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

(Incorporated in Bermuda with limited liability)

(Stock code: 1100)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2018

The Board of Directors (the "Directors") of Mainland Headwear Holdings Limited (the "Company") hereby announces the unaudited interim results of the Company and its subsidiaries (collectively, the "Group") for the six months ended 30 June 2018 (the "Period") together with comparative figures for the corresponding period in 2017.

Interim Condensed Consolidated Statement of Profit or Loss (Unaudited)

For the six months ended 30 June 2018

		Six months ended 30 June	
		2018	2017
		(Unaudited)	(Unaudited)
	Note	***HK$'000***	*HK$'000*
Revenue	3	**466,978**	444,996
Cost of sales		**(317,305)**	(300,823)
Gross profit		**149,673**	144,173
Other income		**5,573**	4,457
Other gains — net		**1,570**	2,216
Selling and distribution costs		**(47,874)**	(41,041)
Administration expenses		**(67,156)**	(62,564)
Profit from operations	4(a)	**41,786**	47,241

* *For identification purpose only*

	Note	Six months ended 30 June **2018** **(Unaudited)** ***HK$'000***	2017 (Unaudited) *HK$'000*
Finance income		**1,235**	615
Finance costs		**(622)**	(578)
Finance income — net	4(b)	**613**	37
Profit before income tax	4	**42,399**	47,278
Income tax expense	5	**(5,497)**	(7,115)
Profit for the period		**36,902**	40,163
Attributable to:			
Owners of the Company		**36,067**	39,403
Non-controlling interests		**835**	760
		36,902	40,163
Earnings per share attributable to owners of the Company			
Basic (HK cents per share)	6(a)	**8.90**	9.73
Diluted (HK cents per share)	6(b)	**8.79**	9.51

Interim Condensed Consolidated Statement of Comprehensive Income (Unaudited)

For the six months ended 30 June 2018

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Profit for the period	**36,902**	40,163
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
Exchange differences on translation of financial statements of foreign operations	**(5,503)**	1,112
Total comprehensive income for the period, net of tax	**31,399**	41,489
Attributable to:		
Owners of the Company	**31,010**	40,729
Non-controlling interests	**389**	760
Total comprehensive income for the period	**31,399**	41,489

Interim Condensed Consolidated Balance Sheet (Unaudited)

As at 30 June 2018

	Note	**30 June 2018 (Unaudited) *HK$'000***	31 December 2017 (Audited) *HK$'000*
ASSETS			
Non-current assets			
Property, plant and equipment	8	**321,482**	270,808
Investment properties	8	**41,854**	42,139
Goodwill		**33,798**	33,798
Other intangible assets	8	**10,993**	13,219
Deferred income tax assets		**1,664**	1,616
Available-for-sale financial asset		**—**	5,985
Financial assets at fair value through profit or loss		**21,929**	15,944
Other financial assets at amortised cost	9	**84**	425
		431,804	383,934
Current assets			
Inventories		**168,252**	176,825
Financial assets at fair value through profit or loss		**12,566**	20,380
Trade and other receivables	9	**221,577**	179,412
Tax recoverable		**1,056**	1,204
Short-term bank deposits		**3,235**	3,907
Cash and cash equivalents		**151,764**	182,843
		558,450	564,571
Total assets		**990,254**	948,505

	Note	30 June 2018 (Unaudited) HK$'000	31 December 2017 (Audited) HK$'000
EQUITY			
Equity attributable to owners of the Company			
Share capital		**40,532**	40,517
Other reserves		**229,304**	232,895
Retained earnings		**419,517**	395,326
		689,353	668,738
Non-controlling interests		**5,419**	5,030
Total equity		**694,772**	673,768
LIABILITIES			
Non-current liabilities			
Other non-current payables	10	**1,377**	1,520
Long service payment payable		**457**	457
Deferred tax liabilities		**3,930**	3,959
		5,764	5,936
Current liabilities			
Trade and other payables	10	**138,616**	137,229
Amounts due to non-controlling interests		**669**	649
Current income tax liabilities		**23,085**	18,395
Borrowings		**127,348**	112,528
		289,718	268,801
Total liabilities		**295,482**	274,737
Total equity and liabilities		**990,254**	948,505
Net current assets		**268,732**	295,770
Total assets less current liabilities		**700,536**	679,704

Notes

1. BASIS OF PREPARATION

This interim condensed consolidated financial information for the six months ended 30 June 2018 has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). This interim condensed consolidation financial information does not include all the notes of the type normally included in annual consolidated financial statements. Accordingly, this interim condensed consolidated financial information should be read in conjunction with the annual consolidated financial statements for the year ended 31 December 2017, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

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

2. ACCOUNTING POLICIES

The accounting policies applied are consistent with those of the annual consolidated financial statements for the year ended 31 December 2017, as described in those annual consolidated financial statements, except for estimation of income tax and the adoption of new and amended standards as set out below.

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

(a) New and amended standards adopted by the Group

A number of new or amended standards became applicable for the current reporting period. Of these, the following are relevant to the Group's interim condensed consolidated financial information.

- HKFRS 9 Financial Instruments, and
- HKFRS 15 Revenue from Contracts with Customers

The impact of the adoption of these standards and the new accounting policy are disclosed below. The other standards did not have material impact on the Group's accounting policies and did not require any adjustments.

The below explains the impact of adoption of HKFRS 9 Financial Instruments ("HKFRS 9") and HKFRS 15 Revenue from Contracts with Customers ("HKFRS 15") on the Group's condensed consolidated financial information and also discloses the new accounting policies that have been applied from 1 January 2018, where they are different to these applied in prior period.

(i) Accounting policies applied from 1 January 2018

The changes in the accounting policies and the effects of the resulting changes are summarised below:

(a) HKFRS 9 Financial Instruments

Investments and other financial assets

Classification

From 1 January 2018, the Group classifies its financial assets in the following measurement categories:

— those to be measured subsequently at fair value (either through other comprehensive income, or through profit or loss), and

— those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income ("FVOCI").

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss ("FVPL"), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial asset carried at FVPL are expensed in profit or loss.

- Debt instruments

  Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories to classify the debt instruments:

  (1) Amortised cost

  Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss.

  (2) Fair value through other comprehensive income

  Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss. Interest income from these financial assets is included in finance income using the effective interest rate method. Impairment expenses are presented as separate line item in the interim condensed consolidated statement of profit or loss.

  (3) Fair value through profit or loss

  Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss in the period in which it arises.

- Equity instruments

  The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Group's right to receive payments is established.

  Change in the fair value of financial assets at FVPL are recognised in other gains, net, in the interim condensed consolidated statement of profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

<u>Impairment</u>

From 1 January 2018, the Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

(b) HKFRS 15 Revenue from Contracts with Customers

Sales of goods

The Group principally engaged in the manufacturing, distribution and retailing of headwear products. Sales are recognised when control of the products has transferred, being when the products are delivered to the customers, the customer has accepted the products and there is no unfulfilled obligation that could affect the customer's acceptance of the products.

A receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

A contract liability is recognised when a customer pays consideration, or is contractually required to pay consideration and the amount is already due, before the Group recognises the related revenue. The Group recognised its contract liabilities under trade and other payables in the interim condensed consolidated balance sheet.

(ii) Impact of adoption

The adoption of HKFRS 15 did not have any material impact on the Group's interim condensed consolidated financial information.

The adoption of HKFRS 9 from 1 January 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the interim condensed consolidated financial information as described below.

In accordance with the transitional provisions in HKFRS 9, HKFRS 9 was generally adopted without restating comparative information. The reclassifications and the adjustments arising from the new impairment rules are therefore not reflected in the restated consolidated balance sheet as at 31 December 2017, but are recognised in the opening interim condensed consolidated balance sheet on 1 January 2018.

Classification and measurement of financial instruments

On 1 January 2018 (the date of initial application of HKFRS 9), the Group's management has assessed which business models apply to the financial assets held by the Group and has classified its financial instruments into the appropriate HKFRS 9 categories.

	Unaudited		
	31 December 2017 as originally presented *HK$'000*	**Reclassify from available-for-sale financial asset to financial asset at fair value through profit or loss** *(Note (a))* *HK$'000*	**1 January 2018 as restated** *HK$'000*
Available-for-sale financial asset			
— Unlisted equity investment in the United States of America ("USA")	5,985	(5,985)	—
Financial assets at fair value through profit or loss			
— Unlisted convertible bonds in Hong Kong	15,944	—	15,944
— Unlisted equity investment in the USA	—	5,985	5,985
	15,944	5,985	21,929

	Unaudited	
	Other reserves	**Retained earnings**
	HK$'000	*HK$'000*
Balance at 31 December 2017 as originally presented	7,803	395,326
Unlisted equity investment in the USA		
— Reclassify from available-for-sale financial asset to financial asset at fair value through profit or loss *(Note (a))*	239	(239)
Balance at 1 January 2018 as restated	8,042	395,087

Notes:

(a) Reclassification of available-for-sale financial asset to financial asset at fair value through profit or loss — unlisted equity investment in the USA.

The unlisted equity investment in the USA of the Group with fair value of HK$5,985,000 as at 1 January 2018 was reclassified from available-for-sale financial asset ("AFS") to financial assets at FVPL as they do not meet the HKFRS9 criteria for classification at amortised cost or FVOCI. Related cumulative fair value loss of HK$239,000 was reclassified from other reserves to retained earnings on 1 January 2018.

There is 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 FVPL and the Group does not have any such liabilities.

Impairment of financial assets

The Group has two types of financial assets that are subject to HKFRS 9 new expected credit loss model:

— trade receivables

— other financial assets carried at amortised cost

The Group was required to revise its impairment methodology under HKFRS 9 for each of these classes of assets.

While short-term bank deposits and cash and cash equivalents are also subject to the impairment requirements of HKFRS 9, the identified impairment loss was immaterial.

(a) Trade receivables

The Group applies the simplified approach to provide for expected credit losses prescribed by HKFRS 9, which permits the use of the lifetime expected losses for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics. Future cash flows for each group receivables are estimated on the basis of historical loss experience, adjusted to reflect the effects of current conditions as well as forward looking information.

Management has closely monitored the credit qualities and the collectability of the trade receivables and considers that the expected credit loss is immaterial. Trade receivables in dispute are assessed individually for impairment allowance and determined whether specific provisions are required. The adoption of the simplified expected credit loss approach under HKFRS 9 has not resulted in any additional impairment loss for trade receivables as at 1 January 2018.

(b) Other financial assets carried at amortised cost

For other financial assets at amortised cost, the expected credit loss is based on the 12-month expected credit loss. It is the portion of lifetime expected credit loss that results from default events on a financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime expected credit loss. Management has closely monitored the credit qualities and the collectability of the other financial assets at amortised cost and considers that the expected credit loss is immaterial.

(b) Impact of standards issued but not yet applied by the Group

HKFRS 16, 'Leases'

HKFRS 16 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 Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of HK$21,151,000. However, the Group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows.

Some of the commitments may be covered by the exception for short-term and low value leases and some commitments may relate to arrangements that will not qualify as leases under HKFRS 16.

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.

There are no other standards and interpretations that are not yet effective that would be expected to have a material impact on the entity's interim condensed consolidated financial information.

3. SEGMENT INFORMATION

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

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

(i) Manufacturing Business: The Group manufactures headwear products for sale to its Trading Business and Retail Business as well as to external customers. The principal manufacturing facilities are located in Bangladesh and Shenzhen, the People's Republic of China ("PRC"). Customers are mainly located in the 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 Six months ended		Trading Six months ended		Retail Six months ended		Total Six months ended	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)	**(Unaudited)**	(Unaudited)	**(Unaudited)**	(Unaudited)
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Revenue from external customers	**319,937**	311,547	**115,901**	97,711	**31,140**	35,738	**466,978**	444,996
Inter-segment revenue	**36,218**	37,025	**—**	—	**—**	—	**36,218**	37,025
Reportable segment revenue	**356,155**	348,572	**115,901**	97,711	**31,140**	35,738	**503,196**	482,021
Reportable segment profit/(loss)	**51,836**	54,416	**490**	3,477	**(5,762)**	(5,419)	**46,564**	52,474
Fair value gain on financial assets at FVPL							**286**	159
Share-based payment expenses							**(1,620)**	(640)
Unallocated corporate income							**5,063**	4,640
Unallocated corporate expenses							**(8,507)**	(9,392)
Profit from operations							**41,786**	47,241
Finance income — net							**613**	37
Income tax expense							**(5,497)**	(7,115)
Profit for the period							**36,902**	40,163

Segment assets exclude investment properties, deferred income tax assets, financial assets at FVPL, tax recoverable, 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 2018	31 December 2017	**30 June 2018**	31 December 2017	**30 June 2018**	31 December 2017	**30 June 2018**	31 December 2017
	(Unaudited)	(Audited)	**(Unaudited)**	(Audited)	**(Unaudited)**	(Audited)	**(Unaudited)**	(Audited)
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Reportable segment assets	**396,919**	371,765	**327,660**	268,946	**31,607**	33,776	**756,186**	674,487
Investment properties							**41,854**	42,139
Deferred income tax assets							**1,664**	1,616
AFS							**—**	5,985
Financial assets at FVPL							**34,495**	36,324
Tax recoverable							**1,056**	1,204
Short-term bank deposits							**3,235**	3,907
Cash and cash equivalents							**151,764**	182,843
Total assets							**990,254**	948,505

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 2018	31 December 2017	**30 June 2018**	31 December 2017	**30 June 2018**	31 December 2017	**30 June 2018**	31 December 2017
	(Unaudited)	(Audited)	**(Unaudited)**	(Audited)	**(Unaudited)**	(Audited)	**(Unaudited)**	(Audited)
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Reportable segment liabilities	**100,825**	102,601	**13,497**	10,059	**25,517**	24,540	**139,839**	137,200
Deferred income tax liabilities							**3,930**	3,959
Current income tax liabilities							**23,085**	18,395
Bank borrowings							**127,348**	112,528
Other corporate liabilities							**1,280**	2,655
							295,482	274,737
Capital expenditure incurred during the period/year	**24,555**	35,288	**44,230**	85,554	**219**	801	**69,004**	121,643

4. PROFIT BEFORE INCOME TAX

An analysis of the amounts debited/(credited) to profit before income tax in the interim condensed financial information is given below:

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
(a) Operating profit		
Fair value gain on financial assets at FVPL	**(286)**	(159)
Net exchange gain	**(1,179)**	(2,270)
Loss on deregistration of a subsidiary	**—**	214
Depreciation of property, plant and equipment	**11,559**	12,507
Amortisation of other intangible assets	**1,035**	2,458
Net provision for/(written back provision for) impairment of trade and other receivables	**98**	(421)
Net provision for inventories	**4,008**	3,994

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
(b) Finance income — net		
Interest on bank loans, overdrafts and other borrowings	**(1,945)**	(531)
Interest accretion on license fee payables	**(78)**	(35)
Interest on amount due to a non-controlling interest	**(13)**	(12)
	(2,036)	(578)
Amount capitalised *(note)*	**1,414**	—
Finance costs	**(622)**	(578)
Finance income	**1,235**	615
Finance income — net	**613**	37

Note:

Interest expenses on bank borrowings were capitalised at the weighted average rate of its general borrowings of approximately 3.1% (six months ended 30 June 2017: nil).

5. INCOME TAX EXPENSE

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Current year		
— Hong Kong profits tax	**379**	763
— Overseas tax	**7,670**	8,608
	8,049	9,371
Over-provision in prior years		
— Hong Kong profits tax	**(408)**	(679)
— Overseas tax	**(2,067)**	(1,783)
	(2,475)	(2,462)
Deferred income tax	**(77)**	206
	5,497	7,115

Income tax expense in the interim periods is recognised based on management's estimate of the weighted average annual income tax rate expected for the full financial year.

Hong Kong profits tax has been provided at the rate of 16.5% (six months ended 30 June 2017: 16.5%) on the estimated assessable profits for the period. Taxation on overseas profits has been calculated on the estimated assessable profits for the period at the rates of taxation prevailing in the countries in which the Group operates.

6. EARNINGS PER SHARE

(a) Basic

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

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Profit attributable to owners of the Company *(HK$'000)*	**36,067**	39,403
Weighted average number of ordinary shares in issue	**405,272,179**	405,068,975
Basic earnings per share *(HK cents)*	**8.90**	9.73

(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	
	2018	2017
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Profit attributable to owners of the Company *(HK$'000)*	**36,067**	39,403
Weighted average number of ordinary shares in issue	**405,272,179**	405,068,975
Adjustment for share options	**4,820,490**	9,323,771
Weighted average number of ordinary shares for diluted earnings per share	**410,092,669**	414,392,746
Diluted earnings per share *(HK cents)*	**8.79**	9.51

7. DIVIDENDS

(a) Dividends attributable to the period

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Interim dividend declared of 2 HK cents (2017: 2 HK cents) per share	**8,106**	8,101

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 2018.

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

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Final dividend paid in respect of 2017 of 3 HK cents (2016: 3 HK cents) per share	**12,160**	12,152

8. CAPITAL EXPENDITURE

During the six months ended 30 June 2018, the Group acquired property, plant and equipment of HK$67,941,000 (six months ended 30 June 2017: HK$9,644,000) and intangible assets of HK$1,063,000 (six months ended 30 June 2017: HK$94,000).

As at 30 June 2018, other intangible assets represent acquired customer relationship of HK$6,204,000 (31 December 2017: HK$6,959,000), trademark of HK$458,000 (31 December 2017: HK$998,000) and licensing rights for the use of certain licensed trademark, brands and logos in the Group's products of HK$4,331,000 (31 December 2017: HK$5,262,000).

The Group's investment properties were revalued at 31 December 2017. No valuation was performed during the period as there was no indication of significant changes in the value since last annual reporting date.

9. TRADE AND OTHER RECEIVABLES

	30 June 2018 (Unaudited) ***HK$'000***	31 December 2017 (Audited) *HK$'000*
Trade receivables	**191,845**	157,457
Less: provision for impairment	**(4,598)**	(4,515)
Trade receivables, net	**187,247**	152,942
Other current assets	**10,312**	11,238
Other financial assets at amortised cost	**25,606**	17,179
Less: provision for impairment	**(1,504)**	(1,522)
	221,661	179,837
Less: non-current portion of other financial assets at amortised cost	**(84)**	(425)
Current portion	**221,577**	179,412

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

The ageing analysis of trade receivables based on invoice date is as follows:

	30 June 2018 (Unaudited) *HK$'000*	31 December 2017 (Audited) *HK$'000*
0–30 days	**62,696**	66,016
31–60 days	**64,752**	40,211
61–90 days	**39,267**	26,377
91–120 days	**19,245**	18,731
Over 121 days	**5,885**	6,122
	191,845	157,457

Note:

Included in other financial assets at amortised cost as at 30 June 2018 are a note receivable from one customer of HK$373,000 (31 December 2017: HK$695,000) and a loan receivable from a supplier of HK$10,042,000 (31 December 2017: nil).

As at 30 June 2018, 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 2018, the loan receivable from a supplier is unsecured, interest bearing at 8% per annum and is repayable in December 2018. In addition, the note is repayable on demand at the discretion of the Group.

10. TRADE AND OTHER PAYABLES

	30 June 2018 (Unaudited) *HK$'000*	31 December 2017 (Audited) *HK$'000*
Trade payables	**59,821**	48,379
Bills payables	**11,964**	4,285
Accrued charges and other payables	**68,208**	86,085
	139,993	138,749
Less: other non-current payables	**(1,377)**	(1,520)
Current portion	**138,616**	137,229

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

	30 June 2018 (Unaudited) ***HK$'000***	31 December 2017 (Audited) *HK$'000*
0–30 days	**31,679**	25,843
31–60 days	**19,202**	17,272
61–90 days	**2,813**	1,671
Over 90 days	**6,127**	3,593
	59,821	48,379

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 2018 (the "Period") together with comparative figures from the corresponding period in 2017.

FINANCIAL REVIEW

In the first half of 2018, outbreak of the Sino-US trade war added uncertainties to the global trading environment. Nevertheless, where there are challenges, there are opportunities. As early as in 2013, Mainland Headwear set up a factory in Bangladesh to help it take advantage of China's Belt and Road initiative. With the trade war looming, US customers have turned to place orders with the Group's Bangladesh factory, benefiting the Group. Although, as the trade war escalates and with the traditional retail sector lacklustre, the Group's Trading and Retail businesses are facing unprecedented challenges, the Group continues to receive stable and considerable revenue from its primary income source Manufacturing Business.

During the Period, the Group achieved turnover of HK$466,978,000 (2017 Interim: HK$444,996,000), representing an increase of 4.9% against the same period last year. The increased orders received by the Bangladesh factory pushed gross profit of the Group up by 3.8% to HK$149,673,000 (2017 interim: HK$144,173,000). Gross profit margin was 32.1%, similar to that in the same period last year (2017 interim: 32.4%). While Manufacturing Business managed stable revenue growth, Trading and Retail businesses, were affected by the operating environment and incurred bigger loss. As a result, profit attributable to shareholders for the Period was HK$36,067,000 (2017 Interim: HK$39,403,000).

BUSINESS REVIEW

Manufacturing Business

Having long-standing and solid business relationship with customers and the Bangladesh factory giving it unique advantage, the Group has been receiving strong orders from customers. During the Period, Manufacturing Business made revenue of HK$356,155,000 (2017 interim: HK$348,572,000), with revenue from external customers rose steadily by 2.7% to HK$319,937,000 (2017 interim: HK$311,547,000) and made up 68.5% of the Group's total revenue. Production efficiency of the Bangladesh factory has been improving, but weather conditions there had disrupted construction of phase II of the factory. As a result, operating profit of the Manufacturing Business was HK$51,836,000 for the Period (2017 interim: HK$54,416,000).

As at 30 June 2018, the Bangladesh factory had about 4,000 employees (30 June 2017: about 3,500 employees). With a growing workforce and maturing production techniques, the factory's production efficiency has been improving and production capacity also increased from about 2.3 million pieces of headwear products per month in the same period last year to about 3 million pieces per month. As for the factory in Shenzhen with an around 1,100-strong workforce, it continues to focus on procuring raw materials, producing high-end headwear products, and handling short lead-time orders and product R&D.

Trading Business

Despite being impacted by such uncertainties as the Sino-US trade war and Brexit, the Group's Trading Business still managed a 18.6% growth in revenue during the Period, and the Group's subsidiary H3 Sportgear LLC ("H3") was the main growth driver. The company saw double-digit growth in orders from a multinational retail enterprise customer, evidencing the success of its business consolidation strategy. Revenue of the segment was HK$115,901,000 (2017 interim: HK$97,711,000), accounting for 24.8% of the Group's total revenue. Affected by the increase of resources in sales and R&D team to expand market share and E-commerce business, operating profit of the business for the Period was HK$490,000 (2017 interim: HK$3,477,000).

Retail Business

Although the Group has strived to develop its online sales platform and strictly control the number of underperforming own stores in its bid to lower operating costs, its Retail Business was inevitably affected by the change of consumption patterns. Revenue of the segment amounted to HK$31,140,000 (2017 Interim: HK$35,738,000) and operating loss was HK$5,762,000 (2017 interim: loss of HK$5,419,000).

PROSPECTS

Looking ahead, overshadowed by the Sino-US trade war, the environment for global trade will remain unstable, but that situation has been favourable for Mainland Headwear, which had the foresight of setting up its Bangladesh factory in 2013 to seize Belt and Road opportunities. The management firmly believes the move has given the Group a more solid foundation to achieve long-term development. And, US customers quickly switching their orders to the Bangladesh factory tells the Group that it has made the right decision to "Go Out".

The Group will strive to optimise capacity deployment in Bangladesh and speed up construction of phase II of the factory, aiming for the new plant to start operation in the last quarter of the year. The Group targets to increase the number of workers there to around 6,000 and the annual capacity to 40 million pieces of headwear products when the construction is fully completed. With the workers there coming to master relevant skills, the proportion of skilled workers at the factory has kept increasing and production efficiency alongside, and hence the factory is capable of handling more high-end headwear orders. To keep enhancing production efficiency of the factory, the Group will invest in automated production equipment to make sure the factory can meet the keen demand of customers. The Group is also encouraged by the fact that the Belt and Road initiative has attracted foreign capital to Bangladesh, and with its factory there connected to private power plant assuring it of stable power supply, the Group can increase output. As for the Shenzhen factory, it will continue to focus on R&D and design of high-end products, as well as providing related support.

Trading Business will continue to be affected by the Sino-US trade war in the foreseeable future. The management will closely monitor international trade conditions and respond agilely. Interior fitting of the new building of San Diego Hat Company ("SDHC") in California, the US, will be completed by the end of the year. By then, SDHC and its subsidiaries will be able to have all warehousing facilities in one place, easing inventory control and management. Moreover, SDHC will continue to expand its online sales platform, sell its own brand accessories directly and keep enriching its product mix. For H3, the series of restructuring measures it carried out started to bear fruit in the first half of the year. The management believes, with a stronger team and at the nurture by the Group, the business will achieve better results in good time.

As for Retail Business, which is facing a tough business environment, its operation will be reviewed by the Group very carefully.

With the best interest of shareholders at heart, the management will continue to reinforce the Group's principal Manufacturing Business and, at that same time, review the profitability of all businesses of the Group, with the aim of optimising resources allocation and in turn maximise profit.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2018, the Group had cash and bank balances, short-term deposits and a portfolio of liquid investments totaling Hong Kong dollars ("HK$") 167.6 million (31 December 2017: HK$207.1 million). About 45% and 25% of these liquid funds were denominated in United States dollars and Renminbi respectively. As at 30 June 2018, the Group had banking facilities of HK$352.9 million (31 December 2017: HK$364.4 million), of which HK$204.0 million (31 December 2017: HK$233.0 million) were not utilised.

The gearing ratio (being the Group's net borrowings over total equity) of the Group is at 18.3% (31 December 2017: 16.7%). In view of the strong financial and liquidity position, the Group has sufficient financial resources to meet its commitments and working capital requirements.

CAPITAL EXPENDITURE

During the Period, the Group spent HK$63.5 million (2017 Interim: HK$3.6 million) on the construction of a commercial building in the USA and a factory building in Bangladesh. The Group spent approximately HK$4.0 million (2017 Interim: HK$5.1 million) on additions to equipment to further upgrade and expand its manufacturing capabilities, HK$0.2 million (2017 Interim: HK$0.3 million) for the renovation of retail stores, and HK$0.2 million (2017 Interim: HK$0.6 million) for additions of equipment and systems of Trading Business.

As at 30 June 2018, the Group had authorised a capital commitment of HK$72.4 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$268 million in respect of construction of an office and warehouse building in the USA and equipment upgrade for trading business. In addition, the Group had authorised a capital commitment of HK$1.0 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 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

As at 30 June 2018, the Group employed a total of 1,298 (2017 Interim: 1,586) workers and employees in the PRC (include Hong Kong), 3,990 (2017 Interim: 3,451) workers and employees in Bangladesh, and 44 (2017 Interim: 41) employees in the USA and the UK. The expenditures for the employees during the Period were approximately HK$125.0 million (2017 Interim: HK$119.6 million). The Group ensures that the pay levels of its employees are competitive and employees are remunerated based on their position and performance. Key employees of the Group, including Directors, are also granted share options under the share option schemes operated by the Company.

INTERIM DIVIDEND

The Board has declared an interim dividend of 2 HK cents (2017: 2 HK cents) per share, payable on or after 12 October 2018.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 18 September 2018 to 20 September 2018 (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 17 September 2018.

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

During the six months ended 30 June 2018, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

CODE ON CORPORATE GOVERNANCE PRACTICES

In the opinion of the Board, the Company has complied with the code provisions in the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Listing Rules during the six months ended 30 June 2018.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules. All Directors have confirmed, following enquiries by the Company, that they have complied with the required standard set out in Model Code throughout the period ended 30 June 2018.

AUDIT COMMITTEE

The Company has complied with Rule 3.21 of the Listing Rules in relation to the establishment of an audit committee. The audit committee members comprise of all independent non-executive directors. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control procedures of the Group. The audit committee has reviewed the interim condensed consolidated financial information for the period ended 30 June 2018.

By Order of the Board
Ngan Hei Keung
Chairman

Hong Kong, 23 August 2018

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.