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

(Incorporated in Bermuda with limited liability)

(Stock code: 1100)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2018

The board of directors (the "Board"/"Directors") of Mainland Headwear Holdings Limited (the "Company") is pleased to announce the financial results of the Company and its subsidiaries (collectively the "Group"/"Mainland Headwear") for the year ended 31 December 2018.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2018

	Note	**2018** ***HK$'000***	2017 *HK$'000*
Revenue	2	**941,493**	890,707
Cost of sales		**(649,969)**	(602,913)
Gross profit		**291,524**	287,794
Other income		**11,987**	10,302
Other gains — net	3	**854**	3,921
Selling and distribution costs		**(105,740)**	(89,228)
Administration expenses		**(128,014)**	(128,231)
Net (impairment loss)/reversal of impairment loss on financial assets		**(1,126)**	470
Profit from operations		**69,485**	85,028
Finance income	4	**1,527**	1,516
Finance costs	4	**(276)**	(966)
Finance income — net		**1,251**	550
Profit before income tax	5	**70,736**	85,578
Income tax expense	6	**(3,390)**	(4,355)
Profit for the year		**67,346**	81,223

* *For identification purpose only*

	Note	**2018** **HK$'000**	2017 HK$'000
Profit attributable to:			
Owners of the Company		**62,513**	77,228
Non-controlling interests		**4,833**	3,995
		67,346	81,223
Earnings per share for the profit attributable to owners of the Company	7		
Basic (HK cents per share)		**15.42**	19.06
Diluted (HK cents per share)		**15.27**	18.67

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

	2018	2017
	HK$'000	*HK$'000*
Profit for the year	**67,346**	81,223
Other comprehensive (loss)/income, net of tax		
Items that may be subsequently reclassified to profit or loss:		
Change in the fair value of an available-for-sale financial asset	**—**	(239)
Exchange differences on translation of financial statements of foreign operations	**(9,550)**	6,003
Total comprehensive income for the year, net of tax	**57,796**	86,987
Total comprehensive income attributable to:		
Owners of the Company	**53,658**	82,870
Non-controlling interests	**4,138**	4,117
Total comprehensive income for the year	**57,796**	86,987

CONSOLIDATED BALANCE SHEET

As at 31 December 2018

	Note	2018 HK$'000	2017 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment		**376,838**	270,808
Investment properties		**41,061**	42,139
Goodwill		**33,798**	33,798
Other intangible assets		**11,980**	13,219
Deferred income tax assets		**2,189**	1,616
Available-for-sale financial asset		**—**	5,985
Financial assets at fair value through profit or loss		**21,746**	15,944
Other financial assets of amortised cost	9	**81**	425
		487,693	383,934
Current assets			
Inventories		**208,656**	176,825
Other current assets	10	**29,174**	10,533
Other financial assets at amortised cost	9	**17,662**	15,937
Trade receivables	9	**215,401**	152,942
Financial assets at fair value through profit or loss		**11,078**	20,380
Tax recoverable		**823**	1,204
Short-term bank deposits		**3,852**	3,907
Cash and cash equivalents		**97,254**	182,843
		583,900	564,571
Total assets		**1,071,593**	948,505
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company			
Share capital		**40,532**	40,517
Other reserves		**226,938**	232,895
Retained earnings		**437,856**	395,326
		705,326	668,738
Non-controlling interests		**9,168**	5,030
Total equity		**714,494**	673,768

	Note	2018 HK$'000	2017 HK$'000
LIABILITIES			
Non-current liabilities			
Other payables	11	**2,572**	1,977
Borrowings		**609**	—
Deferred income tax liabilities		**3,892**	3,959
		7,073	5,936
Current liabilities			
Trade and other payables	11	**183,787**	137,229
Amount due to a non-controlling interest		**713**	649
Borrowings		**149,412**	112,528
Current income tax liabilities		**16,114**	18,395
		350,026	268,801
Total liabilities		**357,099**	274,737
Total equity and liabilities		**1,071,593**	948,505
Net current assets		**233,874**	295,770
Total assets less current liabilities		**721,567**	679,704

Notes

1. ACCOUNTING POLICIES

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

(a) Basis of preparation

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

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

Changes in accounting policy and disclosures

(i) New and amended standards adopted by the Group

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

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

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 consolidated financial statements.

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

HKFRS 9 replaces the provisions of HKAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of HKFRS 9 from 1 January 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the consolidated financial statements 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 consolidated balance sheet on 1 January 2018.

Impact of adoption

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.

	As at 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))***	**As at 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 asset at fair value through profit or loss			
— Unlisted equity investment in the USA	—	5,985	5,985

	Other reserves *HK$'000*	Retained earnings *HK$'000*
As at 31 December 2017, as originally presented	7,803	395,326
Unlisted equity investment in the USA — Reclassify from AFS to financial asset at FVPL *(note (a))*	239	(239)
As at 1 January 2018, as restated	8,042	395,087

Note:

(a) Reclassification of available-for-sale financial asset to financial asset at fair value through profit and loss — unlisted equity investment

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 AFS to financial assets at FVPL as they do not meet the HKFRS 9 criteria for classification at amortised cost and the Group does not elect to classify the unlisted equity investment as financial assets at fair value through other comprehensive income ("FVOCI"). Related cumulative fair value loss of HK$239,000 was reclassified from other reserves to retained earnings on 1 January 2018. During the year ended 31 December 2018, fair value loss of HK$155,000 relating to the investment was recognised in the consolidated statement of profit or loss.

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's 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.

1. 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, the trade receivables relating to customers with known financial difficulties or significant doubt on collection of receivables are assessed individually for provision for impairment allowance.

Expected credit losses are also estimated by grouping the remaining trade receivables based on shared credit risk characteristics and collectively assessed for likelihood of recovery, taking into account the nature of the customer and its ageing category, and applying expected credit loss rates to the respective gross carrying amounts of the receivables.

The expected credit loss rates are determined based on historical credit losses experienced up to past 3 years and are adjusted to reflect current and forward-looking information such as macroeconomic factors affecting the ability of the customers to settle the receivables.

Management has closely monitored the credit qualities and the collectability of the trade receivables. 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.

2. Other financial assets carried at amortised cost

For other financial assets carried 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 as at 31 December 2017.

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

HKFRS 16 Leases

HKFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the consolidated balance sheet by lessees, 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$16,350,000. 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 Group will apply the standard from its mandatory adoption date of 1 January 2019. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. Right-of-use assets for property leases will be measured on transition as if the new rules had always been applied. All other right-of-use assets will be measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses).

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 consolidated financial statements.

2. SEGMENT INFORMATION

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

The executive directors consider the business from a business perspective whereby management assesses the performance of business operations by segment as follows:

(i) Manufacturing Business: The Group manufactures headwear products for sale to its Trading Business and Retail Business as well as to external customers. The principal manufacturing facilities are located in Bangladesh and Shenzhen, the People's Republic of China ("PRC"). Customers are mainly located in the USA and Europe.

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

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

	Manufacturing		Trading		Retail		Total	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Revenue from external customers	**672,790**	634,563	**213,143**	184,543	**55,560**	71,601	**941,493**	890,707
Inter-segment revenue	**56,144**	67,969	**—**	—	**—**	—	**56,144**	67,969
Reportable segment revenue	**728,934**	702,532	**213,143**	184,543	**55,560**	71,601	**997,637**	958,676
Reportable segment profit/(loss)	**108,673**	100,590	**(19,218)**	2,950	**(13,677)**	(8,447)	**75,778**	95,093
Financial assets at fair value through profit or loss								
— fair value (loss)/gain							**(1,375)**	430
— interest income							**830**	—
Fair value gain on investment properties							**290**	1,018
Share-based payment expense							**(3,050)**	(3,618)
Unallocated corporate income							**10,155**	9,277
Unallocated corporate expenses							**(13,143)**	(17,172)
Profit from operations							**69,485**	85,028
Finance income							**1,527**	1,516
Finance costs							**(276)**	(966)
Income tax expense							**(3,390)**	(4,355)
Profit for the year							**67,346**	81,223
Depreciation of property, plant and equipment	**17,521**	17,753	**5,433**	4,238	**1,263**	1,633	**24,217**	23,624
Amortisation of other intangible assets	**—**	—	**7,464**	5,737	**—**	—	**7,464**	5,737
Reportable segment assets	**501,729**	371,765	**371,842**	268,946	**20,019**	33,776	**893,590**	674,487
Investment properties							**41,061**	42,139
Deferred income tax assets							**2,189**	1,616
Available-for-sale financial asset							**—**	5,985
Financial assets at fair value through profit or loss							**32,824**	36,324
Tax recoverable							**823**	1,204
Short-term bank deposits							**3,852**	3,907
Cash and cash equivalents							**97,254**	182,843
Total assets							**1,071,593**	948,505
Reportable segment liabilities	**144,724**	102,601	**18,519**	10,059	**21,255**	24,540	**184,498**	137,200
Deferred income tax liabilities							**3,892**	3,959
Current income tax liabilities							**16,114**	18,395
Borrowings							**150,021**	112,528
Other corporate liabilities							**2,574**	2,655
Total liabilities							**357,099**	274,737
Capital expenditure incurred during the year	**63,412**	35,288	**80,177**	85,554	**313**	801	**143,902**	121,643

(i) Revenue from external customers

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

	2018	2017
	HK$'000	*HK$'000*
USA	**685,307**	619,676
Europe	**101,762**	107,265
PRC	**63,262**	61,328
Hong Kong	**20,219**	30,925
Others	**70,943**	71,513
Total	**941,493**	890,707

During the year ended 31 December 2018, revenue derived from the Group's largest customer (who is affiliated company of a shareholder) and the second-largest customer amounted to HK$447,405,000 or 47.5% and HK$89,029,000 or 9.5% of the Group's revenue respectively (2017: HK$385,072,000 or 43.2%; HK$97,291,000 or 10.9%). These revenues were attributable to the Manufacturing Business.

(ii) Non-current assets

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

	2018	2017
	HK$'000	*HK$'000*
USA	**260,007**	191,154
Bangladesh	**143,146**	96,675
PRC	**37,592**	47,502
Europe	**7,603**	7,841
Hong Kong	**3,430**	3,998
	451,778	347,170
Other intangible assets	**11,980**	13,219
Deferred income tax assets	**2,189**	1,616
Available-for-sale financial asset	**—**	5,985
Financial assets at fair value through profit or loss	**21,746**	15,944
	487,693	383,934

3. OTHER GAINS — NET

	2018	2017
	HK$'000	*HK$'000*
Financial assets at fair value through profit or loss		
— fair value (loss)/gain	**(1,375)**	430
— interest income	**830**	—
Net foreign exchange gains	**1,138**	2,492
Fair value gain on investment properties	**290**	1,018
Losses on disposals of property, plant and equipment	**(29)**	(19)
	854	3,921

4. FINANCE INCOME — NET

	2018	2017
	HK$'000	*HK$'000*
Interest on bank loans, overdrafts and other borrowings	**(3,699)**	(1,681)
Interest on amount due to a non-controlling interest	**(25)**	(25)
Interest accretion on licence fee payables	**(220)**	(131)
	(3,944)	(1,837)
Amount capitalised *(note)*	**3,668**	871
Interest costs	**(276)**	(966)
Interest income	**1,527**	1,516
Finance income — net	**1,251**	550

Note:

During 31 December 2018, interest expenses on bank borrowings were capitalised at the weighted average rate of its general borrowings of approximately 2.62% (2017: 2.69%).

5. PROFIT BEFORE INCOME TAX

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

	2018	2017
	HK$'000	*HK$'000*
Depreciation of property, plant and equipment	**24,217**	23,624
Amortisation of other intangible assets	**7,464**	5,737
Net impairment loss/(reversal of impairment loss) on trade receivables	**1,126**	(470)
Net provision for inventories	**7,781**	7,598

6. INCOME TAX EXPENSE

	2018	2017
	HK$'000	*HK$'000*
Current year		
— Hong Kong profits tax	**700**	2,110
— Overseas tax	**7,828**	9,072
	8,528	11,182
Over-provision in prior years		
— Hong Kong profits tax	**(2,240)**	(2,030)
— Overseas tax	**(2,406)**	(5,330)
	(4,646)	(7,360)
Deferred income tax	**(492)**	533
	3,390	4,355

Hong Kong profits tax has been provided at the rate of 16.5% (2017: 16.5%) on the estimated assessable profits for the year.

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

Unimas Sportswear Ltd. ("Unimas"), a subsidiary of the Group, operates in Bangladesh. Pursuant to the sixth schedule of the Income Tax Ordinance, Unimas is entitled to a reduction of the corporate income tax from 35% to 17.5% for income from its export business for the year ended 31 December 2018 (2017: same). Further to the Statutory Regulatory Order 255 (SRO), Unimas, as a readymade garments manufacturer, is entitled to a further reduction of the income tax rate from 17.5% to 12% for the year ended 31 December 2017 and therefore an over-provision in respect of prior year of HK$657,000 (2017: HK$1,638,000) was recognised during the year ended 31 December 2018.

7. EARNINGS PER SHARE

(a) Basic

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

	2018	2017
Profit attributable to owners of the Company *(HK$'000)*	**62,513**	77,228
Weighted average number of ordinary shares in issue	**405,297,942**	405,109,229
Basic earnings per share *(HK cents)*	**15.42**	19.06

(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. The Company has share options as potentially dilutive shares. 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.

	2018	2017
Profit attributable to owners of the Company *(HK$'000)*	**62,513**	77,228
Weighted average number of ordinary shares in issue	**405,297,942**	405,109,229
Adjustment for share options	**4,090,282**	8,520,085
Weighted average number of ordinary shares for diluted earnings per share	**409,388,224**	413,629,314
Diluted earnings per share *(HK cents)*	**15.27**	18.67

8. DIVIDENDS

A final dividend in respect of the year ended 31 December 2018 of 3 HK cents per share, amounting to a total dividend of HK$12,160,000, is to be proposed at the upcoming annual general meeting. These financial statements do not reflect this dividend payable. The amount of proposed final dividend for 2018 was based on 405,323,284 (2017: 405,173,284) shares in issue as at 31 December 2018.

	2018	2017
	HK$'000	*HK$'000*
Interim dividend of 2 HK cents (2017: 2 HK cents) per share	**8,106**	8,103
Proposed final dividend of 3 HK cents (2017: 3 HK cents) per share	**12,160**	12,152
	20,266	20,255

9. TRADE RECEIVABLES AND OTHER FINANCIAL ASSETS AT AMORTISED COST

	2018	2017
	HK$'000	*HK$'000*
Trade receivables	**217,946**	157,457
Less: provision for impairment loss	**(2,545)**	(4,515)
Trade receivables, net	**215,401**	152,942
Other financial assets at amortised cost	**18,305**	17,884
Less: provision for impairment loss	**(562)**	(1,522)
	233,144	169,304
Less: non-current portion of other financial assets at amortised cost	**(81)**	(425)
Current portion	**233,063**	168,879

The carrying amounts of trade receivables approximate their fair values.

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

	2018	2017
	HK$'000	*HK$'000*
0–30 days	**74,305**	66,016
31–60 days	**58,945**	40,211
61–90 days	**38,412**	26,377
91–120 days	**19,842**	18,731
Over 121 days	**26,442**	6,122
	217,946	157,457

(b) Included in trade receivables are notes receivable from one customer (2017: one customer) totalling HK$144,000 (2017: HK$695,000).

As at 31 December 2018, a note receivable of HK$144,000 (2017: HK$695,000) is interest bearing at 3% (2017: same) per annum and is repayable by 35 monthly instalments (2017: same) from April 2016 to February 2019. The note is secured by the personal guarantee of the owner of the customer.

(c) Impairment and risk exposure

Trade receivables

The Group applies the HKFRS 9 simplified approach to measure expected credit loss which uses a lifetime expected loss allowance for all trade receivables. To measure the expected credit loss, trade receivables relating to customers with known financial difficulties or significant doubt on collection of receivables are assessed individually for provision for impairment allowance, the remaining 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.

During the year ended 31 December 2018, based on management's assessment, the Group recorded impairment loss for trade receivables of HK$2,545,000 (2017: HK$4,515,000) in the consolidated statement of profit or loss. Trade receivables of HK$3,074,000 (2017: HK$737,000), which are still subject to enforcement activity, were determined as uncollectible and were written off against loan receivables during the year ended 31 December 2018.

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

	2018	2017
	HK$'000	*HK$'000*
At 1 January	**4,515**	5,700
Net provision for impairment loss/(reversal of impairment loss)	**1,126**	(470)
Uncollectible amounts written off	**(3,074)**	(737)
Exchange difference	**(22)**	22
At 31 December	**2,545**	4,515

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. The Group does not hold any collateral over the impaired receivables other than the balance as described in note (b) above.

10. OTHER CURRENT ASSETS

	As at 31 December	
	2018	2017
	HK$'000	*HK$'000*
Prepayments	**24,083**	6,714
Others	**5,091**	3,819
	29,174	10,533

11. TRADE AND OTHER PAYABLES

	2018	2017
	HK$'000	*HK$'000*
Trade payables	**77,276**	48,379
Bill payables	**11,867**	4,285
Accrued charges and other payables	**97,216**	86,542
	186,359	139,206
Less: other non-current payables	**(2,572)**	(1,977)
Current portion	**183,787**	137,229

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

	2018	2017
	HK$'000	*HK$'000*
0–30 days	**38,432**	25,843
31–60 days	**21,336**	17,272
61–90 days	**12,429**	1,671
Over 90 days	**5,079**	3,593
	77,276	48,379

BUSINESS REVIEW

Overview

Looking back to the past year, the Sino-US trade talks brought uncertainties to the global trade landscape. Crisis, however, presents opportunities. By grasping the opportunities arising from the Belt and Road strategic initiative, Mainland Headwear has set up a factory in Bangladesh in 2013, which has made us a winner amidst the trade war. Owing to the great demand of the US customers for products from the Bangladesh factory, the Manufacturing Business remained as the Group's primary income stream and profit growth driver, bringing a stable and promising revenue contribution.

To meet strong demand for orders from our partners, we have resolved to boost our production efficiency during the year. Despite the construction of Phase Two of the Bangladesh factory being behind the schedule due to the delayed approval of the local government, the management steadfastly expanded the production team and upgraded their production techniques. As a result, the Group was still able to increase production capacity by more than 30% year-on-year to approximately 4 million pieces of headwear products per month. Moreover, with the maturing production techniques of the Bangladesh workforce, the factory is capable of handling more high-end headwear product orders and delivering improved quality and quantity.

As for the Trading Business, the year 2018 was an investment period. Facing the weak retail market sentiment in the US, the Group's subsidiary H3 Sportgear LLC ("H3") managed to achieve moderate revenue growth, thanks to the stronger team effort, which is a testimony to the success of the business consolidation strategy. Another subsidiary, San Diego Hat Company ("SDHC") has focused on developing its online sales platform to directly sell its self-branded accessories and enrich its product mix while building brand awareness. With online consumption becoming the main trend, we also made a foray into the e-commerce business during the year. Although the business is still in its infancy, it possesses strong growth potential.

Traditional retail business, which has been hit by online consumption, has also faced a difficult business environment. We have continued to close underperforming self-operated stores and prudently reviewed the operation of the business.

FINANCIAL REVIEW

During the year, benefiting from the improved production efficiency of the Bangladesh factory, the Group was able to meet the increasing demand for orders by its brand partners. Hence, the Manufacturing Business remained as the Group's main income source and profit growth driver and offset the effect of the consolidation of the Trading Business and the performance of the Retail Business dragged down by the business environment. Consequently, the Group's revenue has maintained stable growth.

For the year, the Group achieved a turnover of HK$941,493,000 (2017: HK$890,707,000), an increase of 5.7% when compared with that of last year. Gross profit rose by 1.3% to HK$291,524,000 (2017: HK$287,794,000). However, the Retail Business with higher gross profit shrank, which caused overall gross profit margin to decrease slightly by 1.3 percentage point to 31.0% (2017: 32.3%). Stable revenue growth in the Manufacturing Business failed to mitigate the effects of the difficult business environment on the Trading Business and Retail Business, so the profit attributable to shareholders declined to HK$62,513,000 (2017: HK$77,228,000).

BUSINESS REVIEW

Manufacturing Business

Based on its long-standing and solid business relationship with customers and the unique advantages of the Bangladesh factory, the Group has been receiving strong orders from customers. During the Year, the Manufacturing Business achieved segment revenue of HK$728,934,000 (2017: HK$702,532,000), while revenue from external customers rose steadily by 6.0% to HK$672,790,000 (2017: HK$634,563,000) and made up approximately 71.5% of the Group's total revenue. Since the production efficiency of the Bangladesh factory has been improving, it was able to undertake more high-end orders. As a result, operating profit of the Manufacturing Business increased by 8.0% to HK$108,673,000 (2017: HK$100,590,000).

As at 31 December 2018, the Bangladesh factory had nearly 5,000 employees (2017: about 4,100 employees). In addition to a growing workforce and maturing production techniques, the local factory's production efficiency has been significantly improving, enabling it to receive more orders of high-end headwear products. In addition, another piece of good news was that this factory has been connected to a private power plant, and stable power supply contribute to increasing production output. Benefitting from these favourable factors, output increased dramatically by more than 30% from about three million pieces of headwear products per month last year to about four million pieces per month, occupying around 75% of its total capacity. As for the factory in Shenzhen with a workforce of around 1,000 employees, it mainly serves to handle short lead-time orders and product research & development.

Trading Business

Despite being impacted by such uncertainties as the lackluster US retail market and Brexit, the Group's Trading Business still recorded a 15.5% growth in revenue, mainly attributed to H3 with double-digit growth in orders from a multinational retail enterprise customer, which is an evidence of the success of its business consolidation strategy. Revenue of the segment was HK$213,143,000 (2017: HK$184,543,000), accounting for approximately 22.6% of the Group's total revenue. However, the Group increased the resources in the sales and R&D team so as to expand market share and e-commerce business, hence the operating loss of the business for the year was HK$19,218,000 (2017: operating profit HK$2,950,000).

To expand the customer base of the Trading Business, the Group signed a non-legally binding letter of intent on 10 December 2018 in relation to the proposed acquisition of a company. The target company is headquartered in St. Louis, Missouri, USA and is engaged in designing, manufacturing and marketing accessories for men, women and children. It also sells licensed, private label and custom headwear, small leather goods, bags and accessories to many retailers in the USA. The proposed acquisition is beneficial to the Group to seek investment and business opportunities with strong potential of growth, hence diversifying income streams and consolidating its market share in the USA.

Retail Business

Although the Group has strived to develop its online sales platform and strictly control the number of underperforming self-operated 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$55,560,000 (2017: HK$71,601,000), occupying around 5.9% in the Group's total revenue, and operating loss was HK$13,677,000 (2017: HK$8,447,000).

PROSPECTS

Looking ahead, the Sino-US trade dispute is unlikely to be resolved in the near future, so global trade is likely to remain unstable. However, Mainland Headwear has optimised its production layout in Bangladesh, and laid a solid foundation for the long-term development of the Group. Therefore, the Group will speed up the construction of Phase II of the factory, which is expected to start production in late 2019. The Group targets to increase the number of workers there to around 6,000, and the monthly capacity to five million pieces of headwear products. When it is fully utilised, full capacity in Bangladesh will rise from around 75% to 90% of the Group's total capacity. The Group will also further increase the production skills of workers there so they can handle more orders of high-end headwear products.

Another challenge was the increase in the minimum wage in the garments industry since December 2018, subsequent to the authority's review conducted every five years. Facing the rising labour cost in Bangladesh, the Group has actively introduced automotive and informative production equipments, which can reduce its reliance on manpower and greatly improve production efficiency. As for product variety, the new factory can manufacture products with higher gross profit such as straw hats and knitted hats, to cater for demands from different orders of its brand partners. As for its factory in Shenzhen, it will continue serving as the Group's product R&D and design centre, while transforming to support the automation of the production base in Bangladesh and providing high value-added services.

Regarding the Trading Business, it will inevitably be subject to the impact of the trade war in the short term. But benefitting from the investments in the previous years, the management believes that 2019 will be time for harvest the returns. Reorganisation of H3 has also started to bear fruit. The Group believes that the efforts of stronger teams will achieve better results. As for SDHC, its new building in California, USA was in use last October 2018. SDHC and its subsidiaries have already consolidated all warehousing facilities in one location, and are therefore easing inventory control and management. It is expected to see the positive effects through better cost effectiveness in 2019. The new E-commerce Business has built a competitive product mix so the management has full confidence in its prospects.

Besides, as the retail markets in Mainland China and Hong Kong have been highly volatile in these years, the management is considering to explore the opportunity to terminate the Retail Business. The Group and Sanrio intend to match Sanrio's long-term development strategy, thus the Group is exploring the possibility of transferring the entire Retail Business in the Greater China Region to Sanrio, comprising operations, staff, stores, inventory, etc. However, details have yet to be discussed by both parties and a final decision has yet to be made. As for the sales of headwear products, the Group has only one NOP brand self-operated store in Hong Kong. Since the lease will expire in June 2019, the Group will then officially retreat from the retail market of Hong Kong. After the Retail Business is terminated, the Group will focus resources on developing the core Manufacturing Business and enhancing the Trading Business.

Leveraging on our sound foundation built over the previous three decades and the well-established layout of production bases in Bangladesh, the management has confidence to lead the Group to successfully tackle more challenges and generate the best returns for shareholders.

MANAGEMENT DISCUSSION AND ANALYSIS

Liquidity and Financial Resources

As at 31 December 2018, the Group had cash and cash equivalents, short-term deposits and a portfolio of liquid investments totaling HK$112.2 million (2017: HK$207.1 million). About 37% and 31% of these liquid funds were denominated in Renminbi and United States dollars respectively and the remaining were mainly in Hong Kong dollars and Pound Sterling.

As at 31 December 2018, the Group had banking facilities of HK$381.3 million (2017: HK$364.4 million), of which HK$219.4 million (2017: HK$233.0 million) was not utilised.

The gearing ratio (being the Group's borrowings over equity) of the Group was 21.0% (2017: 16.7%). In view of the strong financial and liquidity position, the Group have sufficient financial resources to meet its commitments and working capital requirements.

Capital Expenditure

During the year, the Group spent HK$118.6 million (2017: HK$81.7 million) on the construction of a commercial building in the USA and a factory building in Bangladesh. The Group spent approximately HK$18.5 million (2017: HK$21.2 million) on additions to plant and equipment and on additions to land to upgrade its manufacturing capability and expansion in the Bangladesh factory. The Group also spent HK$0.6 million (2017: HK$2.8 million) 2018 on equipments and systems of Trading and Retail business.

The Group budgeted HK$64.3 million for capital expenditures of which HK$61.8 million is estimated to be used for the construction of a factory building and expansion in the Bangladesh under Manufacturing business. The Group also authorised a capital commitment of HK$2.5 million for the equipment upgrades for Trading business.

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

Exchange Risk

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

Employees and Remuneration Policies

At 31 December 2018, the Group employed 1,211 (2017: 1,485) employees in the PRC (include Hong Kong), 4,675 (2017: 4,112) employees in Bangladesh and a total of 57 (2017: 42) employees in the USA and the United Kingdom. The expenditures for employees during the year were approximately HK$250.2 million (2017: HK$250.1 million). The Group ensures that the pay levels of its employees are competitive and employees were remunerated based on their position and performance. Key employees of the Group, including Directors, are also granted share options under the share option schemes operated by the Company.

DIVIDENDS AND CLOSURE OF REGISTER OF MEMBERS

The Directors recommend the payment of a final dividend of 3 HK cents (2017: 3 HK cents) per share in respect of the year ended 31 December 2018. Subject to the approval at the forthcoming annual general meeting, the final dividend will be payable on or after 20 June 2019 to the shareholders whose names appear on the register of members at the close of the business on 24 May 2019.

The register of members of the Company will be closed from 27 May 2019 to 30 May 2019 (both dates inclusive). In order to qualify for the proposed final dividend, all transfers, accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong Branch Share Registrar, Tricor Tengis Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on 24 May 2019.

ANNUAL GENERAL MEETING

It is proposed that the Annual General Meeting of the Company will be held on 20 May 2019. The Notice of the Annual General Meeting will be published in the Company's website and sent to the shareholders of the Company in due course.

To determine the identity of members who are entitled to attend and vote at the forthcoming Annual General Meeting which will be held on 20 May 2019, the register of members of the Company will be closed from 15 May 2019 to 20 May 2019 (both dates inclusive). In order to qualify to attend the Annual General Meeting, all transfers, accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong Branch Share Registrar, Tricor Tengis Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on 14 May 2019.

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

During the year ended 31 December 2018, the Company has not redeemed any of its shares. Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

CODE ON CORPORATE GOVERNANCE PRACTICES

In the opinion of the Board, the Company has complied with the Code Provisions in the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Listing Rules during the year ended 31 December 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 enquiry by the Company, that they have complied with the required standard set out in the Model Code throughout the year ended 31 December 2018.

REVIEW OF FINANCIAL STATEMENTS

The Audit Committee has reviewed the Group's consolidated financial statements for the year ended 31 December 2018, including the accounting principles and practices adopted by the Group.

SCOPE OF WORK OF PRICEWATERHOUSECOOPERS

The figures in respect of the Group's consolidated balance sheet, consolidated statement of profit or loss, consolidated statement of comprehensive income and the related notes thereto for the year ended 31 December 2018 as set out in the preliminary announcement have been agreed by the Group's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's draft consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on the preliminary announcement.

By Order of the Board
Ngan Hei Keung
Chairman

Hong Kong, 18 March 2019

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