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MAINLAND HEADWEAR HOLDINGS LIMITED

飛達帽業控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock code: 1100)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2017

The Board of Directors (the “Directors”) of Mainland Headwear Holdings Limited (the “Company”) hereby announces the unaudited interim results of the Company and its subsidiaries (collectively, the “Group”) for the six months ended 30 June 2017 (the “Period”) together with comparative figures for the corresponding period in 2016.

Interim Condensed Consolidated Statement of Profit or Loss (Unaudited)

For the six months ended 30 June 2017

	<i>Note</i>	Six months ended 30 June	
		2017 (Unaudited) <i>HK\$'000</i>	2016 (Unaudited) <i>HK\$'000</i>
Revenue	3	444,996	451,532
Cost of sales		(300,823)	(299,695)
Gross profit		144,173	151,837
Other income		4,457	6,561
Other gains — net		2,216	699
Selling and distribution costs		(41,041)	(44,691)
Administration expenses		(62,564)	(67,446)
Profit from operations	4(a)	47,241	46,960

		Six months ended 30 June	
		2017	2016
		(Unaudited)	(Unaudited)
<i>Note</i>		HK\$'000	<i>HK\$'000</i>
	Finance income	615	406
	Finance costs	(578)	(825)
		<hr/>	<hr/>
	Finance income/(costs) — net	37	(419)
		<hr/>	<hr/>
	Profit before income tax	47,278	46,541
	Income tax expense	(7,115)	(7,268)
		<hr/>	<hr/>
	Profit for the period	40,163	39,273
		<hr/> <hr/>	<hr/> <hr/>
	Attributable to:		
	Owners of the Company	39,403	36,799
	Non-controlling interests	760	2,474
		<hr/>	<hr/>
		40,163	39,273
		<hr/> <hr/>	<hr/> <hr/>
	Earnings per share attributable to owners of the Company		
	Basic	9.7 HK cents	9.2 HK cents
		<hr/> <hr/>	<hr/> <hr/>
	Diluted	9.5 HK cents	9.1 HK cents
		<hr/> <hr/>	<hr/> <hr/>

Interim Condensed Consolidated Statement of Comprehensive Income (Unaudited)

For the six months ended 30 June 2017

	Six months ended 30 June	
	2017	2016
	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Profit for the period	40,163	39,273
Other comprehensive income		
Items that have been or may be subsequently reclassified to profit or loss:		
Release of reserve upon deregistration of a subsidiary	214	(2,435)
Exchange differences on translation of financial statements of foreign operations	1,112	(3,002)
Item that will not be reclassified to profit or loss:		
Revaluation surplus upon transfer to property, plant and equipment to investment properties, net of deferred tax	—	28,082
	<hr/>	<hr/>
Total comprehensive income for the period, net of tax	41,489	61,918
	<hr/> <hr/>	<hr/> <hr/>
Attributable to:		
Owners of the Company	40,729	59,491
Non-controlling interests	760	2,427
	<hr/>	<hr/>
Total comprehensive income for the period	41,489	61,918
	<hr/> <hr/>	<hr/> <hr/>

Interim Condensed Consolidated Balance Sheet (Unaudited)

As at 30 June 2017

		30 June 2017 (Unaudited) HK\$'000	31 December 2016 (Audited) HK\$'000
	<i>Note</i>		
ASSETS			
Non-current assets			
Property, plant and equipment	8	173,139	175,036
Investment properties	8	40,156	39,775
Goodwill		33,798	33,798
Other intangible assets	8	11,715	13,974
Deferred income tax assets		1,700	1,904
Available-for-sale financial asset		6,224	—
Other non-current receivables	9	1,321	730
		<u>268,053</u>	<u>265,217</u>
Current assets			
Inventories		160,158	181,833
Trade and other receivables	9	202,969	173,546
Financial assets at fair value through profit or loss		12,662	9,304
Short-term bank deposits		3,205	3,193
Cash and cash equivalents		187,961	201,881
		<u>566,955</u>	<u>569,757</u>
Total assets		<u>835,008</u>	<u>834,974</u>
EQUITY			
Equity attributable to owners of the Company			
Share capital		40,507	40,501
Other reserves		225,500	223,483
Retained earnings		366,342	341,121
		<u>632,349</u>	<u>605,105</u>
Non-controlling interests		<u>955</u>	<u>202</u>
Total equity		<u>633,304</u>	<u>605,307</u>

		30 June	31 December
		2017	2016
		(Unaudited)	(Audited)
	<i>Note</i>	HK\$'000	HK\$'000
LIABILITIES			
Non-current liabilities			
Other non-current payables	10	560	592
Long service payment payable		457	457
Deferred tax liabilities		3,584	3,581
		<u>4,601</u>	<u>4,630</u>
Current liabilities			
Trade and other payables	10	116,807	143,995
Amounts due to non-controlling interests		1,067	1,067
Current income tax liabilities		25,834	21,354
Borrowings		53,395	58,621
		<u>197,103</u>	<u>225,037</u>
Total liabilities		<u>201,704</u>	<u>229,667</u>
Total equity and liabilities		<u>835,008</u>	<u>834,974</u>
Net current assets		<u>369,852</u>	<u>344,720</u>
Total assets less current liabilities		<u>637,905</u>	<u>609,937</u>

1. BASIS OF PREPARATION

This interim condensed consolidated financial information for the six months ended 30 June 2017 has been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34, ‘Interim financial reporting’. The interim condensed consolidated financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2016, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”).

This interim condensed consolidated financial information is presented in Hong Kong dollars (“HK\$”) and has not been audited.

2. ACCOUNTING POLICIES

Except as mentioned below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2016, as described in those annual financial statements.

Financial assets

Classification

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

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

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

The following new standards and amendments to standards are mandatory for accounting periods beginning on or after 1 January 2017. The adoption of these amended standards does not have any significant impact to the results and financial position of the Group.

HKAS 7 (Amendments)	Disclosure initiative
HKAS 12 (Amendments)	Recognition of deferred tax assets for unrealised losses
Annual improvements HKFRS 12 (Amendments)	Annual improvements 2014-2016 cycles

(b) New and amended standards have been issued but are not effective for the financial year beginning 1 January 2017 and have not been early adopted

The following new standards and amendments to standards have been issued but are not effective for the financial year beginning 1 January 2017 and have not been early adopted by the Group:

Annual improvements HKFRS 1 and HKAS 28 (Amendments)	Annual improvements 2014–2016 cycle ⁽¹⁾
HKAS 40 (Amendments)	Transfer of investment property ⁽¹⁾
HKFRS 2 (Amendments)	Classification and measurement of share-based payment transactions ⁽¹⁾
HKFRS 4 (Amendments)	Applying HKFRS 9 financial instruments with HKFRS 4 insurance contracts ⁽¹⁾
HKFRS 9	Financial instruments ⁽¹⁾
HKFRS 10 and HKAS 28 (Amendments)	Sale or contribution of assets between an investor and its associate or joint venture ⁽³⁾
HKFRS 15	Revenue from contracts with customers ⁽¹⁾
HKFRS 15 (Amendments)	Clarifications to HKFRS 15 ⁽¹⁾
HKFRS 16	Leases ⁽²⁾
HK(IFRIC) — Int 22	Foreign currency transactions and advance consideration ⁽¹⁾

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

⁽²⁾ Effective for annual periods beginning on or after 1 January 2019

⁽³⁾ Effective for annual periods on or after a date to be determined

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

3. 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 business of headwear and other products of the Group is operating through Drew Pearson International (Europe) Ltd., (“DPI”) 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 SANRIO stores in the PRC.

	Manufacturing		Trading		Retail		Total	
	Six months ended		Six months ended		Six months ended		Six months ended	
	2017	2016	2017	2016	2017	2016	2017	2016
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue from external customers	311,547	301,804	97,711	102,794	35,738	46,934	444,996	451,532
Inter-segment revenue	37,025	35,099	—	26	—	—	37,025	35,125
Reportable segment revenue	<u>348,572</u>	<u>336,903</u>	<u>97,711</u>	<u>102,820</u>	<u>35,738</u>	<u>46,934</u>	<u>482,021</u>	<u>486,657</u>
Reportable segment profit/(loss)	54,416	52,233	3,477	3,849	(5,419)	(4,262)	52,474	51,820
Fair value gain/(loss) on financial assets at fair value through profit or loss							159	(64)
Share-based payment expenses							(640)	(241)
Unallocated corporate income							4,640	3,460
Unallocated corporate expenses							(9,392)	(8,015)
Profit from operations							47,241	46,960
Finance income/(costs) — net							37	(419)
Income tax expense							(7,115)	(7,268)
Profit for the period							<u>40,163</u>	<u>39,273</u>

Segment assets exclude investment properties, deferred income tax assets, available-for-sale financial asset, financial assets at fair value through profit or loss, short-term bank 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.

	Manufacturing		Trading		Retail		Total	
	30 June 2017 (Unaudited) HK\$'000	31 December 2016 (Audited) HK\$'000	30 June 2017 (Unaudited) HK\$'000	31 December 2016 (Audited) HK\$'000	30 June 2017 (Unaudited) HK\$'000	31 December 2016 (Audited) HK\$'000	30 June 2017 (Unaudited) HK\$'000	31 December 2016 (Audited) HK\$'000
Reportable segment assets	352,951	350,688	189,315	183,183	40,834	45,046	583,100	578,917
Investment properties							40,156	39,775
Deferred income tax assets							1,700	1,904
Available-for-sale financial asset							6,224	—
Financial assets at fair value through profit or loss							12,662	9,304
Short-term bank deposits							3,205	3,193
Cash and cash equivalents							187,961	201,881
Total assets							<u>835,008</u>	<u>834,974</u>

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

	Manufacturing		Trading		Retail		Total	
	30 June 2017 (Unaudited) HK\$'000	31 December 2016 (Audited) HK\$'000	30 June 2017 (Unaudited) HK\$'000	31 December 2016 (Audited) HK\$'000	30 June 2017 (Unaudited) HK\$'000	31 December 2016 (Audited) HK\$'000	30 June 2017 (Unaudited) HK\$'000	31 December 2016 (Audited) HK\$'000
Reportable segment liabilities	83,947	105,708	9,047	9,441	24,948	27,515	117,942	142,664
Deferred income tax liabilities							3,584	3,581
Current income tax liabilities							25,834	21,354
Bank borrowings							53,395	58,621
Other corporate liabilities							949	3,447
							<u>201,704</u>	<u>229,667</u>
Capital expenditure incurred during the period/year	8,666	13,546	618	14,583	360	2,309	<u>9,644</u>	<u>30,438</u>

4. 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	
	2017	2016
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
(a) Operating profit		
Fair value (gain)/loss on financial assets		
at fair value through profit or loss	(159)	64
Net exchange (gain)/loss	(2,270)	1,673
Loss/(gain) on deregistration of a subsidiary	214	(2,435)
Depreciation of property, plant and equipment	12,507	11,509
Amortisation of other intangible assets	2,458	2,646
Net written back of provision for impairment of trade and other receivables	(421)	(1,396)
Net provision for inventories	3,994	2,802
	<hr/>	<hr/>
(b) Finance income/(costs) — net		
Interest on bank loans, overdrafts and other borrowings	(531)	(750)
Interest on accretion license fee payables	(35)	(62)
Interest on amount due to a non-controlling interest	(12)	(13)
	<hr/>	<hr/>
Finance costs	(578)	(825)
Interest income	615	406
	<hr/>	<hr/>
Finance income/(costs) — net	<u>37</u>	<u>(419)</u>

5. INCOME TAX EXPENSE

	Six months ended 30 June	
	2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000
Hong Kong profits tax		
— Current period	763	2,605
— Over-provision in prior years	(679)	(522)
	<u>84</u>	<u>2,083</u>
Overseas tax		
— Current period	8,608	7,515
— Over-provision in prior years	(1,783)	(2,429)
	<u>6,825</u>	<u>5,086</u>
Deferred income tax	<u>206</u>	<u>99</u>
	<u><u>7,115</u></u>	<u><u>7,268</u></u>

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 2016: 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.

6. 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	
	2017 (Unaudited) <i>HK\$'000</i>	2016 (Unaudited) <i>HK\$'000</i>
Profit attributable to owners of the Company <i>(HK\$'000)</i>	<u>39,403</u>	<u>36,799</u>
Weighted average number of ordinary shares in issue	<u>405,068,975</u>	<u>398,583,284</u>
Basic earnings per share <i>(HK cents)</i>	<u>9.7</u>	<u>9.2</u>

(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.

	Six months ended 30 June	
	2017 (Unaudited) <i>HK\$'000</i>	2016 (Unaudited) <i>HK\$'000</i>
Profit attributable to owners of the Company <i>(HK\$'000)</i>	<u>39,403</u>	<u>36,799</u>
Weighted average number of ordinary shares in issue	<u>405,068,975</u>	<u>398,583,284</u>
Adjustment for share options	<u>9,323,771</u>	<u>7,755,294</u>
Weighted average number of ordinary shares for diluted earnings per share	<u>414,392,746</u>	<u>406,338,578</u>
Diluted earnings per share <i>(HK cents)</i>	<u>9.5</u>	<u>9.1</u>

7. DIVIDENDS

(a) Dividends attributable to the period

	Six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interim dividend declared of 2 HK cents (2016: 2 HK cents) per share	<u>8,101</u>	<u>7,972</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 2017.

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

	Six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Final dividend paid in respect of 2016 of 3 HK cents (2015: 2 HK cents) per share	<u>12,152</u>	<u>7,972</u>

8. CAPITAL EXPENDITURE

During the six months ended 30 June 2017, the Group acquired property, plant and equipment of HK\$9,644,000 (six months ended 30 June 2016: HK\$8,856,000) and intangible assets of HK\$194,000 (six months ended 30 June 2016: HK\$86,000).

As at 30 June 2017, other intangible assets represent acquired customer relationship of HK\$7,702,000 (31 December 2016: HK\$8,467,000), trademark of HK\$1,538,000 (31 December 2016: HK\$2,077,000) and licensing rights for the use of certain licensed trademark, brands and logos in the Group's products of HK\$2,475,000 (31 December 2016: HK\$3,430,000).

The Group's investment properties were revalued at 31 December 2016. No valuation was performed during the period as there was no indication of significant changes in the value since last annual report date.

9. TRADE AND OTHER RECEIVABLES

	30 June 2017 (Unaudited) HK\$'000	31 December 2016 (Audited) HK\$'000
Trade receivables	163,917	152,121
Less: provision for impairment	(4,483)	(5,700)
	<hr/>	<hr/>
Trade and bills receivables, net	159,434	146,421
	<hr/>	<hr/>
Deposits, prepayments and other receivables	46,303	29,292
Less: provision for impairment	(1,447)	(1,437)
	<hr/>	<hr/>
	204,290	174,276
Less: non-current portion of other receivables	(1,321)	(730)
	<hr/>	<hr/>
Current portion	202,969	173,546
	<hr/> <hr/>	<hr/> <hr/>

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

The ageing analysis of trade receivables based on invoice date, at the balance sheet date is as follows:

	30 June 2017 (Unaudited) HK\$'000	31 December 2016 (Audited) HK\$'000
0–30 days	65,238	64,035
31–60 days	55,586	54,722
61–90 days	26,745	16,939
91–120 days	9,303	2,310
Over 121 days	7,045	14,115
	<u>163,917</u>	<u>152,121</u>

Note:

Included in other receivables as at 30 June 2017 is two notes receivables from one (31 December 2016: one) customer of HK\$921,000 (31 December 2016: HK\$1,188,000) and a loan receivable from a supplier of HK\$15,560,000 (31 December 2016: Nil).

As at 30 June 2017, the note receivable from a customer 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 personal guaranty of the owner of the customer.

As at 30 June 2017, the loan receivable from a supplier is unsecured, interest bearing at 8% per annum and repayable in November 2017. In addition, the note is repayable on demand at the discretion of the Group.

10. TRADE AND OTHER PAYABLES

	30 June 2017 (Unaudited) HK\$'000	31 December 2016 (Audited) HK\$'000
Trade payables	35,285	52,542
Bills payables	9,636	5,164
Accrued charges and other payables	72,446	86,881
	<u>117,367</u>	<u>144,587</u>
Less: other non-current payables	<u>(560)</u>	<u>(592)</u>
Current portion	<u>116,807</u>	<u>143,995</u>

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

	30 June 2017 (Unaudited) HK\$'000	31 December 2016 (Audited) HK\$'000
0–30 days	26,081	27,977
31–60 days	4,466	16,709
61–90 days	1,066	2,391
Over 90 days	3,672	5,465
	<u>35,285</u>	<u>52,542</u>

MANAGEMENT DISCUSSION AND ANALYSIS

The Board of Directors (the “Directors”) of Mainland Headwear Holdings Limited (the “Company”) is pleased to announce the unaudited interim results of the Company and its subsidiaries (collectively, the “Group”) for the six months ended 30 June 2017 (the “Period”) together with comparative figures from the corresponding period of 2016.

FINANCIAL REVIEW

Leveraging the solid foundation built over the past three decades and tapping opportunities presented by the nation's Belt and Road Initiative, the Group has supported the national policy of “Going Out” in 2013 by investing in construction of a factory in Bangladesh, which serves as a key to the Group's successful long-term development. During the Period, driven by the expansion of the production capacity at the Bangladesh factory, the Manufacturing Business has remained the Group's primary income source and profit growth driver, offsetting the consolidation of the Trading Business and the performance of the Retail Business which was adversely affected by market conditions. Consequently, the turnover and profit of the Group managed to remain at a similar level to last year.

During the Period, the Group achieved a turnover of HK\$444,996,000 (2016 Interim: HK\$451,532,000), representing a modest decrease of 1.4% from last year. Due to a greater decline in turnover from the Retail Business, which carries a higher gross profit margin, the Group's gross profit margin decreased by 1.2% from 33.6% last year to 32.4%. Gross profit for the Period was HK\$144,173,000 (2016 Interim: HK\$151,837,000). Since the production efficiency and capacity of the Bangladesh factory have continued to rise, and the Group has effectively reduced fixed operating costs of the Retail Business, the profit attributable to shareholders has climbed 7.1% to HK\$39,403,000 (2016 Interim: HK\$36,799,000).

BUSINESS REVIEW

Manufacturing Business

With the Group's longstanding and stable business relations with existing clients, complemented by steady growth in the market demand for the Group's headwear products, increasing orders were met by gradually raising production capacity at the Bangladesh factory. The turnover from the Manufacturing Business grew steadily by 3.2% to HK\$311,547,000 during the Period (2016 Interim: HK\$301,804,000), accounting for 70.0% of the total turnover. The production efficiency and quality of the Bangladesh factory have continuously improved, raising gross profit of this segment by 4.6% to HK\$92,905,000 (2016 Interim: HK\$88,805,000). Benefitting from the ongoing increase in operating efficiency and effective cost control measures, operating profit of the Manufacturing Business raised 4.2% to HK\$54,416,000 (2016 Interim: HK\$52,233,000).

Despite being affected by the reduction of production days in the first half year due to local festivals, production capacity of the Bangladesh factory still increased rapidly from 1.8 million pieces of headwear products per month to 2.3 million pieces of headwear products per month. This was partly attributable by the continuous expansion of the workforce. The factory has around 3,500 worker as at 30 June 2017 (2016 Interim: around 3,000). The increased production capacity was also due to improving local production technologies. As for the Shenzhen factory, it has around 1,300 workers (2016 Interim: around 1,500) and continues to focus on procuring raw materials, producing high-end headwear products and handling orders requiring relatively short lead times, as well as the research and development of products.

Trading Business

Trading Business, being engaged in activities covering diverse markets, has been hit by global economic instability as well as the business consolidation. As a result, the turnover from the Trading Business amounted to HK\$97,711,000 (2016 Interim: HK\$102,794,000), accounting for 22.0% of the total turnover, with an operating profit of HK\$3,477,000 (2016 Interim: HK\$3,849,000). The Group started consolidating H3 at the end of 2016, including strengthening the team's capabilities and adjusting the sales strategy. Although consolidation has affected business performance in the short run, the management believes that it will be conducive to the long-term development of H3.

Retail business

The Group has strictly controlled the number of self-owned stores while at the same time further developed the online sales platform to lower operating costs and boost sales volumes. Still, amid ongoing sluggish consumer sentiment in the PRC and Hong Kong, the Group's Retail Business was invariably affected. A turnover amounted to HK\$35,738,000 (2016 Interim: HK\$46,934,000), accounting for 8.0% of the total turnover, with an operating loss of HK\$5,419,000 (2016 Interim: HK\$4,262,000).

Sanrio

To meet the rapidly changing consumption model in the PRC, the Group has continued to consolidate underperformed self-owned stores in a bid to reduce operating costs and allocate resources to develop its online sales platform. The Group has also increased its income sources by actively developing the Sanrio online sales platform. Consequently, the turnover from online sales has increased by more than 10.0% compared to last year. Affected by a significant decrease in the number of stores, the turnover from Sanrio amounted to HK\$25,970,000 (2016 Interim: HK\$34,129,000). The closure of underperformed self-owned stores has, however, resulted in the narrowing of operating loss to HK\$2,731,000 (2016 Interim: HK\$3,378,000).

As at 30 June 2017, the Group operated 33 self-owned stores and 59 franchise stores (2016 Interim: 36 self-owned stores and 101 franchise stores).

Headwear Sales

In view of the unsatisfactory retail environment, the Group has likewise continued to strategically consolidate its self-owned store network. Turnover amounted to HK\$9,768,000 (2016 Interim: HK\$12,806,000). Due to the aforementioned action coupled with an increase in the provision for inventories, operating loss of the headwear sales business totaled HK\$2,688,000 (2016 Interim: HK\$884,000).

As at 30 June 2017, the Group had 8 “NOP” self-owned stores in Hong Kong and 4 franchise stores in the PRC (2016 Interim: 7 “NOP” self-owned stores in Hong Kong and 13 franchise stores in the PRC, and 1 “New Era” retail store in Hong Kong).

PROSPECTS

Looking back at the past three decades, the Group has maintained its leading position by persevering through ups and downs, consequently growing increasingly stronger. This can also be attributed to the Group’s solid business foundation and the success of its “Going Out” strategy. Looking ahead, the management is confident in its ability to lead the Group to new horizons by leveraging its first-mover competitive edges under the Belt and Road Initiative.

On the Manufacturing Business front, the Group will continue to direct its business development focus on its Bangladesh factory. The Group has accelerated the construction of a second phase; however, the approval from the local government has required longer time than expected, the operation of the new factory is expected to be postponed to the second half of 2018. The target number of workers at the Bangladesh factory will double to around 6,000 accordingly. Furthermore, as Bangladesh production technologies have improved, the factory is able to handle more high-end headwear orders, with the client segment rising from mid-to-low range to mid-to-high end. This has been reflected by the shifting of orders to Bangladesh by Japanese clients, who have higher quality requirements. Quality and profitability of the factory are likely to be further enhanced. Meanwhile, the Shenzhen factory will continue to focus on R&D, as well as the design and support of high-end products.

The year of 2017 is an investment period for the Trading Business, with SDHC being its development focus. SDHC has entered into several agreements on 20 July 2017, including the acquisition of a vacant land and the design and construction of a building in California, US, at a total consideration of US\$15,419,000 (equivalent to approximately HK\$119,957,000). The building will be used by SDHC as its office and warehouse. The current office and warehouse of SDHC in Carlsbad, San Diego cannot cope with the business expansion of SDHC and its subsidiaries in the US. After completion of the new building, SDHC and its subsidiaries will be able to consolidate all warehouses in one location to enhance the control and management of inventories. The base building and all interior improvements are expected to be completed by the end of 2018.

As for H3, through the implementation of a series of restructuring measures, the Group is confident in enhancing the business performance and profitability of H3, which will underpin the long-term growth of the Trading Business. Subsequent to the Review Period, H3 not only obtained numerous new licenses, but also, more noteworthy, secured an order with a multinational retail company in the US that represents double-digit quantity growth. This contribution is expected to be reflected in the first half of 2018.

With regard to the Retail Business, the management expects retail market conditions in the PRC and Hong Kong to show no obvious improvement in the short term. The Group will strategically allocate greater resources to reduce operating costs. Meanwhile, the Group will continue to optimise and expand business opportunities from the Sanrio online sales platform in a bid to improve business performance.

In the future, the management will relentlessly drive the Group's business development, with the aim of achieving steady growth and generating greater values for its shareholders.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2017, the Group had cash and bank balances, short-term deposits and a portfolio of liquid investments totaling HK\$203.8 million (31 December 2016: HK\$214.4 million). About 68% and 17% of these liquid funds were denominated in US dollars and Renminbi respectively. As at 30 June 2017, the Group had banking facilities of HK\$298.5 million (31 December 2016: HK\$342.6 million), of which HK\$235.5 million (31 December 2016: HK\$278.8 million) were not utilised.

The gearing ratio (being the Group's net borrowings over total equity) of the Group is at 8.4% (31 December 2016: 9.7%). In view of the strong financial and liquidity position, the Group has sufficient financial resources to meet its commitments and working capital requirements.

CAPITAL EXPENDITURE

During the Period, the Group spent approximately HK\$8.7 million (2016 Interim: HK\$2.1 million) on additions to equipment to further upgrade and expand its manufacturing capabilities, HK\$0.3 million (2016 Interim: HK\$0.4 million) for the renovation of retail stores, and HK\$0.6 million (2016 Interim: 6.4 million) for additions of equipment and the renovation of the newly acquired office and warehouse under Trading Business.

As at 30 June 2017, the Group had authorised a capital commitment of HK\$55.0 million in respect of construction of a factory building in Bangladesh and manufacturing plants and equipment. The Group had also authorised a capital commitment of HK\$138.2 million in respect of construction of an office and warehouse building in the USA, purchase of a residential house and equipment upgrade for trading business. In addition, the Group had authorised a capital commitment of HK\$2.0 million for the renovation and opening of retail outlets and equipment upgrade.

EXCHANGE RISK

Most assets and liabilities of the Group are denominated either in HK dollars, US dollars, Renminbi or Bangladesh Taka. The Group estimates that 1% appreciation of the Renminbi is expected to reduce the gross margin of the Manufacturing Business by about 0.5%. Renminbi was stable in 2017 and did not have material impact on the gross margin. The Group estimated that 1% appreciation of the Bangladesh Taka is not expected to have material impact on the gross margin.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2017, the Group employed a total of 1,586 (2016 Interim: 1,792) workers and employees in the PRC (include Hong Kong), 3,451 (2016 Interim: 2,920) workers and employees in Bangladesh, and 41 (2016 Interim: 45) employees in the USA and the UK. The expenditures for the employees during the Period were approximately HK\$119.6 million (2016 Interim: HK\$119.7 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

The Board has declared an interim dividend of 2 HK cents (2016: 2 HK cents) per share, payable on or after 12 October 2017.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 18 September 2017 to 20 September 2017 (both dates inclusive). In order to qualify for the interim dividend, all transfers, accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong Branch Share Registrar, Tricor Tengis Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on 15 September 2017.

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

During the six months ended 30 June 2017, 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 2017.

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 2017.

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 and 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 2017.

By Order of the Board
Ngan Hei Keung
Chairman

Hong Kong, 24 August 2017

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