Mainland Headwear Holdings Limited

(Stock code: 1100)

INTERIM REPORT 2018

Contents

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).

Management Discussion and Analysis

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 research & development ("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: HK$5,419,000).

Management Discussion and Analysis

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.

Management Discussion and Analysis

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.

Management Discussion and Analysis

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 and Closure of Register of Members

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.

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	6&7	**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	8(a)	**41,786**	47,241
Finance income		**1,235**	615
Finance costs		**(622)**	(578)
Finance income — net	8(b)	**613**	37
Profit before income tax		**42,399**	47,278
Income tax expense	9	**(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)	10	**8.90**	9.73
Diluted (HK cents per share)		**8.79**	9.51

The notes on pages 15 to 47 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 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

The notes on pages 15 to 47 form an integral part of these interim condensed consolidated financial information.

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	12	**321,482**	270,808
Investment properties	12	**41,854**	42,139
Goodwill		**33,798**	33,798
Other intangible assets	12	**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	13	**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	13	**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

Interim Condensed Consolidated Balance Sheet (Unaudited)

As at 30 June 2018

	Note	30 June 2018 (Unaudited) *HK$'000*	31 December 2017 (Audited) *HK$'000*
EQUITY			
Equity attributable to owners of the Company			
Share capital	14	**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	15	**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	15	**138,616**	137,229
Amounts due to non-controlling interests		**669**	649
Current income tax liabilities		**23,085**	18,395
Borrowings	16	**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

The notes on pages 15 to 47 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 2018

	(Unaudited)									
	Attributable to owners of the Company									
	Share capital *HK$'000*	Share premium *HK$'000*	Contributed surplus *HK$'000*	Share based compensation reserve *HK$'000*	Other reserve *HK$'000*	Exchange reserve *HK$'000*	Retained earnings *HK$'000*	Total *HK$'000*	Non-controlling interests *HK$'000*	Total equity *HK$'000*
Balance at 31 December 2017 as originally presented	40,517	166,836	25,878	9,471	7,803	22,907	395,326	668,738	5,030	673,768
Change in accounting policy *(Note 3)*	–	–	–	–	239	–	(239)	–	–	–
Restated total equity as at 1 January 2018	40,517	166,836	25,878	9,471	8,042	22,907	395,087	668,738	5,030	673,768
Profit for the period	–	–	–	–	–	–	36,067	36,067	835	36,902
Other comprehensive income	–	–	–	–	–	(5,057)	–	(5,057)	(446)	(5,503)
Total comprehensive income for the period net of tax	–	–	–	–	–	(5,057)	36,067	31,010	389	31,399
2017 final dividends paid	–	–	–	–	–	–	(12,160)	(12,160)	–	(12,160)
Share option scheme:										
– Value of service provided	–	–	–	1,620	–	–	–	1,620	–	1,620
– Share options exercised	15	179	–	(49)	–	–	–	145	–	145
– Share option lapsed	–	–	–	(523)	–	–	523	–	–	–
Total contributions by and distribution to owners of the Company	15	179	–	1,048	–	–	(11,637)	(10,395)	–	(10,395)
At 30 June 2018	40,532	167,015	25,878	10,519	8,042	17,850	419,517	689,353	5,419	694,772

Interim Condensed Consolidated Statement of Changes in Equity (Unaudited)

For the six months ended 30 June 2018

	(Unaudited)									
	Attributable to owners of the Company									
	Share capital *HK$'000*	Share premium *HK$'000*	Contributed surplus *HK$'000*	Share based compensation reserve *HK$'000*	Other reserve *HK$'000*	Exchange reserve *HK$'000*	Retained earnings *HK$'000*	Total *HK$'000*	Non-controlling interests *HK$'000*	Total equity *HK$'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

The notes on pages 15 to 47 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 2018

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Cash flows from operating activities		
Cash generated from operations	**26,760**	23,246
Income tax paid	**(736)**	(2,431)
Interest paid	**(2,036)**	(578)
Net cash generated from operating activities	**23,988**	20,237
Cash flows from investing activities		
Interest received	**1,235**	615
Purchase of property, plant and equipment	**(67,101)**	(9,644)
Purchase of an available-for-sale financial asset	**–**	(6,224)
Proceed from disposal of a financial asset at fair value through profit or loss	**8,110**	–
Short-term bank deposits	**672**	(12)
Net cash used in investing activities	**(57,084)**	(15,265)
Cash flows from financing activities		
Dividends paid	**(12,160)**	(12,152)
Dividends paid to non-controlling interests	**–**	(169)
Proceeds from bank borrowings	**45,000**	21,931
Repayment of bank borrowings	**(30,180)**	(27,157)
Acquisition of a non-controlling interest	**–**	(1,868)
Proceeds from exercise of share options	**145**	57
Net cash generated from/(used in) financing activities	**2,805**	(19,358)
Net decrease in cash and cash equivalents	**(30,291)**	(14,386)
Cash and cash equivalents at beginning of the period	**182,843**	201,881
Effect of foreign exchange rate changes	**(788)**	466
Cash and cash equivalents at end of the period	**151,764**	187,961

The notes on pages 15 to 47 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 2018

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 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.

3. 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.

Notes to the Unaudited Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2018

3. ACCOUNTING POLICIES *(CONTINUED)*

(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

Notes to the Unaudited Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2018

3. ACCOUNTING POLICIES *(CONTINUED)*

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

(i) Accounting policies applied from 1 January 2018 (Continued)

(a) HKFRS 9 Financial Instruments (Continued)

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.

Notes to the Unaudited Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2018

3. ACCOUNTING POLICIES *(CONTINUED)*

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

(i) Accounting policies applied from 1 January 2018 (Continued)

(a) HKFRS 9 Financial Instruments (Continued)

Measurement *(Continued)*

- 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.

Notes to the Unaudited Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2018

3. ACCOUNTING POLICIES *(CONTINUED)*

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

(i) Accounting policies applied from 1 January 2018 (Continued)

(a) HKFRS 9 Financial Instruments (Continued)

Measurement *(Continued)*

- Debt instruments *(Continued)*

  (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.

Notes to the Unaudited Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2018

3. ACCOUNTING POLICIES *(CONTINUED)*

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

(i) Accounting policies applied from 1 January 2018 (Continued)

(a) HKFRS 9 Financial Instruments (Continued)

Impairment

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.

Notes to the Unaudited Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2018

3. ACCOUNTING POLICIES *(CONTINUED)*

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

(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.

Notes to the Unaudited Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2018

3. ACCOUNTING POLICIES *(CONTINUED)*

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

(ii) Impact of adoption (Continued)

Classification and measurement of financial instruments (Continued)

	Unaudited		
	31 December 2017 as originally presented	**Reclassify from available-for-sale financial asset to financial asset at fair value through profit or loss** *(Note (a))*	**1 January 2018 as restated**
	HK$'000	*HK$'000*	*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

Notes to the Unaudited Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2018

3. ACCOUNTING POLICIES *(CONTINUED)*

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

(ii) Impact of adoption (Continued)

Classification and measurement of financial instruments (Continued)

	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 HKFRS 9 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.

Notes to the Unaudited Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2018

3. ACCOUNTING POLICIES *(CONTINUED)*

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

(ii) Impact of adoption (Continued)

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.

Notes to the Unaudited Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2018

3. ACCOUNTING POLICIES *(CONTINUED)*

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

(ii) Impact of adoption (Continued)

Impairment of financial assets (Continued)

(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.

Notes to the Unaudited Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2018

3. ACCOUNTING POLICIES *(CONTINUED)*

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

HKFRS 16, 'Leases' (Continued)

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.

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 2017.

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 2017.

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

Notes to the Unaudited Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2018

5. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

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).

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 2018.

	Level 1 (Unaudited) *HK$'000*	Level 2 (Unaudited) *HK$'000*	Level 3 (Unaudited) *HK$'000*	Total (Unaudited) *HK$'000*
Assets				
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
– Listed securities in Hong Kong	12,566	–	–	12,566
Total financial assets	12,566	–	21,929	34,495

Notes to the Unaudited Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2018

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 2017.

	Level 1 (Audited) *HK$'000*	Level 2 (Audited) *HK$'000*	Level 3 (Audited) *HK$'000*	Total (Audited) *HK$'000*
Assets				
Available-for-sale financial asset				
– Unlisted equity investment in the USA	–	–	5,985	5,985
Financial assets at fair value through profit or loss				
– Unlisted fund investment in Hong Kong	–	–	8,110	8,110
– Unlisted convertible bonds in Hong Kong	–	–	15,944	15,944
– Listed securities in Hong Kong	12,270	–	–	12,270
Total financial assets	12,270	–	30,039	42,309

Note: See note 3(a)(ii) for details regarding the restatement as a result of a change in accounting policy.

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.

Notes to the Unaudited Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2018

5. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

5.2 Fair value estimation *(Continued)*

There were no significant changes in the business or economic circumstances for the six months ended 30 June 2018 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 2018.

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

	Available-for-sale financial asset – Unlisted equity investment in USA (Unaudited) *HK$'000*	Financial asset at fair value through profit or loss – Unlisted fund investment in Hong Kong (Unaudited) *HK$'000*	Financial asset at fair value through profit or loss – Unlisted convertible bonds in Hong Kong (Unaudited) *HK$'000*	Financial asset at fair value through profit or loss – Unlisted equity investment in USA (Unaudited) *HK$'000*
At 31 December 2017 as originally presented	5,985	8,110	15,944	–
Change in accounting policy *(Note 3(a)(ii))*	(5,985)	–	–	5,985
At 1 January 2018 as restated	–	8,110	15,944	5,985
Disposal	–	(8,110)	–	–
At 30 June 2018	–	–	15,944	5,985

The financial asset at fair value through profit or loss 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 values of the financial assets at fair value through profit or loss as at 30 June 2018 approximate the values as last annual reporting date as there are no indication of significant change in the values since then.

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
- Other financial assets at amortised cost
- 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.

Notes to the Unaudited Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2018

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.

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.

Notes to the Unaudited Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2018

7. SEGMENT INFORMATION *(CONTINUED)*

(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 (Unaudited) *HK$'000*	2017 (Unaudited) *HK$'000*	**2018 (Unaudited) *HK$'000***	2017 (Unaudited) *HK$'000*	**2018 (Unaudited) *HK$'000***	2017 (Unaudited) *HK$'000*	**2018 (Unaudited) *HK$'000***	2017 (Unaudited) *HK$'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.

Notes to the Unaudited Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2018

7. SEGMENT INFORMATION *(CONTINUED)*

(iii) (Continued)

	Manufacturing		Trading		Retail		Total	
	30 June 2018 (Unaudited) *HK$'000*	31 December 2017 (Audited) *HK$'000*	**30 June 2018 (Unaudited) *HK$'000***	31 December 2017 (Audited) *HK$'000*	**30 June 2018 (Unaudited) *HK$'000***	31 December 2017 (Audited) *HK$'000*	**30 June 2018 (Unaudited) *HK$'000***	31 December 2017 (Audited) *HK$'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 (Unaudited) *HK$'000*	31 December 2017 (Audited) *HK$'000*	**30 June 2018 (Unaudited) *HK$'000***	31 December 2017 (Audited) *HK$'000*	**30 June 2018 (Unaudited) *HK$'000***	31 December 2017 (Audited) *HK$'000*	**30 June 2018 (Unaudited) *HK$'000***	31 December 2017 (Audited) *HK$'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

Notes to the Unaudited Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2018

8. 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
(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).

Notes to the Unaudited Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2018

9. 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.

Notes to the Unaudited Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2018

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	
	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.

Notes to the Unaudited Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2018

10. EARNINGS PER SHARE *(CONTINUED)*

(b) Diluted *(Continued)*

	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

11. 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.

Notes to the Unaudited Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2018

11. DIVIDENDS *(CONTINUED)*

(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

12. 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.

Notes to the Unaudited Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2018

13. 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.

Notes to the Unaudited Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2018

13. TRADE AND OTHER RECEIVABLES *(CONTINUED)*

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.

Notes to the Unaudited Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2018

14. SHARE CAPITAL

(a) Share capital

	Number of shares of HK$0.10 each	*HK$'000*
Authorised:		
At 1 January 2017, 31 December 2017, 1 January 2018 and 30 June 2018	**1,000,000,000**	100,000
At 1 January 2017	**405,013,284**	40,501
Share option scheme:		
— Exercise of share options	**160,000**	16
At 31 December 2017	**405,173,284**	40,517
Share option scheme:		
— Exercise of Share options *(note)*	**150,000**	15
At 30 June 2018	**405,323,284**	40,532

Note:

During the six months ended 30 June 2018, options were exercised to subscribe for 130,000 shares and 20,000 shares at the exercise price of HK$0.946 per share and HK$1.12 per share respectively under the share option schemes. Those newly issued shares rank pari passu with the existing shares.

(b) Equity settled share-based payment transactions

On 29 December 2011, share option scheme (the "Share Option 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.

Notes to the Unaudited Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2018

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 39,858,328, being 10% of the shares in issue of the Company as at 29 December 2011, the date of adoption of the Share Option Scheme. The scheme mandate limit was refreshed on 16 May 2018. Upon refreshing of the scheme mandate limit, the Company may grant options entitling holders thereof to subscribe for up to a maximum of 40,532,828 shares, representing 10% of the shares in issue of the Company as at 16 May 2018.

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.

There is no new share option granted during the six months ended 30 June 2018.

(i) Movement in share option

	2018		2017	
	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	**45,350**	**1.241**	26,140	0.969
Granted	**—**	**—**	20,370	1.534
Exercise	**(150)**	**0.969**	(60)	0.946
Lapsed	**(1,000)**	**1.190**	—	—
At 30 June	**44,200**	**1.243**	46,450	1.247
Options vested at closing	**21,294**	**1.077**	16,200	0.969

Notes to the Unaudited Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2018

14. SHARE CAPITAL *(CONTINUED)*

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

(i) Movement in share option (Continued)

As at 30 June 2018, the options have a weighted average contractual terms of 6.0 years (31 December 2017: 6.4 years).

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

	Exercise price (Unaudited) *HK$*	**30 June 2018** **Number of share options** **(Unaudited)** ***'000***	31 December 2017 (Audited) *'000*
10 June 2018	1.190	**–**	1,000
22 June 2019	0.946	**11,900**	12,030
7 November 2020	0.920	**900**	900
29 December 2021	0.800	**1,000**	1,000
14 July 2025	1.120	**11,030**	11,050
12 April 2027	1.534	**19,370**	19,370
		44,200	45,350

As at 30 June 2018, out of total 44,200,000 (31 December 2017: 45,350,000) outstanding options, 21,294,000 options (31 December 2017: 18,570,000) are exercisable. 150,000 share options were exercised during six months ended 30 June 2018 (six months ended 30 June 2017: 60,000).

(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 2018

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:

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$1,620,000 (six months ended 30 June 2017: HK$640,000) 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 2018 and a corresponding amount has been credited to share based compensation reserve.

15. 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

Notes to the Unaudited Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2018

15. TRADE AND OTHER PAYABLES *(CONTINUED)*

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

16. BORROWINGS

Movement in borrowings is analysed as follows:

	(Unaudited) *HK$'000*
Six months ended 30 June 2018	
Opening amount as at 1 January 2018	**112,528**
Repayment of bank borrowings	**(30,180)**
Proceeds from bank borrowings	**45,000**
Closing amount as at 30 June 2018	**127,348**
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
Closing amount as at 30 June 2017	53,395

Notes to the Unaudited Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2018

17. CAPITAL COMMITMENTS

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

	30 June 2018 (Unaudited) *HK$'000*	31 December 2017 (Audited) *HK$'000*
Contracted but not provided for	**41,421**	58,429

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	
	2018 (Unaudited) *HK$'000*	2017 (Unaudited) *HK$'000*
Sales of goods to affiliated companies of a shareholder	**201,890**	184,891
Rental paid in respect of office premises to directors and a company controlled by a director	**861**	861
Claim charges paid to affiliated companies of a shareholder	**291**	489

Notes to the Unaudited Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2018

18. SIGNIFICANT RELATED PARTY TRANSACTIONS *(CONTINUED)*

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

	30 June 2018 (Unaudited) *HK$'000*	31 December 2017 (Audited) *HK$'000*
Trade receivables from affiliated companies of a shareholder	**108,399**	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.

(c) Key management personnel remuneration

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

	Six months ended 30 June	
	2018 (Unaudited) *HK$'000*	2017 (Unaudited) *HK$'000*
Short-term employee benefits	**12,054**	11,350
Retirement scheme contributions	**102**	84
	12,156	11,434

19. APPROVAL OF INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

The interim condensed consolidated financial information was approved by the Board of Directors on 23 August 2018.

Other Information Provided in Accordance with the Listing Rules

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 30 June 2018, 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				
	Personal interest	**Other direct interest**	**Underlying shares**	**Total**	**Percentage of interest**
Mr. Ngan Hei Keung	—	219,952,000 *(note 1, 2)*	50,800,000 *(note 3, 4)*	270,752,000	66.80%
Madam Ngan Po Ling, Pauline, *BBS, JP*	36,252,000 *(note 2)*	183,700,000 *(note 1)*	50,800,000 *(note 3, 4)*	270,752,000	66.80%
Mr. James S. Patterson	—	—	2,000,000 *(note 4)*	2,000,000	0.49%
Ms. Maggie Gu	—	—	2,200,000 *(note 4, 5)*	2,200,000	0.54%
Mr. Ngan Siu Hon, Alexander	—	—	2,000,000 *(note 5)*	2,000,000	0.49%

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 36,252,000 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.

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: (Continued)

(4) Mr. Ngan and Madam Ngan are entitled to subscribe for 5,000,000 shares and 6,000,000 shares respectively pursuant to the outstanding options granted under the Company's share options scheme.

(5) Mr. James S. Patterson is entitled to subscribe for 2,000,000 shares pursuant to the outstanding options granted under the Company's share options scheme.

(6) Ms. Maggie Gu is entitled to subscribe for 2,200,000 shares pursuant to the outstanding options granted under the Company's share options scheme.

(7) Mr. Ngan Siu Hon, Alexander is entitled to subscribe for 2,000,000 shares pursuant to the outstanding options granted under the Company's share options scheme.

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.

SHARE OPTION SCHEMES

On 29 December 2011, share option scheme (the "Share Option 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 Share Option 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 Share Option Scheme. Upon refreshing of the scheme mandate limit, the Company may grant options entitling holders thereof to subscribe for up to a maximum of 40,532,828 shares, representing 10% of the shares in issue of the Company as at 16 May 2018.

Other Information Provided in Accordance with the Listing Rules

SHARE OPTION SCHEMES *(CONTINUED)*

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

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 Share Option 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 Share Option 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 Share Option 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 Share Option Scheme was 40,532,828 shares, which represented 10% of the issued share capital of the Company.

Other Information Provided in Accordance with the Listing Rules

SHARE OPTION SCHEMES *(CONTINUED)*

At 30 June 2018, 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$1.26 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:

				Number of shares				
	Date of grant	Period during which options exercisable	Exercise price	Outstanding at 1.1.2018	Exercised during the period	Lapsed during the period	Outstanding at 30.6.2018	Market value per share at date of grant
			HK$					*HK$*
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	1.120	2,200,000	–	–	2,200,000	1.12
	13.04.2017	13.04.2017–12.04.2027	1.534	8,000,000	–	–	8,000,000	1.50
				17,200,000	–	–	17,200,000	
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	5,030,000	(130,000)	–	4,900,000	0.93
	08.11.2010	08.11.2011–07.11.2020	0.920	900,000	–	–	900,000	0.92
	30.12.2011	30.12.2012–29.12.2021	0.800	1,000,000	–	–	1,000,000	0.80
	15.07.2015	15.07.2016–14.07.2025	1.120	8,850,000	(20,000)	–	8,830,000	1.12
	13.04.2017	13.04.2017–12.04.2027	1.534	11,370,000	–	–	11,370,000	1.50
				28,150,000	(150,000)	(1,000,000)	27,000,000	

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$1,620,000 of share-based payment expense has been included in the condensed consolidated statement of profit or loss for the six months ended 30 June 2018 (2017: HK$640,000) 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 2018, 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

		Number of shares				
Name	**Capacity**	**Personal interest**	**Other interest**	**Underlying shares**	**Total**	**Percentage of interest**
Madam Ngan Po Ling, Pauline, *BBS, JP*	Beneficial owner	36,252,000	–	–	36,252,000	8.94%
	Interest of a controlled corporation *(note 1)*	–	183,700,000	–	183,700,000	45.32%
					219,952,000	54.26%
Successful Years International Co., Ltd. *(note 1)*	Beneficial owner	183,700,000	–	–	183,700,000	45.32%
Mr. Christopher Koch *(note 2)*	Interest of a controlled corporation	–	79,601,000	–	79,601,000	19.64%
NEHK *(note 2)*	Interest of a controlled corporation	79,601,000	–	–	79,601,000	19.64%

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.

Other Information Provided in Accordance with the Listing Rules

SUBSTANTIAL SHAREHOLDERS *(CONTINUED)*

Short positions in the underlying shares

Name	Number of underlying shares	Percentage of interest
Mr. Christopher Koch	39,800,000 *(Note)*	9.82%
NEHK	39,800,000 *(Note)*	9.82%

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 2018, 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 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.

Other Information Provided in Accordance with the Listing Rules

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.