighted average number of ordinary shares for diluted earnings per share | **409,776,305** | 402,803,016 |
| Diluted earnings per share *(HK cent)* | **17.5 per share** | 13.0 per share |

## 8. DIVIDENDS

A final dividend in respect of the year ended 31 December 2016 of 3 HK cents per share, amounting to a total dividend of HK$12,150,000, is to be proposed at the upcoming annual general meeting. These financial statements do not reflect this dividend payable. The amount of proposed final dividend for 2016 was based on 405,013,284 (2015: 398,583,284) shares in issue as at 31 December 2016.

| | **2016** | 2015 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Interim dividend of 2 HK cents (2015: 1 HK cent) per share | **7,972** | 3,986 |
| Proposed final dividend of 3 HK cents (2015: 2 HK cents) per share | **12,150** | 7,972 |
| | **20,122** | 11,958 |

## 9. TRADE AND OTHER RECEIVABLES

| | **Group** | |
|---|---|---|
| | **2016** | 2015 |
| | ***HK$'000*** | *HK$'000* |
| Trade receivables | **152,121** | 133,790 |
| Bills receivables | **–** | 1,597 |
| *Less:* provision for impairment | **(5,700)** | (6,006) |
| Trade and bills receivables, net | **146,421** | 129,381 |
| Deposits, prepayments and other receivables | **29,292** | 42,099 |
| Less: provision for impairment | **(1,437)** | (1,305) |
| | **174,276** | 170,175 |
| *Less:* non-current portion of other receivables | **(730)** | (6,550) |
| Current portion | **173,546** | 163,625 |

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

**(a)** The majority of the Group's sales are with credit terms of 30-120 days. The ageing analysis of trade receivables based on invoice date is as follows:

| | **2016** | 2015 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| 0 – 30 days | **64,035** | 51,820 |
| 31 – 60 days | **54,722** | 49,042 |
| 61 – 90 days | **16,939** | 14,493 |
| 91 – 120 days | **2,310** | 8,691 |
| Over 121 days | **14,115** | 9,744 |
| | **152,121** | 133,790 |

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

| | **2016** | 2015 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| 1 – 30 days past due | **16,945** | 9,983 |
| 31 – 60 days past due | **1,866** | 5,205 |
| 61 – 90 days past due | **6,629** | 3,301 |
| Over 91 days past due | **2,876** | 5,032 |
| | **28,316** | 23,521 |

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

**(c)** The bills receivables represents bank acceptance notes and the maturity period is as follow

| | **2016** | 2015 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Falling within 90 days | **–** | 1,597 |
| | **–** | 1,597 |

**(d)** Included in other receivables are notes receivable from one customer (2015: two customers) totalling HK$1,188,000 (2015: HK$11,339,000).

As at 31 December 2016, a note receivable of HK$1,188,000 is interest bearing at 3% per annum and is repayable by 35 monthly instalments from April 2016 to February 2019. The note is secured by the personal guarantee of the owner of the customer.

As at 31 December, 2015, a note receivable of HK$709,000 was interest bearing at 7% per annum and was repayable by monthly instalments up to July 2016. The balance was fully repaid during the year ended 31 December 2016.

Another note receivable of HK$10,630,000 outstanding was interest bearing at 5% per annum and is repayable by quarterly instalments from January 2015 to October 2017. The note was secured by all the assets of the customer but the Group's interest in the collaterals is subordinated to the customer's major lender. The balance was fully repaid during the year ended 31 December 2016.

**(e)** As of 31 December 2016, trade and other receivables of HK$7,137,000 (2015: HK$7,311,000) were fully impaired and provided for. All these receivables were overdue over 90 days.

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

| | **2016** | 2015 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| At 1 January | **7,311** | 7,671 |
| Impairment loss recognised, net | **100** | 35 |
| Uncollectible amounts written off | **(241)** | (363) |
| Exchange difference | **(33)** | (32) |
| At 31 December | **7,137** | 7,311 |

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

## 10. TRADE AND OTHER PAYABLES

| | Group | |
|---|---|---|
| | **2016** | 2015 |
| | ***HK$'000*** | *HK$'000* |
| Trade payables | **52,542** | 46,383 |
| Bill payables | **5,164** | 8,211 |
| Accrued charges and other payables | **86,881** | 79,260 |
| | **144,587** | 133,854 |
| *Less:* other non-current payables | **(592)** | (1,075) |
| Current portion | **143,995** | 132,779 |

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

| | **2016** | 2015 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| 0 – 30 days | **27,977** | 16,167 |
| 31 – 60 days | **16,709** | 20,067 |
| 61 – 90 days | **2,391** | 2,775 |
| Over 90 days | **5,465** | 7,374 |
| | **52,542** | 46,383 |

## BUSINESS REVIEW

### Overview

Over the past year, the changing global political landscape casted a cloud of uncertainty over the global economy. Nevertheless, with a solid foundation built over three decades of operation and flexible development strategies, Mainland Headwear's business has continued to grow and achieve excellent results during the year. After establishing a factory in Bangladesh in 2013, which was a strategic move and significant milestone, the Group continued to expand production capacity to meet growing market demand for headwear products.

The expansion of the Bangladesh factory's production capacity, coupled with widespread recognition and increased orders from customers contributed to further growth of the Manufacturing Business, thereby offsetting the performance of the Trading Business and Retail Business which were dragged down by the poor market environment. During the year, the Group's turnover amounted to HK$870,291,000, which is similar to last year. Through the implementation of effective cost control measures, the Group successfully its gross profit rose by 8.6% to HK$288,017,000 and gross profit margin increased by 2.7 percentage points to 33.1%. Benefiting from a significant improvement in production efficiency of the Bangladesh factory, profit attributable to shareholders jumped by 36.2% to HK$71,586,000.

On the Manufacturing Business front, the Group hastened expansion of the Bangladesh factory so as to align with the business development efforts of its customers. Apart from hiring new staff, the Group enhanced production technologies and raised the efficiency of the factory. As a results, its production output increased by 25% year-on-year, with monthly production capacity has reached 2,250,000 pieces of headwear products since the last quarter of the year. With expanded capacity and the Group's dedication to quality, it was able to strengthen already long-standing cooperative ties with its customers, resulting in increased orders.

The Trading Business was affected by such external factors as Brexit in the UK, a slump in the exchange rate of the pound, and intense market competition. In response, the Group directed efforts towards market diversification. Owing to the launch of self-branded accessories with higher gross profit margins, its subsidiary San Diego Hat Company ("SDHC"), which focuses on the US market, was able to move from a loss to profit position during the year.

The Retail Business continued to be impacted by the economic slowdown and weak consumption sentiment in Mainland China. The Group has agilely adjusted its business strategies to respond to changes in the market by closing underperforming self-owned stores while at the same time increasing resources to develope an online sales platform to meet changing consumption patterns. This strategy has proven to be effective as online sales has been doubled during the year.

**Financial Review**

During the year, thanks to a solid customer base and strong market demand for headwear products, the Group reported encouraging business performance. The growth momentum was mainly derived from the Manufacturing Business, the largest income contributor. Its growth offset the decline of the Retail Business and Trading Business, which were affected by the uncertain market environment. As a result, the Group recorded stable turnover of HK$870,291,000 (2015: HK$870,998,000), representing a slight decrease of 0.1% when compared with last year.

In addition, gross profit increased by 8.6% to HK$288,017,000 (2015: HK$265,112,000), while gross profit margin climbed by 2.7 percentage points to 33.1% (2015: 30.4%), reflecting the Group's effective cost control measures. Owing to lower production costs resulting from improving production efficiency of the Bangladesh factory, profit attributable to shareholders surged by 36.2% to HK$71,586,000 (2015: HK$52,554,000).

**Manufacturing Business**

With greater production capacity and increasing production efficiency by the Bangladesh factory, the Manufacturing Business continued to be the Group's profit growth engine. Segmental turnover increased by 4.6% to HK$644,714,000 (2015: HK$616,305,000), accounting for 70.2% of total turnover, and it remained the key income source. As production efficiency and quality of the Bangladesh factory have been improved, the factory has become a highlight of the Group's Manufacturing Business. Gross profit of this segment hence rose by 13.8% to HK$158,457,000 (2015: HK$139,223,000). Since the Group enhanced operating efficiency and implemented effective cost saving measures, operating profit of the Manufacturing Business has increased by 26.5% to HK$83,376,000 (2015: HK$65,927,000).

Through the dedicated efforts of the Group, the production technologies at the Bangladesh factory have matured and its workforce has grown to around 3,200 (2015: 3,100). Therefore, its monthly production capacity has increased to 2.25 million pieces of headwear products (2015: 1.8 million pieces monthly). The recognition that the factory has received from more customers is evident by the increase in orders. As for the factory in Shenzhen of around 1,400 staff, it mainly procures raw materials for the Manufacturing Business, produces high-end headwear products and handles orders that have short lead time. The Shenzhen factory also focuses on R&D and product design.

**Trading Business**

The Trading Business, being engaged in activities covering diverse markets, was adversely affected by political and economic factors around the globe, including the weak exchange rate of the pound following Brexit. Consequently, turnover from the segment declined by 15.2% to HK$185,475,000 (2015: HK$218,811,000). During the year, with SDHC continuing to be the Group's development focus, the Group further enriched its product mix, which included the introduction of self-branded accessories that have higher gross profit margins. Consequently, this segment reported a turnaround that helped offset the unsatisfactory business performance of H3 Sportgear LLC and Drew Pearson International (Europe) Ltd. Its operating profit rocketed to HK$12,997,000 (2015: HK$322,000).

**Retail Business**

The continued slowdown in economic growth in Mainland China, lackluster consumption sentiment and depreciation of the RMB further weighed on the local retail market. Although the Group captured immense business opportunities resulting from the increasing popularity of online shopping, further accelerated development of the online sales platform, and at the same time, strictly controlled the number of self-owned stores to lower operating costs, the retail business was nevertheless affected. Turnover declined by 21.2% to HK$88,738,000 (2015: HK$112,547,000), with operating loss at HK$6,383,000 (2015: operating loss of HK$5,280,000).

**Sanrio**

The gradually changing consumption model in Mainland China has affected the performance of traditional physical stores. To meet this change, the Group has actively expanded the online sales platform; an initial benefit has been the doubling of online sales turnover within a year. Aligning with market trend, the management also strategically closed some underperforming self-owned stores in a bid to reduce operating costs. However, the Mainland China retail market continued to experience various challenges that also affected Sanrio. Consequently, turnover of the Sanrio business declined to HK$64,994,000 (2015: HK$88,267,000), with operating loss amounting to HK$2,740,000 (2015: operating profit of HK$69,000).

As at 31 December 2016, the Group operated a total of 32 self-owned stores and 92 franchise stores (2015: 33 self-owned stores and 115 franchise stores).

**Headwear Sales**

The retail market in Hong Kong has also been unsatisfactory and continued to affect the headwear sales business. Mindful of such developments, the management closed underperforming self-owned stores to cut operating costs. Such action helped the Group narrow operating loss to HK$3,643,000 (2015: operating loss of HK$5,349,000).

As at 31 December 2016, the Group operated a total of 8 “NOP” self-owned stores in Hong Kong and 13 franchise stores in Mainland China (2015: 9 “NOP” self-owned stores, 19 franchise stores; and 1 “New Era” retail store).

**Prospects**

Well rooted in China for three decades, the Group has built a solid business foundation and customer base. The outstanding performance of the Bangladesh factory in recent years and its increasing contribution to the Group serve as testimony to the success of the Group's "Going Out" strategy. Building on the flexible and pragmatic operating strategy, the Group is set to capture immense opportunities arising from the "One Belt, One Road" national policy and reach new heights.

As for the Manufacturing Business, the Bangladesh factory will remain the Group's business focus. To complement business expansion, the Group is constructing a new factory with a gross area of about 350,000 sq. ft., which is scheduled to commence production in the first half of 2018. By then the target number of employees at the Bangladesh factory will increase to 5,000/6,000, which will consequently improve production capacity and be capable of handling more orders. As the production skills of the Bangladesh staff improve, the factory will be able to handle more high-end headwear orders. Meanwhile, the Shenzhen factory will continue to focus on the R&D and design of high-end products.

With regards to the Trading Business, uncertainties such as the Bexit and interest hikes by the US have urged the management to prudently adjust the Group's business strategies in order to support its long-term business growth. The Group will also strive to broaden its product mix to meet the changing market demand. It is expected that SDHC will remain the main revenue contributor to this business segment.

The management predicts that the retail markets in Mainland China and Hong Kong are unlikely to regain growth momentum in the short term. As such, the Group will continue to implement prudent strategies to control the number of self-owned stores in order to lower operating expenses. Furthermore, given the success of the Sanrio online sales platform, it will be further optimised so as to help drive the performance of the Retail Business.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Liquidity and Financial Resources

As at 31 December 2016, the Group had cash and bank balances, short-term deposits and a portfolio of liquid investments totaling Hong Kong dollars ("HK$") 214.4 million (2015: HK$179.0 million). About 63% and 18% of these liquid funds were denominated in United States dollars and Renminbi respectively and the remaining were mainly in Hong Kong dollars and Pound Sterling.

As at 31 December 2016, the Group had banking facilities of HK$342.6 million (2015: HK$340.8 million), of which HK$278.8 million (2015: HK$265.0 million) was not utilised.

The gearing ratio (being the Group's borrowings over equity) of the Group was 9.7% (2015: 12.3%). In view of the strong financial and liquidity position, the Group have sufficient financial resources to meet its commitments and working capital requirements.

### Capital Expenditure

During the year, the Group spent HK$7.3 million to acquire a commercial building in the United Kingdom (the "UK") as the office for the trading business in the UK. The Group spent approximately HK$5.2 million (2015: HK$9.1 million) on additions to plant and equipment and HK$8.3 million on addition to a land to upgrade its manufacturing capability and expansion in the Bangladesh factory. The Group also spent HK$2.3 million (2015: HK$2.4 million) on the retail systems in 2016 and HK$7.2 million (2015: HK$55.3 million) on renovation of the new office in the US and on equipments and systems of Trading Business.

The Group budgeted HK$67.4 million for capital expenditure of which, HK$58.7 million is estimated to be used for the construction of a factory building and expansion in Bangladesh under Manufacturing Business. The Group also authorised a capital commitment of HK$6.7 million for Trading Business and HK$2.0 million for Retail Business.

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

**Exchange Risk**

Most assets and liabilities of the Group are denominated either in Hong Kong dollars, United States dollars, Renminbi or Bangladesh Taka. The Group estimates that any 1% appreciation of the Renminbi is expected to reduce the gross margin of the Manufacturing Business by about 0.7%. However, Renminbi has depreciated in 2016 is expected to reduce the manufacturing costs. The Group estimated that any 1% appreciation of the Bangladesh Taka is not expected to have material impact on the gross margin.

**Employees and Remuneration Policies**

At 31 December 2016, the Group employed 1,625 (2015: 1,794) employees in the PRC (include Hong Kong) and 3,226 (2015: 3,117) employees in Bangladesh and a total of 44 (2015: 44) employees in the US and the United Kingdom. The expenditures for employees during the year were approximately HK$248.7 million (2015: HK$239.2 million). The Group ensures that the pay levels of its employees are competitive and employees were remunerated based on their position and performance. Key employees of the Group, including Directors, are also granted share options under the share option schemes operated by the Company.

## DIVIDENDS AND CLOSURE OF REGISTER OF MEMBERS

The Directors recommend the payment of a final dividend of 3 HK cents (2015: 2 HK cents) per share in respect of the year ended 31 December 2016. Subject to the approval at the forthcoming annual general meeting, the final dividend will be payable on or after 28 June 2017 to the shareholders whose names appear on the register of members at the close of the business on 7 June 2017.

The register of members of the Company will be closed from 5 June 2017 to 7 June 2017 (both dates inclusive). In order to qualify for the proposed final dividend, all transfers, accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong Branch Share Registrar, Tricor Tengis Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on 2 June 2017.

## ANNUAL GENERAL MEETING

It is proposed that the Annual General Meeting of the Company will be held on 26 May 2017. The Notice of the Annual General Meeting will be published in the Company's website and sent to the shareholders of the Company in due course.

To determine the identity of members who are entitled to attend and vote at the forthcoming Annual General Meeting which will be held on 26 May 2017, the register of members of the Company will be closed from 23 May 2017 to 26 May 2017 (both dates inclusive). In order to qualify to attend the Annual General Meeting, all transfers, accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong Branch Share Registrar, Tricor Tengis Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on 22 May 2017.

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

During the year ended 31 December 2016, the Company has not redeemed any of its shares. Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

## CODE ON CORPORATE GOVERNANCE PRACTICES

In the opinion of the Board, the Company has complied with the Code Provisions in the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Listing Rules during the year ended 31 December 2016.

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules. All Directors have confirmed, following enquiry by the Company, that they have complied with the required standard set out in the Model Code throughout the year ended 31 December 2016.

## REVIEW OF FINANCIAL STATEMENTS

The Audit Committee has reviewed the Group's consolidated financial statements for the year ended 31 December 2016, including the accounting principles and practices adopted by the Group.

## SCOPE OF WORK OF PRICEWATERHOUSECOOPERS

The figures in respect of the Group's consolidated balance sheet, consolidated income statement and the related notes for the year ended 31 December 2016 set out in the preliminary announcement have been agreed by the Group's auditor, PricewaterhouseCoopers ("PwC"), to the amounts set out in the Group's draft consolidated financial statements for the year. The work performed by PwC in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PwC on the preliminary announcement.

By Order of the Board
**Ngan Hei Keung**
*Chairman*

Hong Kong, 28 March 2017

*As at the date of this announcement, the Board comprises nine directors, of which five are Executive Directors, namely Mr. Ngan Hei Keung, Madam Ngan Po Ling, Pauline, BBS, JP, Mr. James S. Patterson, Ms. Maggie Gu and Mr. Ngan Siu Hon, Alexander; one Non-executive Director, Mr. Andrew Ngan; and three are Independent Non-executive Directors, namely Mr. Leung Shu Yin, William, Mr. Liu Tieh Ching, Brandon, JP and Mr. Gordon Ng.*