



Mainland Headwear Holdings Limited

(Stock code: 1100)



2017 INTERIM REPORT

Contents

	<i>pages</i>
Management Discussion and Analysis	2
Interim Dividend and Closure of Register of Members	8
Independent Review Report	9
Interim Condensed Consolidated Statement of Profit or Loss (Unaudited)	11
Interim Condensed Consolidated Statement of Comprehensive Income (Unaudited)	12
Interim Condensed Consolidated Balance Sheet (Unaudited)	13
Interim Condensed Consolidated Statement of Changes in Equity (Unaudited)	15
Interim Condensed Consolidated Cash Flow Statement (Unaudited)	17
Notes to the Unaudited Interim Condensed Consolidated Financial Information	18
Other Information Provided in Accordance with the Listing Rules	44

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, “Mainland Headwear” or 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\$144,713,000 (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).

Management Discussion and Analysis

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. The increased production capacity was partly attributable to the continuous expansion of the workforce which was around 3,500 workers as at 30 June 2017 (2016 Interim: around 3,000) and partly 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.

Management Discussion and Analysis

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. The turnover of the retail business 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).

Management Discussion and Analysis

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.

Management Discussion and Analysis

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.

Management Discussion and Analysis

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: HK\$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 and Closure of Register of Members

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.

Independent Review Report

TO THE BOARD OF DIRECTORS OF MAINLAND HEADWEAR HOLDINGS LIMITED

(incorporated in Bermuda with limited liability)

INTRODUCTION

We have reviewed the interim condensed consolidated financial information set out on pages 11 to 43, which comprises the interim condensed consolidated balance sheet of Mainland Headwear Holdings Limited (the “Company”) and its subsidiaries (together, the “Group”) as at 30 June 2017 and the related interim condensed consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the six months period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim condensed consolidated financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of this interim condensed consolidated financial information in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting”. Our responsibility is to express a conclusion on this interim condensed consolidated financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants. A review of interim condensed consolidated financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independent Review Report

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim condensed consolidated financial information is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting”.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 24 August 2017

Interim Condensed Consolidated Statement of Profit or Loss (Unaudited)

For the six months ended 30 June 2017

		Six months ended 30 June	
		2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000
		<i>Note</i>	
Revenue	6 & 7	444,996	451,532
Cost of sales		(300,823)	(299,695)
		144,173	151,837
Gross profit		4,457	6,561
Other income		2,216	699
Other gains — net		(41,041)	(44,691)
Selling and distribution costs		(62,564)	(67,446)
Administration expenses			
Profit from operations	8(a)	47,241	46,960
Finance income		615	406
Finance costs		(578)	(825)
Finance income/(costs) — net	8(b)	37	(419)
Profit before income tax	8	47,278	46,541
Income tax expense	9	(7,115)	(7,268)
Profit for the period		40,163	39,273
Attributable to:			
Owners of the Company		39,403	36,799
Non-controlling interests		760	2,474
		40,163	39,273
Earnings per share attributable to owners of the Company	10		
Basic		9.7 HK cents	9.2 HK cents
Diluted		9.5 HK cents	9.1 HK cents

The notes on pages 18 to 43 form an integral part of these interim condensed consolidated financial information.

Interim Condensed Consolidated Statement of Comprehensive Income (Unaudited)

For the six months ended 30 June 2017

	Six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	HK\$'000	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
Total comprehensive income for the period, net of tax	41,489	61,918
Attributable to:		
Owners of the Company	40,729	59,491
Non-controlling interests	760	2,427
Total comprehensive income for the period	41,489	61,918

The notes on pages 18 to 43 form an integral part of these interim condensed consolidated financial information.

Interim Condensed Consolidated Balance Sheet (Unaudited)

As at 30 June 2017

	<i>Note</i>	30 June 2017 (Unaudited) HK\$'000	31 December 2016 (Audited) HK\$'000
ASSETS			
Non-current assets			
Property, plant and equipment	12	173,139	175,036
Investment properties	12	40,156	39,775
Goodwill		33,798	33,798
Other intangible assets	12	11,715	13,974
Deferred income tax assets		1,700	1,904
Available-for-sale financial asset		6,224	—
Other non-current receivables	13	1,321	730
		268,053	265,217
Current assets			
Inventories		160,158	181,833
Trade and other receivables	13	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
		566,955	569,757
Total assets		835,008	834,974

Interim Condensed Consolidated Balance Sheet (Unaudited)

As at 30 June 2017

	Note	30 June 2017 (Unaudited) HK\$'000	31 December 2016 (Audited) HK\$'000
EQUITY			
Equity attributable to owners of the Company			
Share capital	14	40,507	40,501
Other reserves		225,500	223,483
Retained earnings		366,342	341,121
		632,349	605,105
Non-controlling interests		955	202
Total equity		633,304	605,307
LIABILITIES			
Non-current liabilities			
Other non-current payables	15	560	592
Long service payment payable		457	457
Deferred tax liabilities		3,584	3,581
		4,601	4,630
Current liabilities			
Trade and other payables	15	116,807	143,995
Amounts due to non-controlling interests		1,067	1,067
Current income tax liabilities		25,834	21,354
Borrowings	16	53,395	58,621
		197,103	225,037
Total liabilities		201,704	229,667
Total equity and liabilities		835,008	834,974
Net current assets		369,852	344,720
Total assets less current liabilities		637,905	609,937

The notes on pages 18 to 43 form an integral part of these interim condensed consolidated financial information.

Interim Condensed Consolidated Statement of Changes in Equity (Unaudited)

For the six months ended 30 June 2017

(Unaudited)

	Attributable to owners of the Company							Total	Non-controlling interests	Total equity
	Share capital	Share premium	Contributed surplus	Share based compensation reserve	Revaluation reserve	Exchange reserve	Retained earnings			
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
At 1 January 2017	40,501	166,655	25,878	5,882	8,042	17,026	341,121	605,105	202	605,307
Profit for the period	—	—	—	—	—	—	39,403	39,403	760	40,163
Other comprehensive income	—	—	—	—	—	1,326	—	1,326	—	1,326
Total comprehensive income for the period net of tax	—	—	—	—	—	1,326	39,403	40,729	760	41,489
Dividend paid by a subsidiary	—	—	—	—	—	—	—	—	(169)	(169)
2016 final dividends paid	—	—	—	—	—	—	(12,152)	(12,152)	—	(12,152)
Share option scheme:										
— Value of service provided	—	—	—	640	—	—	—	640	—	640
— Share options exercised	6	73	—	(22)	—	—	—	57	—	57
Acquisition of a non-controlling interest (Note 19)	—	—	—	—	—	—	(2,030)	(2,030)	162	(1,868)
Total contributions by and distribution to owners of the Company	6	73	—	618	—	—	(14,182)	(13,485)	(7)	(13,492)
At 30 June 2017	40,507	166,728	25,878	6,500	8,042	18,352	366,342	632,349	955	633,304

Interim Condensed Consolidated Statement of Changes in Equity (Unaudited)

For the six months ended 30 June 2017

	(Unaudited)									
	Attributable to owners of the Company							Total	Non-controlling interests	Total equity
	Share capital	Share premium	Contributed surplus	Share based compensation reserve	Revaluation reserve	Exchange reserve	Retained earnings			
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
At 1 January 2016	39,858	160,230	25,878	6,691	8,042	27,228	288,204	556,131	(5,421)	550,710
Profit for the period	—	—	—	—	—	—	36,799	36,799	2,474	39,273
Other comprehensive income	—	—	—	—	28,082	(5,390)	—	22,692	(47)	22,645
Total comprehensive income for the period net of tax	—	—	—	—	28,082	(5,390)	36,799	59,491	2,427	61,918
Dividend paid by a subsidiary	—	—	—	—	—	—	—	—	(172)	(172)
2015 final dividends paid	—	—	—	—	—	—	(7,972)	(7,972)	—	(7,972)
Share option scheme:										
— Value of service provided	—	—	—	241	—	—	—	241	—	241
Total contributions by and distribution to owners of the Company	—	—	—	241	—	—	(7,972)	(7,731)	(172)	(7,903)
At 30 June 2016	39,858	160,230	25,878	6,932	36,124	21,838	317,031	607,891	(3,166)	604,725

The notes on pages 18 to 43 form an integral part of these interim condensed consolidated financial information.

Interim Condensed Consolidated Cash Flow Statement (Unaudited)

For the six months ended 30 June 2017

	Six months ended 30 June	
	2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000
Cash flows from operating activities		
Cash generated from operations	23,246	30,561
Income tax paid	(2,431)	(489)
Interest paid	(578)	(812)
Net cash generated from operating activities	20,237	29,260
Cash flows from investing activities		
Interest received	615	406
Purchase of property, plant and equipment	(9,644)	(8,856)
Purchase of an available-for-sale financial asset	(6,224)	—
Short-term bank deposits	(12)	(9)
Net cash used in investing activities	(15,265)	(8,459)
Cash flows from financing activities		
Dividends paid	(12,152)	(7,972)
Dividends paid to non-controlling interests	(169)	(172)
Proceeds from bank borrowings	21,931	3,889
Repayment of bank borrowings	(27,157)	(5,089)
Acquisition of a non-controlling interest	(1,868)	—
Proceeds from exercise of share options	57	—
Net cash used in financing activities	(19,358)	(9,344)
Net (decrease)/increase in cash and cash equivalents	(14,386)	11,457
Cash and cash equivalents at beginning of the period	201,881	174,510
Effect of foreign exchange rate changes	466	(1,167)
Cash and cash equivalents at end of the period	187,961	184,800

The notes on pages 18 to 43 form an integral part of these interim condensed consolidated financial information.

Notes to the Unaudited Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2017

1. GENERAL INFORMATION

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

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

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

2. 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 has not been audited.

3. 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.

Available-for-sale financial asset

(i) Classification

Available-for-sale financial asset is non-derivative that is either designated in this category or not classified in any of the other categories. It is 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.

Notes to the Unaudited Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2017

3. ACCOUNTING POLICIES (CONTINUED)

Available-for-sale financial asset (Continued)

(ii) Recognition and measurement

Investment is initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Available-for-sale financial asset is subsequently carried at fair value.

Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognised in other comprehensive income.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the condensed consolidated statement of profit or loss as 'other loss'.

Dividends on available-for-sale equity instrument are recognised in the condensed consolidated statement of profit or loss as part of other income when the Group's right to receive payments is established.

(iii) Impairment

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. For equity investments, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss — is removed from equity and recognised in profit or loss. Impairment losses recognised in the condensed consolidated statement of profit or loss on equity instruments are not reversed through the condensed consolidated statement of profit or loss.

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

Notes to the Unaudited Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2017

3. ACCOUNTING POLICIES (CONTINUED)

(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.

Notes to the Unaudited Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2017

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 expense. 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 2016.

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 currency 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 2016.

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

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).

Notes to the Unaudited Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2017

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 interim condensed consolidated balance sheet in accordance with the fair value hierarchy at 30 June 2017.

	Level 1 (Unaudited) HK\$'000	Level 2 (Unaudited) HK\$'000	Level 3 (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
Assets				
Available-for-sale financial asset				
— Unlisted equity interest in the United States of America ("USA")	—	—	6,224	6,224
Financial assets at fair value through profit or loss				
— Unlisted fund investment in Hong Kong	—	—	8,107	8,107
— Listed securities in Hong Kong	4,555	—	—	4,555
	<u>4,555</u>	<u>—</u>	<u>14,331</u>	<u>18,886</u>

Notes to the Unaudited Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2017

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 interim condensed consolidated balance sheet in accordance with the fair value hierarchy at 31 December 2016.

	Level 1 (Audited) HK\$'000	Level 2 (Audited) HK\$'000	Level 3 (Audited) HK\$'000	Total (Audited) HK\$'000
Assets				
Financial assets				
at fair value through profit or loss				
— Unlisted fund investment in the People's Republic of China ("PRC")	—	7,868	—	7,868
— Listed securities in Hong Kong	1,436	—	—	1,436
	<u>1,436</u>	<u>7,868</u>	<u>—</u>	<u>9,304</u>

There were no transfers between levels 1 and 2 or into or out of level 3 during the period.

There were no other changes in valuation techniques during the period.

There were no significant changes in the business or economic circumstances for the six months ended 30 June 2017 that affect the fair values of the Group's financial assets and financial liabilities. There were no reclassifications of financial assets for the six months ended 30 June 2017.

Notes to the Unaudited Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2017

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

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

	Available-for- sale financial asset (Unaudited) <i>HK\$'000</i>	Financial asset at fair value through profit or loss — Unlisted fund investment (Unaudited) <i>HK\$'000</i>
At 1 January 2017	—	—
Addition	6,224	8,000
Gains recognised in profit or loss	—	107
	<hr/>	<hr/>
At 30 June 2017	6,224	8,107
	<hr/>	<hr/>

The available-for-sale financial asset represents an investment in a 18% equity interest of an unlisted company incorporated in the USA. It is principally engaged in acquisition and management of a retail plaza and related properties for re-development or rental appreciation.

The Group considers the fair value of the available-for-sales financial asset as at 30 June 2017 approximates the value at the date of acquisition as there is no indication of significant change in the value since then.

The financial asset at fair value through profit or loss represents an investment in an unlisted fund in Hong Kong, which are not trade in an active market. It has been valued based on initial subscription amount plus accrued interest ("Redemption Amount"), which the Group or the counterparty can redeem at any time at the Redemption Amount upon notice, and management's expected duration to hold the investment.

The fair value change of unlisted fund investment in Hong Kong at fair value through profit or loss includes interest income. The interest income of HK\$107,000 relating to the investment is recognised as part of the fair value gain on financial assets at fair value through profit or loss, within "other gains, net" in the interim condensed consolidated statement of profit or loss.

Notes to the Unaudited Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2017

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:

- Trade and other receivables
- Short-term bank deposits
- Cash and cash equivalents
- Trade and other payables
- Amounts due to non-controlling interests
- Borrowings

6. REVENUE

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

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.

Notes to the Unaudited Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2017

7. SEGMENT INFORMATION (CONTINUED)

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, PRC, and Bangladesh. Customers are mainly located in 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 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000	2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000	2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000	2017 (Unaudited) HK\$'000	2016 (Unaudited) 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>

Notes to the Unaudited Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2017

7. SEGMENT INFORMATION (CONTINUED)

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							835,008	834,974

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
							201,704	229,667
Capital expenditure incurred during the period/year	8,666	13,546	618	14,583	360	2,309	9,644	30,438

Notes to the Unaudited Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2017

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	
	2017 (Unaudited) HK\$'000	2016 (Unaudited) 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 provision for impairment of trade and other receivables	(421)	(1,396)
Net provision for inventories	3,994	2,802
(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)
Interest income	615	406
Finance income/(costs) — net	37	(419)

Notes to the Unaudited Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2017

9. 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>7,115</u>	<u>7,268</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% (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.

Notes to the Unaudited Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2017

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	
	2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000
Profit attributable to owners of the Company (HK\$'000)	<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 (HK cents)	<u>9.7</u>	<u>9.2</u>

Notes to the Unaudited Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2017

10. EARNINGS PER SHARE (CONTINUED)

(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) HK\$'000	2016 (Unaudited) HK\$'000
Profit attributable to owners of the Company (HK\$'000)	<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 (HK cents)	<u>9.5</u>	<u>9.1</u>

Notes to the Unaudited Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2017

11. DIVIDENDS

(a) Dividends attributable to the period

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

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 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000
Final dividend paid in respect of 2016 of 3 HK cents (2015: 2 HK cents) per share	12,152	7,972

Notes to the Unaudited Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2017

12. 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 reporting date.

13. 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)
Trade and bills receivables, net	159,434	146,421
Deposits, prepayments and other receivables	46,303	29,292
Less: provision for impairment	(1,447)	(1,437)
Less: non-current portion of other receivables	204,290 (1,321)	174,276 (730)
Current portion	202,969	173,546

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

Notes to the Unaudited Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2017

13. TRADE AND OTHER RECEIVABLES (CONTINUED)

The ageing analysis of trade receivables based on invoice 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
	163,917	152,121

Note:

Included in other receivables as at 30 June 2017 are a note receivable 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: none).

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 is repayable in November 2017. In addition, the note is repayable on demand at the discretion of the Group.

Notes to the Unaudited Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2017

14. SHARE CAPITAL

(a) Share capital

	Number of shares of HK\$0.10 each	HK\$'000
Authorised:		
At 1 January 2016, 31 December 2016, 1 January 2017 and 30 June 2017	1,000,000,000	100,000
At 1 January 2015, 31 December 2015, 1 January 2016	398,583,284	39,858
Share option scheme:		
— Exercise of share options	6,430,000	643
At 31 December 2016	405,013,284	40,501
Share option scheme:		
— Exercise of Share options (<i>note</i>)	60,000	6
At 30 June 2017	405,073,284	40,507

Note:

During the six months ended 30 June 2017, options were exercised to subscribe for 60,000 shares at the exercise price of HK\$0.946 per share under the share option scheme. Those newly issued shares rank pari passu with the existing shares.

(b) Equity settled share-based payment transactions

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

Notes to the Unaudited Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2017

14. SHARE CAPITAL (CONTINUED)

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

The total number of shares which may be issued upon exercise of all options to be granted under the Old Scheme and any other share option schemes of the Group may not in aggregate exceed 30,536,058, being 10% of the shares in issue of the Company as at 23 May 2002, the date of adoption of the Old Scheme adjusted for the bonus shares on 22 May 2007. The scheme mandate limit was refreshed on 28 November 2008. Upon refreshing of the scheme mandate limit, the Company may grant options entitling holders thereof to subscribe for up to a maximum of 31,840,228 shares, representing 10% of the shares in issue of the Company as at 28 November 2008.

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

On 13 April 2017, a total of 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 every year.

The total number of shares which may be issued upon exercise of all options to be granted under the New Scheme and any other share option schemes of the Group may not in aggregate exceed 39,858,328, being 10% of the shares in issue of the Company as at 29 December 2011, the date of adoption of the New Scheme.

Notes to the Unaudited Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2017

14. SHARE CAPITAL (CONTINUED)

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

(i) Movement in share option

	2017		2016	
	Number of share options (Unaudited) '000	Weighted average exercise price (Unaudited) HK\$	Number of share options (Unaudited) '000	Weighted average exercise price (Unaudited) HK\$
At 1 January	26,140	0.969	32,570	0.998
Granted	20,370	1.534	—	—
Exercise	(60)	0.946	—	—
	<hr/>	<hr/>	<hr/>	<hr/>
At 30 June	46,450	1.247	32,570	0.998
	<hr/>	<hr/>	<hr/>	<hr/>
Option vested at closing	16,200	0.969	20,310	0.929
	<hr/>	<hr/>	<hr/>	<hr/>

As at 30 June 2017, the options have a weighted average contractual terms of 6.9 years (31 December 2016: 5.2 years).

Notes to the Unaudited Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2017

14. SHARE CAPITAL (CONTINUED)

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

(i) Movement in share option (Continued)

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

		30 June 2017	31 December 2016
	Exercise price (Unaudited) HK\$	Number of share options (Unaudited) '000	(Audited) '000
10 June 2018	1.190	1,000	1,000
22 June 2019	0.946	12,030	12,030
7 November 2020	0.920	900	900
29 December 2021	0.800	1,000	4,000
14 July 2025	1.120	11,150	11,150
12 April 2027	1.534	20,370	—
		46,450	26,140

As at 30 June 2017, out of total 46,450,000 (31 December 2016: 26,140,000) outstanding options, 16,260,000 options (31 December 2016: 16,260,000) are exercisable. 60,000 share options were exercised during six months ended 30 June 2017 (six months ended 30 June 2016: Nil).

(ii) Fair value of share options and assumptions

The fair values of services received in return of share options granted are measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted in 2017 was measured based on a Black-Scholes pricing model.

Notes to the Unaudited Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2017

14. SHARE CAPITAL (CONTINUED)

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

(ii) Fair value of share options and assumptions (Continued)

The inputs into the model were as follows:

	(Unaudited)
Weighted average share price	HK\$1.50
Weighted average exercise price	HK\$1.53
Expected volatility	46.30%
Expected life	8 years
Risk free rate	1.49%
Expected dividend yield	2.51%

The expected volatility is based on the historical volatility of share prices of the Company over 8 years. Expected dividends are based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

Under this share option scheme, HK\$640,000 (six months ended 30 June 2016: HK\$241,000) of share-based payment expenses has been included in the interim condensed consolidated statement of profit or loss for the six months ended 30 June 2017 and a corresponding amount has been credited to share based compensation reserve.

Notes to the Unaudited Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2017

15. 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
	117,367	144,587
Less: other non-current payables	(560)	(592)
Current portion	116,807	143,995

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
	35,285	52,542

Notes to the Unaudited Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2017

16. BORROWINGS

Movement in borrowings is analysed as follows:

	(Unaudited) HK\$'000
Six months ended 30 June 2017	
Opening amount as at 1 January 2017	58,621
Repayment of bank borrowings	(27,157)
Proceeds from bank borrowings	21,931
	<hr/>
Closing amount as at 30 June 2017	53,395
	<hr/> <hr/>
Six months ended 30 June 2016	
Opening amount as at 1 January 2016	67,596
Repayment of bank borrowings	(5,089)
Proceeds from bank borrowings	3,889
	<hr/>
Closing amount as at 30 June 2016	66,396
	<hr/> <hr/>

17. CAPITAL COMMITMENTS

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

	30 June 2017 (Unaudited) HK\$'000	31 December 2016 (Audited) HK\$'000
Contracted but not provided for	12,782	—
	<hr/> <hr/>	<hr/> <hr/>

Notes to the Unaudited Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2017

18. 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	
	2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000
Sales of goods to affiliated companies of a shareholder	184,891	177,805
Rental paid in respect of office premises to directors and a company controlled by a director	861	827
Claim charges paid to affiliated companies of a shareholder	489	454
License fee paid to an affiliated company of a shareholder	—	37
Royalty income from a related party	—	402

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

	30 June 2017 (Unaudited) HK\$'000	31 December 2016 (Audited) HK\$'000
Trade receivables from affiliated companies of a shareholder	90,994	90,362

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

Notes to the Unaudited Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2017

18. SIGNIFICANT RELATED PARTY TRANSACTIONS (CONTINUED)

(c) Key management personnel remuneration

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

	Six months ended 30 June	
	2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000
Short-term employee benefits	11,350	10,579
Retirement scheme contributions	84	85
	<u>11,434</u>	<u>10,664</u>

19. TRANSACTION WITH NON-CONTROLLING INTERESTS

On 5 January 2017, the Group acquired an additional 10% of the issued shares of Unimas Sportswear Limited ("Unimas") for a purchase consideration of US\$240,000 (approximate of HK\$1,868,000). As a result of the event, the Group recognised an increase in non-controlling interests of HK\$162,000 and a decrease in equity the Company of HK\$2,030,000.

20. APPROVAL OF INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

The interim condensed consolidated financial information was approved by the Board of Directors on 24 August 2017.

Other Information Provided in Accordance with the Listing Rules

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 30 June 2017, 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	—	218,750,000 <i>(note 1, 2)</i>	50,800,000 <i>(note 3, 4)</i>	269,550,000	66.54%
Madam Ngan Po Ling, Pauline, <i>BBS, JP</i>	35,050,000 <i>(note 2)</i>	183,700,000 <i>(note 1)</i>	50,800,000 <i>(note 3, 4)</i>	269,550,000	66.54%
Mr. James S. Patterson	—	—	2,000,000 <i>(note 4)</i>	2,000,000	0.49%
Ms. Maggie Gu	—	—	2,200,000 <i>(note 4, 5)</i>	2,200,000	0.54%
Mr. Ngan Siu Hon, Alexander	—	—	2,000,000 <i>(note 5)</i>	2,000,000	0.49%
Mr. Andrew Ngan	—	—	1,000,000 <i>(note 6)</i>	1,000,000	0.25%

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:

- (1) 183,700,000 shares are legally and beneficially owned by Successful Years International Co., Ltd., a company ultimately and beneficially owned by Mr. Ngan Hei Keung and Madam Ngan Po Ling, Pauline as to 40% and 60% respectively.
- (2) The 35,050,000 shares are beneficially owned by Madam Ngan, Pauline, the spouse of Mr. Ngan.
- (3) Pursuant to the contingent purchase deed renewed on 30 September 2014 between Mr. Ngan, Madam Ngan and New Era Cap Hong Kong LLC ("NEHK"), NEHK is entitled to require Mr. Ngan and Madam Ngan to purchase up to 39,800,000 shares on the terms and conditions of the said deed.
- (4) Each of Mr. Ngan and Madam Ngan have been granted share options under the Company's share options scheme to subscribe for 3,000,000 shares of the Company on 23 June 2009. Mr. Patterson and Ms. Gu have been granted share options under the Company's share option scheme to subscribe for 2,000,000 shares and 500,000 shares of the Company on 23 June 2009 respectively. Mr. Patterson and Ms. Gu subscribed 1,000,000 and 500,000 shares of the Company in 2016 respectively.
- (5) Ms. Gu and Mr. Ngan have been granted share options under the Company's share option scheme to subscribe for 1,500,000 and 1,000,000 shares of the Company on 15 July 2015 respectively. Ms. Gu subscribed 300,000 shares of the Company in 2016.
- (6) Mr. Ngan Hei Keung, Madam Ngan Po Ling, Pauline, *BBS, JP*, Mr. James S. Patterson, Ms. Maggie Gu, Mr. Ngan Siu Hon, Alexander and Mr. Andrew Ngan have been granted share options under the Company's share option scheme to subscribe for 2,000,000, 3,000,000, 1,000,000, 1,000,000, 1,000,000 and 1,000,000 shares of the Company on 13 April 2017 respectively.

Save as disclosed above, none of the Directors or chief executives of the Company had any interests in the shares or underlying shares of the Company or any of its associated corporations as defined in the SFO.

Other Information Provided in Accordance with the Listing Rules

SHARE OPTION SCHEMES

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

The total number of shares which may be issued upon exercise of all options to be granted under the Old Scheme and any other share option schemes of the Group may not in aggregate exceed 30,536,058, being 10% of the shares in issue of the Company as at 23 May 2002, the date of adoption of the New Scheme adjusted for the issue of bonus shares on 22 May 2007. The scheme mandate limit was refreshed on 28 November 2008. Upon refreshing of the scheme mandate limit, the Company may grant options up to a maximum of 31,840,228 shares, representing 10% of the shares in issue of the Company as at 28 November 2008.

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

The total number of shares which may be issued upon exercise of all options to be granted under the New Scheme and any other share option schemes of the Group may not in aggregate exceed 39,858,328, being 10% of the shares in issue of the Company as at 29 December 2011, the date of adoption of the New Scheme.

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

Other Information Provided in Accordance with the Listing Rules

SHARE OPTION SCHEMES (CONTINUED)

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 New 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 New 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 New 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 New Scheme was 3,588,328 shares, which represented 0.9% of the issued share capital of the Company.

Other Information Provided in Accordance with the Listing Rules

SHARE OPTION SCHEMES (CONTINUED)

At 30 June 2017, 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\$1.46 at the balance sheet date) granted at nominal consideration under the share option schemes operated by the Company, each option gives the holder the right to subscribe for one share:

	Date of grant	Period during which options exercisable	Exercise price HK\$	Outstanding at 1.1.2017	Number of shares		Outstanding at 30.6.2017	Market value per share at date of grant HK\$
					Exercised during the period	Granted during the period		
Director	23.06.2009	23.06.2010 – 22.06.2019	0.946	7,000,000	—	—	7,000,000	0.93
	15.07.2015	15.07.2016 – 14.07.2025	1.12	2,200,000	—	—	2,200,000	1.12
	13.04.2017	13.04.2017 – 12.04.2027	1.534	—	—	9,000,000	9,000,000	1.50
				<u>9,200,000</u>	<u>—</u>	<u>9,000,000</u>	<u>18,200,000</u>	
Employees	11.06.2008	11.06.2009 – 10.06.2018	1.190	1,000,000	—	—	1,000,000	1.16
	23.06.2009	23.06.2010 – 22.06.2019	0.946	5,090,000	(60,000)	—	5,030,000	0.93
	08.11.2010	08.11.2011 – 07.11.2020	0.92	900,000	—	—	900,000	0.92
	30.12.2011	30.12.2012 – 29.12.2021	0.80	1,000,000	—	—	1,000,000	0.80
	15.07.2015	15.07.2016 – 14.07.2025	1.12	8,950,000	—	—	8,950,000	1.12
	13.04.2017	13.04.2017 – 12.04.2027	1.534	—	—	11,370,000	11,370,000	1.50
				<u>16,940,000</u>	<u>(60,000)</u>	<u>11,370,000</u>	<u>28,250,000</u>	

Other Information Provided in Accordance with the Listing Rules

SHARE OPTION SCHEMES (CONTINUED)

Note:

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The estimate of the fair value of the share option granted is measured based on a Black-Scholes pricing mode.

Under this share option scheme, HK\$640,000 of share-based payment expense has been included in the condensed consolidated statement of profit or loss for the six months ended 30 June 2017 (2016: HK\$241,000) and the corresponding amount of which has been credited to share based compensation reserve.

Apart from the foregoing, at no time during the period was the Company, its holding company or subsidiaries a party to any arrangements to enable the Company's Directors or chief executives or any of their spouses or children under eighteen years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company, or any other body corporate.

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 2017, 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, BBS, JP	Beneficial owner	35,050,000	—	—	35,050,000	8.65%
	Interest of a controlled corporation (note 1)	—	183,700,000	—	183,700,000	45.35%
					218,750,000	54.00%
Successful Years International Co., Ltd. (note 1)	Beneficial owner	183,700,000	—	—	183,700,000	45.35%
Mr. Christopher Koch (note 2)	Interest of a controlled corporation	—	79,601,000	—	79,601,000	19.65%
NEHK (note 2)	Interest of a controlled corporation	79,601,000	—	—	79,601,000	19.65%

Other Information Provided in Accordance with the Listing Rules

SUBSTANTIAL SHAREHOLDERS (CONTINUED)

Long positions in the shares and underlying shares (Continued)

Notes:

1. 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.
2. Mr. Christopher Koch owns 75% of the issued share capital of NEHK. As such, Mr. Christopher Koch is deemed to be interested in the 79,601,000 shares.

Short positions in the underlying shares

Name	Number of underlying shares	Percentage of interest
Mr. Christopher Koch	39,800,000 (Note)	9.83%
NEHK	39,800,000 (Note)	9.83%

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

Save as disclosed above, as at 30 June 2017, 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.

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.

Other Information Provided in Accordance with the Listing Rules

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 six months 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 six months 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.