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

(Incorporated in Bermuda with limited liability)

(Stock code: 1100)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2017

The board of directors (the "Board"/"Directors") of Mainland Headwear Holdings Limited (the "Company") is pleased to announce the financial results of the Company and its subsidiaries (collectively the "Group"/"Mainland Headwear") for the year ended 31 December 2017.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2017

	Note	**2017** *HK$'000*	2016 *HK$'000*
Revenue	2	**890,707**	870,291
Cost of sales		**(602,913)**	(582,274)
Gross profit		**287,794**	288,017
Other income		**10,302**	12,452
Other gains – net	3	**3,921**	1,124
Selling and distribution costs		**(89,228)**	(95,078)
Administration expenses		**(127,761)**	(121,839)
Profit from operations		**85,028**	84,676
Finance income	4	**1,516**	773
Finance costs	4	**(966)**	(1,627)
Profit before income tax	5	**85,578**	83,822
Income tax expense	6	**(4,355)**	(8,630)
Profit for the year		**81,223**	75,192

* *For identification purpose only*

	Note	**2017** *HK$'000*	2016 *HK$'000*
Profit attributable to:			
Owners of the Company		**77,228**	71,586
Non-controlling interests		**3,995**	3,606
		81,223	75,192
Earnings per share for the profit attributable to owners of the Company	7		
Basic (HK cents per share)		**19.06**	17.93
Diluted (HK cents per share)		**18.67**	17.48

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2017

	2017 *HK$'000*	2016 *HK$'000*
Profit for the year	**81,223**	75,192
Other comprehensive (loss)/income, net of tax		
Items that have been or may be subsequently reclassified to profit or loss:		
Change in the fair value of available-for-sale financial asset	**(239)**	—
Release of reserve upon deregistration of a subsidiary	**—**	(2,435)
Exchange differences on translation of financial statements of foreign operations	**6,003**	(7,930)
Total comprehensive income for the year, net of tax	**86,987**	64,827
Total comprehensive income attributable to:		
Owners of the Company	**82,870**	61,384
Non-controlling interests	**4,117**	3,443
Total comprehensive income for the year	**86,987**	64,827

CONSOLIDATED BALANCE SHEET

As at 31 December 2017

	Note	2017 HK$'000	2016 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment		**270,808**	175,036
Investment properties		**42,139**	39,775
Goodwill		**33,798**	33,798
Other intangible assets		**13,219**	13,974
Deferred income tax assets		**1,616**	1,904
Available-for-sale financial asset		**5,985**	—
Financial asset at fair value through profit or loss		**15,944**	—
Other non-current receivables	9	**425**	730
		383,934	265,217
Current assets			
Inventories		**176,825**	181,833
Trade and other receivables	9	**179,412**	173,546
Financial assets at fair value through profit or loss		**20,380**	9,304
Tax recoverable		**1,204**	—
Short-term bank deposits		**3,907**	3,193
Cash and cash equivalents		**182,843**	201,881
		564,571	569,757
Total assets		**948,505**	834,974
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company			
Share capital		**40,517**	40,501
Other reserves		**232,895**	223,483
Retained earnings		**395,326**	341,121
		668,738	605,105
Non-controlling interests		**5,030**	202
Total equity		**673,768**	605,307

	Note	2017 HK$'000	2016 HK$'000
LIABILITIES			
Non-current liabilities			
Other non-current payables	10	**1,520**	592
Long service payment payable		**457**	457
Deferred income tax liabilities		**3,959**	3,581
		5,936	4,630
Current liabilities			
Trade and other payables	10	**137,229**	143,995
Amounts due to non-controlling interests		**649**	1,067
Current income tax liabilities		**18,395**	21,354
Borrowings		**112,528**	58,621
		268,801	225,037
Total liabilities		**274,737**	229,667
Total equity and liabilities		**948,505**	834,974
Net current assets		**295,770**	344,720
Total assets less current liabilities		**679,704**	609,937

1. ACCOUNTING POLICIES

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

(a) Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") and the requirements of the Hong Kong Companies Ordinance Cap. 622. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial asset, financial assets at fair value through profit or loss and investment properties which are carried at fair values.

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

Changes in accounting policy and disclosures

(i) New and amended standards adopted by the Group

The following amendments to standards have been adopted by the Group for the first time for the financial year beginning on or after 1 January 2017:

- Recognition of Deferred Tax Assets for Unrealised Loss — Amendments to HKAS 12
- Annual improvements 2014–2016 cycle — Amendments to HKAS 12, and
- Disclosure Initiative — Amendments to HKAS 7

The adoption of these amendments did not have material impact on the financial statements for the current year. The amendments to HKAS 7 require disclosure of changes in liabilities arising from financing activities.

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

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2017, and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except the following set out below:

HKFRS 9, "Financial instruments"

HKFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

The Group has reviewed its financial assets and liabilities and assessed the impact from the adoption of the new standard on 1 January 2018:

- equity instrument currently classified as available-for-sale ("AFS") for which a fair value through other comprehensive income ("FVOCI") election is available and hence there will be no change to the accounting for the asset, and

- equity instruments currently measured at fair value through profit or loss ("FVTPL") which will continue to be measured on the same basis under HKFRS 9.

Accordingly, the Group does not expect the new guidance to affect the classification and measurement of these financial assets. However, gains or losses realised on the sale of financial asset at FVOCI will no longer be transferred to consolidated statement of profit or loss on sale, but instead reclassified below the line from the FVOCI reserve to retained earnings.

There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have such liabilities.

The derecognition rules have been transferred from HKAS 39 "Financial Instruments: Recognition and Measurement" and have not been changed.

The new impairment model requires the recognition of impairment provisions based on expected credit losses ("ECL") rather than only incurred credit losses as is the case under HKAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at FVOCI, contract assets under HKFRS 15 "Revenue from Contracts with Customers", lease receivables, loan commitments and certain financial guarantee contracts. Based on the assessments undertaken to date, the Group expects it may result in earlier recognition of credit losses.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

The new standard must be applied for financial years commencing on or after 1 January 2018. The Group will apply the new rules retrospectively from 1 January 2018, with the practical expedients permitted under the standard. Comparatives for 2017 will not be restated.

HKFRS 15, "Revenue from contracts with customers"

The Hong Kong Institute of Certified Public Accountants ("HKICPA") has issued a new standard for the recognition of revenue. This will replace HKAS 18 which covers contracts for goods and services and HKAS 11 which covers construction contracts and the related literature.

The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer.

The standard permits either a full retrospective or a modified retrospective approach for the adoption.

Management is currently assessing the effects of applying the new standard on the Group's consolidated financial statements and has identified the application of HKFRS 15 may result in the identification of separate performance obligations in relation to sales which could affect the timing of the recognition of revenue going forward.

More detailed assessment will be carried out by the Group to estimate the impact of the new rules on the Group's consolidated financial statements.

The new standard is mandatory for financial years commencing on or after 1 January 2018. The Group intends to adopt the standard using the modified retrospective approach which means that the cumulative impact of the adoption will be recognised in retained earnings as of 1 January 2018 and that comparatives will not be restated.

HKFRS 16, "Leases"

HKFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the consolidated balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. The accounting for lessors will not significantly change.

The standard will affect primarily the accounting for the Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of HK$15,798,000.

The Group has not yet assessed the adjustments, if any, are necessary for example because of the change in the definition of the lease term and the different treatment of variable lease payments and of extension and termination options. It is therefore not yet possible to estimate the amount of right-of-use assets and lease liabilities that will have to be recognised on adoption of the new standard and how this may affect the Group's consolidated statement of profit or loss and classification of cash flows going forward.

The new standard is mandatory for financial years commencing on or after 1 January 2019. At this stage, the Group does not intend to adopt the standard before its effective date. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

There are no other standards and interpretations that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

2. SEGMENT INFORMATION

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

The executive directors consider 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 Bangladesh and Shenzhen, the People's Republic of China ("PRC"). Customers are mainly located in the United States of America ("USA") and Europe.

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

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

	Manufacturing		Trading		Retail		Total	
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Revenue from external customers	**634,563**	596,140	**184,543**	185,413	**71,601**	88,738	**890,707**	870,291
Inter-segment revenue	**67,969**	48,574	**—**	62	**—**	—	**67,969**	48,636
Reportable segment revenue	**702,532**	644,714	**184,543**	185,475	**71,601**	88,738	**958,676**	918,927
Reportable segment profit/(loss)	**100,590**	83,376	**2,950**	12,997	**(8,447)**	(6,383)	**95,093**	89,990
Financial assets at fair value through profit or loss								
— fair value gains							**430**	122
Fair value gains on investment properties							**1,018**	2,503
Unallocated corporate income							**9,277**	8,908
Unallocated corporate expenses							**(20,790)**	(16,847)
Profit from operations							**85,028**	84,676
Finance income							**1,516**	773
Finance costs							**(966)**	(1,627)
Income tax expense							**(4,355)**	(8,630)
Profit for the year							**81,223**	75,192
Depreciation of property, plant and equipment	**17,753**	20,576	**4,238**	2,049	**1,633**	2,359	**23,624**	24,984
Amortisation of other intangible assets	**—**	—	**5,737**	5,088	**—**	—	**5,737**	5,088
Reportable segment assets	**371,765**	350,688	**268,946**	183,183	**33,776**	45,046	**674,487**	578,917
Investment properties							**42,139**	39,775
Deferred income tax assets							**1,616**	1,904
Available-for-sale financial asset							**5,985**	—
Financial assets at fair value through profit or loss							**36,324**	9,304
Tax recoverable							**1,204**	—
Short-term bank deposits							**3,907**	3,193
Cash and cash equivalents							**182,843**	201,881
Total assets							**948,505**	834,974
Reportable segment liabilities	**102,601**	105,708	**10,059**	9,441	**24,540**	27,515	**137,200**	142,664
Deferred income tax liabilities							**3,959**	3,581
Current income tax liabilities							**18,395**	21,354
Borrowings							**112,528**	58,621
Other corporate liabilities							**2,655**	3,447
Total liabilities							**274,737**	229,667
Capital expenditure incurred during the year	**35,288**	13,546	**85,554**	17,423	**801**	2,309	**121,643**	33,278

(i) Revenue from external customers

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

	2017	2016
	HK$'000	*HK$'000*
USA	**619,676**	576,955
Europe	**107,265**	119,554
PRC	**61,328**	73,456
Hong Kong	**30,925**	36,466
Others	**71,513**	63,860
Total	**890,707**	870,291

During the year ended 31 December 2017, revenue derived from the Group's largest customer (who is affiliated companies of a shareholder) and the second-largest customer amounted to HK$385,072,000 or 43.2% and HK$97,291,000 or 10.9% of the Group's revenue respectively (2016: HK$365,579,000 or 42.0%; HK$82,945,000 or 9.5%). These revenues were attributable to the Manufacturing Business.

(ii) Non-current assets

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

	2017	2016
	HK$'000	*HK$'000*
USA	**191,154**	114,475
Bangladesh	**96,675**	72,817
PRC	**47,502**	49,845
Hong Kong	**3,998**	4,797
Europe	**7,841**	7,405
	347,170	249,339
Other intangible assets	**13,219**	13,974
Deferred income tax assets	**1,616**	1,904
Available-for-sale financial asset	**5,985**	—
Financial assets at fair value through profit or loss	**15,944**	—
	383,934	265,217

3. OTHER GAINS — NET

	2017	2016
	HK$'000	*HK$'000*
Financial assets at fair value through profit or loss		
— fair value gains	**430**	122
Net foreign exchange gains/(losses)	**2,492**	(4,013)
Fair value gains on investment properties	**1,018**	2,503
(Losses)/gains on disposals of property,		
plant and equipment	**(19)**	77
Gain on deregistration of a subsidiary	**—**	2,435
	3,921	1,124

4. FINANCE INCOME/(COSTS) — NET

	2017	2016
	HK$'000	*HK$'000*
Interest on bank loans, overdrafts and other borrowings	**(1,681)**	(1,577)
Interest on amount due to a non-controlling interest	**(25)**	(25)
Interest accretion on licence fee payables	**(131)**	(25)
	(1,837)	(1,627)
Amount capitalised *(note)*	**871**	—
Interest costs	**(966)**	(1,627)
Interest income	**1,516**	773
Finance income/(costs) — net	**550**	(854)

note:

Interest expenses on bank borrowings were capitalised at the weighted average rate of its general borrowings of approximately 2.69% (2016: nil).

5. PROFIT BEFORE INCOME TAX

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

	2017	2016
	HK$'000	*HK$'000*
Depreciation of property, plant and equipment	**23,624**	24,984
Amortisation of other intangible assets	**5,737**	5,088
Net (written-back of provision)/provision for impairment of trade and other receivables	**(470)**	100
Net provision/(written-back of provision) for inventories	**7,598**	(400)

6. INCOME TAX EXPENSE

	2017	2016
	HK$'000	*HK$'000*
Current year		
— Hong Kong profits tax	**2,110**	3,368
— Overseas tax	**9,072**	10,114
	11,182	13,482
Over-provision in prior years		
— Hong Kong profits tax	**(2,030)**	(1,044)
— Overseas tax	**(5,330)**	(4,859)
	(7,360)	(5,903)
Deferred income tax	**533**	1,051
	4,355	8,630

Hong Kong profits tax has been provided at the rate of 16.5% (2016: 16.5%) on the estimated assessable profits for the year.

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

Unimas Sportswear Ltd. ("Unimas"), a wholly owned subsidiary of the Group, operates in Bangladesh. Pursuant to statutory regulatory order 255 (SRO) dated 1 August 2017, Unimas, as a readymade garments manufacturer is entitled to a reduction of the income tax rate from 35% to 12% for the year ended 31 December 2016 and therefore an over-provision in respect of prior year of HK$1,638,000 was recognised during the year ended 31 December 2017. In addition, pursuant to the sixth schedule of the Income-tax Ordinance ("ITO"), Unimas, as an exporter is entitled to a reduction of the income tax rate from 35% to 17.5% for the year ended 31 December 2017.

7. EARNINGS PER SHARE

(a) Basic

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

	2017	2016
Profit attributable to owners of the Company (HK$'000)	**77,228**	71,586
Weighted average number of ordinary shares in issue	**405,109,229**	399,186,969
Basic earnings per share (HK cents)	**19.06**	17.93

(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.

	2017	2016
Profit attributable to owners of the Company (HK$'000)	**77,228**	71,586
Weighted average number of ordinary shares in issue	**405,109,229**	399,186,969
Adjustment for share options	**8,520,085**	10,589,336
Weighted average number of ordinary shares for diluted earnings per share	**413,629,314**	409,776,305
Diluted earnings per share (HK cents)	**18.67**	17.48

8. DIVIDENDS

A final dividend in respect of the year ended 31 December 2017 of 3 HK cents per share, amounting to a total dividend of HK$12,155,000, is to be proposed at the upcoming annual general meeting. These financial statements do not reflect this dividend payable. The amount of proposed final dividend for 2017 was based on 405,173,284 (2016: 405,013,284) shares in issue as at 31 December 2017.

	2017 ***HK$'000***	2016 *HK$'000*
Interim dividend of 2 HK cents (2016: 2 HK cents) per share	**8,103**	7,972
Proposed final dividend of 3 HK cents (2016: 3 HK cents) per share	**12,155**	12,150
	20,258	20,122

9. TRADE AND OTHER RECEIVABLES

	2017	2016
	HK$'000	*HK$'000*
Trade receivables	**157,457**	152,121
Less: provision for impairment	**(4,515)**	(5,700)
Trade receivables, net	**152,942**	146,421
Deposits, prepayments and other receivables	**28,417**	29,292
Less: provision for impairment	**(1,522)**	(1,437)
	179,837	174,276
Less: non-current portion of other receivables	**(425)**	(730)
Current portion	**179,412**	173,546

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

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

	2017	2016
	HK$'000	*HK$'000*
0–30 days	**66,016**	64,035
31–60 days	**40,211**	54,722
61–90 days	**26,377**	16,939
91–120 days	**18,731**	2,310
Over 121 days	**6,122**	14,115
	157,457	152,121

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

	2017	2016
	HK$'000	*HK$'000*
1–30 days past due	**20,606**	16,945
31–60 days past due	**16,848**	1,866
61–90 days past due	**1,888**	6,629
Over 91 days past due	**61**	2,876
	39,403	28,316

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

(c) Included in other receivables are notes receivable from one customer (2016: one customer) totalling HK$695,000 (2016: HK$1,188,000).

As at 31 December 2017, a note receivable of HK$695,000 is interest bearing at 3% per annum and is repayable by 35 monthly instalments from April 2016 to February 2019. The note is secured by the personal guarantee of the owner of the customer.

(d) As of 31 December 2017, trade and other receivables of HK$6,037,000 (2016: HK$7,137,000) were fully impaired and provided for. All these receivables were overdue over 90 days.

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

	2017	2016
	HK$'000	*HK$'000*
At 1 January	**7,137**	7,311
(Written back of provision)/provision for impairment, net	**(470)**	100
Uncollectible amounts written off	**(737)**	(241)
Exchange difference	**107**	(33)
At 31 December	**6,037**	7,137

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

10. TRADE AND OTHER PAYABLES

	2017	2016
	HK$'000	*HK$'000*
Trade payables	**48,379**	52,542
Bill payables	**4,285**	5,164
Accrued charges and other payables	**86,085**	86,881
	138,749	144,587
Less: other non-current payables	**(1,520)**	(592)
Current portion	**137,229**	143,995

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

	2017	2016
	HK$'000	*HK$'000*
0 – 30 days	**25,843**	27,977
31 – 60 days	**17,272**	16,709
61 – 90 days	**1,671**	2,391
Over 90 days	**3,593**	5,465
	48,379	52,542

BUSINESS REVIEW

On behalf of the Board of Directors of Mainland Headwear Holdings Limited (the "Company"), I am pleased to present the annual results of the Company and its subsidiaries (collectively, "Mainland Headwear" or the "Group") for the year ended 31 December 2017.

Overview

In the past year, the global economy grew steadily and China's "Belt and Road initiative" brought new opportunities to the world. In 2013, Mainland Headwear took the lead in building a factory in Bangladesh, a country on the "Belt and Road" route, and with the boosted capacity, the Group's business took off yet again. The factory continued to improve in output capacity and efficiency, it remained as the Group's profit growth driver during the year, testifying to the success of the Group's "Going Out" strategy.

The factory in Bangladesh is instrumental to the Group's development, and at the dedicated efforts of the management, it has an expanding production team and maturing production techniques. As such, the factory's output capacity increased by more than 30% year-on-year to around 3,000,000 pieces of headwear products a month. The Group has hastened the construction of the second phase of the factory; however, the project has fallen behind the schedule due to the unexpected delay of obtaining local governments approval. To cope with the situation, the management had immediately rented a short term warehouse space to avail more room for production at the factory so that it might flexibly accommodate strong orders demands from customers.

Apart from boosting "quantity", the management also focused on improving "quality". The production techniques of staff at the Bangladesh factory have become significantly more mature. As the result, the factory is now able to handle more orders for high-end headwear and that has seen its clientele shifting from low-to-mid to mid-to-high end range. Some Japanese clients who are more demanding on quality had also begun to move their orders to Bangladesh.

For our Trading Business, 2017 was a year of cultivation. With online shopping growing in popularity, the management devoted major effort to business consolidation. The Group's subsidiary, San Diego Hat Company ("SDHC"), pushed to develop online sales to match the changing consumption mode. It also continued to diversify product mix and launch its own brand accessories with higher gross profit margins. As for H3 Sportgear LLC ("H3"), we strengthened the team's capabilities and adjusted its sales strategy. Despite that such moves inevitably affected performance of the business in the short run, the management believes they will benefit the long-term development of H3.

The rise of online shopping also poses challenges to the Group's Retail Business. In combat, the management actively adjusted related strategies — closing underperforming self-operated stores and at the same time developing its online sales platform. For the year under review, online sales recorded an encouraging growth of more than 20%.

Financial Review

During the year, driven by the expansion of production capacity at the Bangladesh factory, Manufacturing Business remained as the Group's primary income source and profit growth driver, offsetting the impacts from consolidation of the Trading Business and change in the operating environment for Retail Business. Consequently, the Group's revenue and profit maintained stable growth.

For the year, the Group achieved revenue of HK$890,707,000 (2016: HK$870,291,000), representing an increase of 2.3% against last year. Gross profit decreased by a slight 0.1% to HK$287,794,000 (2016: HK$288,017,000). As there was a marked decline in revenue from the Retail Business, which carries a higher gross profit margin, the Group's overall gross profit margin decreased by 0.8 percentage point to 32.3% (2016: 33.1%). Thanks to the improving production efficiency and capacity of the Bangladesh factory, and at the Group's effort to strictly control fixed operating costs of the Retail Business, profit attributable to shareholders climbed 7.9% to HK$77,228,000 (2016: HK$71,586,000).

Manufacturing Business

Segment revenue from the Manufacturing Business grew by 9.0% to HK$702,532,000 during the year (2016: HK$644,714,000), accounting for 73.3% of the total segment revenue. Revenue from external customers amounted to HK$634,563,000 (2016: HK$596,140,000), accounting for 71.2% of Group's revenue. The Bangladesh factory, affording higher production efficiency and quality, helped raise the gross profit of the segment by 15.4% to HK$182,837,000 (2016: HK$158,457,000). With operating efficiency constantly increasing and effective cost control measures in place, the operating profit of Manufacturing Business surged by 20.6% to HK$100,590,000 (2016: HK$83,376,000).

By the end of 2017, there were more than 4,000 employees in our factory in Bangladesh (2016: about 3,000 employees). With a growing workforce and maturing production techniques, the factory's production capacity quickly increased from 2.25 million pieces of headwear products per month on average last year to 3 million pieces per month. As for the factory in Shenzhen with an around 1,200 strong workforce, it mainly procures raw materials, produces high-end headwear products, and handles short lead-time products and product R&D.

Trading Business

Affected by the change in consumers' shopping habits and it undergoing consolidation, Trading Business made revenue of HK$184,543,000 (2016: HK$185,413,000), accounting for 20.7% of Group's revenue, with operating profit amounted to HK$2,950,000 (2016: HK$12,997,000).

SDHC, the development focus of the trading business, signed a number of agreements on 20 July 2017, including on the acquisition of a parcel of vacant land in California, the USA, the design and construction of the building to be used by SDHC as office and warehouse at a total consideration of US$15,419,000 (equivalent to about HK$119,957,000), to complement business expansion of SDHC and its subsidiaries in the USA.

As for H3, it continued to strengthen the capabilities of its team and adjust sales strategy. While its business was affected in the short run, the management believes the move is conducive to the long-term development of H3.

Retail Business

Hit by the quick change in global consumption habits, despite that the Group has accelerated scale up of its online sales platform, and strictly controlled the number of self-operated stores to lower operating costs, the business continued to feel the blow. The segment recorded revenue of HK$71,601,000 (2016: HK$88,738,000), with operating loss at HK$8,447,000 (2016: HK$6,383,000).

Sanrio

During the year under review, the Group kept consolidating its self-operated stores with low profitability and gradually reducing the size of its franchise business to lower operating costs and enhance operational efficiency. In addition, to match the new consumption mode, the Group actively developed its online sales platform in the hope of widening its income sources. Such moves had proven to be effective as turnover from online sales increased by more than 30% year-on-year. However, affected by the sharp decrease in number of stores, revenue from Sanrio amounted to HK$54,113,000 (2016: HK$64,994,000). Operating loss of the business, however, narrowed to HK$2,603,000 (2016: HK$2,740,000), owed to the strategic consolidation of self-operated stores by the management.

As at 31 December 2017, the Group ran 31 self-operated stores and 49 franchise stores (2016: 32 self-operated stores and 92 franchise stores).

Headwear Sales

With its Retail Business in Hong Kong facing the same situation and the Group embarking on store network consolidation to maximise operational efficiency, revenue from the business for the year amounted to HK$17,488,000 (2016: HK$23,744,000) and operating loss was HK$5,844,000 (2016: HK$3,643,000).

As at 31 December 2017, the Group had 7 self-operated stores in Hong Kong and 4 franchise stores in Mainland China carrying the "NOP" brand (2016: 8 "NOP" self-operated stores in Hong Kong and 13 franchise stores in Mainland China).

Prospects

Capitalising on the solid business foundation and customer base built over the years, and keeping pace with the "Belt and Road" national strategy, the Group was able to realise robust development in Bangladesh in the past few years. Looking ahead, the management is confident that, by implementing the Group's pragmatic business strategy with flexibility, plus seizing the limitless opportunities the "Belt and Road" national strategy presents, the Group's business will be able to scale new heights.

For the Group's Manufacturing Business, the Bangladesh factory will continue to be its production engine. The Group has speeded up construction of the second phase of the factory, however, the project has fallen behind schedule due to unexpected delay of obtaining local government's approval, production at the new plant has to be postponed and is expected to begin in the first half of 2018. By then, the target number of workers at the factory will be doubled to around 6,000 and the targeted annual production capacity for 2018 is 40 million pieces of headwear products. Although the new plant could not start operation as scheduled, production at the factory had not been affected, as the Group had rented some space for temporary storage to spare room at the factory to set up more production lines for handling the strong orders from customers. The factory's production capacity in January 2018 was up to 3 million pieces of headwear products. Furthermore, as the technical expertise of workers at the Bangladesh factory continues to improve, the factory is able to handle more high-end headwear orders, hence has seen its clientele changing from mid-to-low range to mid-to-high end. This means the quality and profitability of the factory are likely to keep enhancing. Meanwhile, the Shenzhen factory will continue to focus on high-end product R&D and design, as well as rendering related support.

As for Trading Business, it expects to see in 2018 the fruits of its business consolidation efforts in the past two years. SDHC's base building in California, the US, including all interior fitting is expected to finish in late 2018. By then, SDHC and its subsidiaries will be able to have all warehousing facilities in one place, easing the control and management on inventory. Moreover, the management will prudently adjust the business strategy to support the segment's long-term development. Facing an ever-changing market, SDHC will continue to expand its online sales platform, sell its own brand accessories directly, as well as keep enriching its product mix.

Regarding H3, the management is hopeful that, after a series of restructuring measures were completed, it will take on fresh energy and be able to contribute stronger business performance and profitability. On top of having secured new licences, worthy of celebration, H3 also saw double-digit growth in orders from a US-based multinational retail enterprise customer. Related contribution is expected to be reflected in the first half of 2018.

On the Retail Business front, the Group will continue to strategically allocate resources in its bid to reduce operating costs. At the same time, it will continue to expand the Sanrio online sales platform to improve performance of the business.

The management has drawn up clear long-term development blueprints for the Group's different business segments, which promise to help drive the Group's sustainable business growth and create greater value for shareholders.

Acknowledgements

On behalf of Mainland Headwear, I would like to express sincere gratitude to our shareholders, staff, customers and suppliers for their unwavering support of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

Liquidity and Financial Resources

As at 31 December 2017, the Group had cash and cash equivalents, short-term deposits and a portfolio of liquid investments totaling Hong Kong dollars ("HK$") 207.1 million (2016: HK$214.4 million). About 50% and 20% of these liquid funds were denominated in United States dollars and Renminbi respectively and the remaining were mainly in Hong Kong dollars and Pound Sterling.

As at 31 December 2017, the Group had banking facilities of HK$364.4 million (2016: HK$342.6 million), of which HK$233.0 million (2016: HK$266.1 million) was not utilised.

The gearing ratio (being the Group's borrowings over equity) of the Group was 16.7% (2016: 9.7%). In view of the strong financial and liquidity position, the Group have sufficient financial resources to meet its commitments and working capital requirements.

Capital Expenditure

During the year, the Group spent HK$81.7 million on the construction of a commercial building in the USA and a factory building in Bangladesh, and HK$11.1 million to acquire a residential house in the USA. The Group spent approximately HK$21.2 million (2016: HK$13.5 million) on additions to plant and equipment and on additions to land to upgrade its manufacturing capability and expansion in the Bangladesh factory. The Group also spent HK$0.8 million (2016: HK$2.3 million) on the retail systems in 2017 and HK$2.0 million (2016: HK$7.2 million) on equipments and systems of Trading business.

The Group budgeted HK$157.9 million for capital expenditure of which HK$95.0 million is estimated to be used for the construction of a factory building and expansion in the Bangladesh under Manufacturing business. The Group also authorised a capital commitment of HK$60.9 million for the construction of a commercial building in the USA and equipment upgrades for Trading business and HK$2.0 million for Retail business.

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

Exchange Risk

Most assets and liabilities of the Group are denominated either in Hong Kong dollars, United States dollars, Renminbi or Bangladesh Taka. The Group estimates that any 1% appreciation of the Renminbi and Bangladesh Taka is expected to reduce the gross margin of the Manufacturing Business by about 0.2% and 0.1% respectively.

Employees and Remuneration Policies

At 31 December 2017, the Group employed 1,485 (2016: 1,625) employees in the PRC (include Hong Kong), 4,112 (2016: 3,226) employees in Bangladesh and a total of 42 (2016: 44) employees in the US and the United Kingdom. The expenditures for employees during the year were approximately HK$250.1 million (2016: HK$248.7 million). The Group ensures that the pay levels of its employees are competitive and employees were remunerated based on their position and performance. Key employees of the Group, including Directors, are also granted share options under the share option schemes operated by the Company.

DIVIDENDS AND CLOSURE OF REGISTER OF MEMBERS

The Directors recommend the payment of a final dividend of 3 HK cents (2016: 3 HK cents) per share in respect of the year ended 31 December 2017. Subject to the approval at the forthcoming annual general meeting, the final dividend will be payable on or after 20 June 2018 to the shareholders whose names appear on the register of members at the close of the business on 25 May 2018.

The register of members of the Company will be closed from 28 May 2018 to 30 May 2018 (both dates inclusive). In order to qualify for the proposed final dividend, all transfers, accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong Branch Share Registrar, Tricor Tengis Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on 25 May 2018.

ANNUAL GENERAL MEETING

It is proposed that the Annual General Meeting of the Company will be held on 16 May 2018. The Notice of the Annual General Meeting will be published in the Company's website and sent to the shareholders of the Company in due course.

To determine the identity of members who are entitled to attend and vote at the forthcoming Annual General Meeting which will be held on 16 May 2018, the register of members of the Company will be closed from 11 May 2018 to 16 May 2018 (both dates inclusive). In order to qualify to attend the Annual General Meeting, all transfers, accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong Branch Share Registrar, Tricor Tengis Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on 10 May 2018.

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

During the year ended 31 December 2017, the Company has not redeemed any of its shares. Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

CODE ON CORPORATE GOVERNANCE PRACTICES

In the opinion of the Board, the Company has complied with the Code Provisions in the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Listing Rules during the year ended 31 December 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 enquiry by the Company, that they have complied with the required standard set out in the Model Code throughout the year ended 31 December 2017.

REVIEW OF FINANCIAL STATEMENTS

The Audit Committee has reviewed the Group's consolidated financial statements for the year ended 31 December 2017, including the accounting principles and practices adopted by the Group.

SCOPE OF WORK OF PRICEWATERHOUSECOOPERS

The figures in respect of the Group's consolidated balance sheet, consolidated statement of profit or loss and the related notes thereto for the year ended 31 December 2017 as set out in the preliminary announcement have been agreed by the Group's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's draft consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on the preliminary announcement.

By Order of the Board
Ngan Hei Keung
Chairman

Hong Kong, 21 March 2018

As at the date of this announcement, the Board 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.