Mainland Headwear Holdings Limited

(Stock code: 1100)

ANNUAL REPORT 2018

Contents

Corporate Information

DIRECTORS

Executive Directors

Mr. Ngan Hei Keung *(Chairman)*
Madam Ngan Po Ling, Pauline, *BBS, JP*
(Deputy Chairman and Managing Director)
Mr. James S. Patterson
Ms. Maggie Gu *(Chief Operating Officer)*
Mr. Ngan Siu Hon, Alexander

Independent Non-executive Directors

Mr. Leung Shu Yin, William
Mr. Liu Tieh Ching, Brandon, *JP*
Mr. Gordon Ng

COMPANY SECRETARY

Ms. Chan Hoi Ying

AUDITORS

PricewaterhouseCoopers
Certified Public Accountants

PRINCIPAL BANKER

Hang Seng Bank Limited
The Hongkong and Shanghai Banking Corporation Limited
Citibank, N.A.

REGISTERED OFFICE

Clarendon House,
2 Church Street,
Hamilton HM 11,
Bermuda.

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Rooms 1001–1005, 10th Floor,
Tower 2, Enterprise Square I,
9 Sheung Yuet Road,
Kowloon Bay,
Kowloon,
Hong Kong.

BERMUDA SHARE REGISTRAR

Codan Services Limited
Clarendon House,
2 Church Street,
Hamilton HM 11,
Bermuda.

HONG KONG BRANCH SHARE REGISTRAR

Tricor Tengis Limited
Level 22,
Hopewell Centre,
183 Queen's Road East,
Hong Kong

COMPANY WEBSITES

http://www.mainland.com.hk
http://www.mainlandheadwear.com

Chairman's Statement

Mr. Ngan Hei Keung
Chairman

Madam Pauline Ngan, ***BBS, JP***
Deputy Chairman and Managing Director

On behalf of the Board of Directors of Mainland Headwear Holdings Limited (the "Company"), I am pleased to present the annual results of the Company and its subsidiaries (collectively, "Mainland Headwear" or the "Group") for the year ended 31 December 2018.

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.

Chairman's Statement

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.

Chairman's Statement

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 Businesses, so the profit attributable to shareholders declined to HK$62,513,000 (2017: HK$77,228,000).

Chairman's Statement

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$100,591,000).

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 employees, 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.

Chairman's Statement

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.

Chairman's Statement

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.

ACKNOWLEDGEMENTS

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

Ngan Hei Keung
Chairman

Hong Kong
18 March 2019

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 Hong Kong dollars ("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) in 2018 on equipments and systems of Trading and Retail business.

Management Discussion and Analysis

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 and system 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 or 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.

Biographical Details of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Ngan Hei Keung

aged 63, is the Chairman of the Company and co-founder of the Group. Mr. Ngan is responsible for the production activities of the Group. Mr. Ngan obtained a bachelor degree from 福建農業學院 (Fujian Agricultural College) (now known as 福建農林大學 (Fujian Agricultural University, the "FA University")) in 1982 and currently is a guest professor of the FA University. Mr. Ngan has about 30 years of experience in the headwear industry. He is presently the Honorary Adviser and Fellowship of the Asian College of Knowledge Management. Mr. Ngan was a director of Yan Oi Tong in 2007. Mr. Ngan is the spouse of Madam Ngan Po Ling, Pauline, *BBS, JP* and the father of Mr. Andrew Ngan and Mr. Ngan Siu Hon Alexander.

Madam Ngan Po Ling, Pauline, *BBS, JP*

aged 59, is the Deputy Chairman and Managing Director of the Company and co-founder of the Group. She is responsible for the marketing activities of the Manufacturing Business. She has about 30 years of experience in the headwear industry. Madam Ngan is the spouse of Mr. Ngan Hei Keung and the mother of Mr. Andrew Ngan and Mr. Ngan Siu Hon Alexander. She was the chairman of Po Leung Kuk and Yan Oi Tong, and the president of Hong Kong Young Industrialists Council. She is also the Hong Kong Deputy to the 12th and 13th National People's Congress, People's Republic of China, the ex-officio member and ex-officio executive committee of Heung Yee Kuk New Territories, the standing committee member of the Chinese General Chamber of Commerce, member of Advisory Board, Po Leung Kuk, the president honoris causa of Hong Kong Young Industrials Council, the honorary president and standing director of Hong Kong Federation of Overseas Chinese Association, the committee member of All-China Women's Federation, the standing committee member of All-China Federation of Returned Overseas Chinese and the vice chairman of Hubei Province Federation of Returned Overseas Chinese. Madam Ngan is the winner of Young Industrialist Awards of Hongkong 2001 and also won an Executive Director Award in the "Directors of the Year Awards 2004" organised by the Hong Kong Institute of Directors, and the Owner-Operator Award in the DHL/SCMP Hong Kong Business Awards 2004. She was awarded the Bronze Bauhinia Star in the Hong Kong Special Administrative Region 2009 Honours List and JP (Justice of the Peace) Title in 2013.

Mr. James S. Patterson

aged 48, was appointed as Executive Director of the Company in April 2009. Mr. Patterson graduated from the State University of New York at Buffalo, Buffalo, NY, USA and completed a Bachelor Degree in Economics. Mr. Patterson has been employed for more than 20 years with New Era Cap Co., Inc. ("New Era"), a US based company which is engaged in the global marketing, sale, and manufacturing of headwear and apparel. Mr. Patterson is holding the position of chief operating officer and senior vice president of New Era.

Biographical Details of Directors and Senior Management

Ms. Maggie Gu

aged 41, first joined the Company during May 2003 to May 2008 and rejoined as Sales and Marketing Director in February 2009. Ms. Gu was appointed as the Executive Director of the Company in February 2012 and as the Chief Operating Officer of the Company in September 2012. She studied in United States of America, and graduated from the California State University Fullerton, with the degree of Bachelor of Arts in Communications. She managed the global marketing department with a reputable media company in US before she returned to Hong Kong. She is now responsible for the strategy formulation and direction of global marketing and business development of the Group and oversees the Company's daily operations.

Mr. Ngan Siu Hon Alexander

aged 28, joined the Company in November 2014 and appointed as the Executive Director of the Company in December 2015. He graduated from Purdue University, West Lafayette, Indiana, USA in 2013 with a Bachelor of Science degree in Economics. Prior to joining the Company, Mr. Ngan worked at a well-known investment bank in Hong Kong. He is the son of Mr. Ngan Hei Keung and Madam Ngan Po Ling, Pauline, *BBS, JP* and brother of Mr. Andrew Ngan.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Leung Shu Yin, William

aged 69, was appointed as an Independent Non-executive Director of the Company in March 2000. Mr. Leung graduated from the Department of Accountancy of Hong Kong Polytechnic (now known as the Hong Kong Polytechnic University). He is a fellow member of the Hong Kong Institute of Certified Public Accountants, the Association of Chartered Certified Accountants and the Taxation Institute of Hong Kong. He is also a member of the Hong Kong Securities and Investment Institute and the Society of Chinese Accountants and Auditors. Mr. Leung is currently a practising director of two certified public accountants firms in Hong Kong. He is also presently independent non-executive directors of Lai Sun Garment (International) Limited, Lai Sun Development Company Limited and Crocodile Garments Limited, which are listed on the main board of the Stock Exchange.

Mr. Liu Tieh Ching, Brandon, *JP*

aged 73, was appointed as an Independent Non-executive Director of the Company in August 2006. Mr. Liu is a merchant. He is an Advisory Member of the Business Forum of China National Committee for Pacific Economic Corporation of Pacific Economic Cooperation Council, the Honorary President of The Hong Kong Commerce and Industry Associations and the Vice Chairman of The Chinese General Chamber of Commerce.

Biographical Details of Directors and Senior Management

Mr. Gordon Ng

aged 54, obtained his Bachelor's degree in Microbiology and Biochemistry and Master's degree in Intellectual Property from University of London. He was qualified as a solicitor in England and Wales in 1993 and Hong Kong in 1994. He has been the Head of Corporate Finance/Capital Market, Asia of the Hong Kong Office of an international law firm since July 2013. Prior to that, he had been a partner of a number of international law firms. Mr. Ng is presently an independent non-executive director of China Energine International (Holdings) Limited and ZTE Corporation which are listed on the main board of the Stock Exchange.

CONSULTANT

Mr. Andrew Ngan

aged 31, joined the Company in March 2018 as consultant. Mr. Ngan was the non-executive director of the Company from July 2011 to June 2017. Mr. Ngan is a merchant. He is a Director of Po Leung Kuk (2018–2019), the Committee Member of the Chinese People's Political Consultative Conference of Hunan Province, a member of Hunan Youth Federation and a director of the Hong Kong Youth Association of Fujian Overseas Friendship Association. Mr. Ngan graduated from the Carnegie Mellon University, Pittsburgh, USA. He completed a Bachelor of Science Degree in Information Systems in 2010. He is the son of Mr. Ngan Hei Keung and Madam Ngan Po Ling, Pauline, *BBS, JP* and the brother of Mr. Ngan Siu Hon, Alexander.

SENIOR MANAGEMENT

Mr. Lai Man Sing, Thomas

aged 51, firstly joined the Company during July 1999 to May 2001 and rejoined the Company in March 2008. He is the Chief Financial Officer of the Company and in charge of the finance department. Mr. Lai obtained his first degree from London School of Economics and Political Science, University of London, UK and earned a Master degree in Business Administration from University of Western Sydney, Australia. He is a Chartered Financial Analyst (CFA) charterholder. He is also a fellow member of the Hong Kong Institute of Certified Public Accountants and a fellow member of The Australian Society of Certified Practising Accountants. He took senior financial position for sizable listed companies and worked in international accounting field for many years.

Mr. Raj Kapoor

aged 58, is the managing director of the Group's Europe operations. Mr. Kapoor obtained a bachelor degree from the University of Newcastle Upon Tyne in the United Kingdom ("UK") and has over 20 years of experience in the headwear industry in Europe. He joined the Group in March 2005 when the Group set up its subsidiary in the UK.

Biographical Details of Directors and Senior Management

Mr. John Astleford

aged 49, is the Managing Director of the Group's US operations. He has more than 20 years of experience in the apparel and accessory industry. He has served on the Executive Committee and/or Board of 5 different companies. Mr. Astleford has previously held business unit leadership positions in sales, marketing, merchandising, and licensing in both private and public companies. He has a BBA in Marketing from Texas Christian University.

Mr. Michael Ball

aged 50, joined the Company in 2010. He is the sales director of the Group's Europe operations. He has more than 20 years experience in the sales and marketing of headwear products.

Mr. Omar Cantu

aged 48, is the Chief Operating Officer of H3 Sportgear, LLC. Mr. Cantu joined the Company in 2017. He has over 20 years experience in the licensed apparel, headwear and accessory industry. Mr. Cantu has previously held executive positions overseeing operations, accounting, human resources and licensing in privately held companies.

Mr. Lau Ka Fai, Edward

aged 52, joined the Company in February 2009 and is the Product Development Director. Mr. Lau graduated from the Hong Kong Polytechnic (now known as Hong Kong Polytechnic University) with a Bachelor of Arts in Fashion Design (with commendation). He holds a Master Degree in Business Administration in Management from Southeastern University Washington, DC. He is also a Diploma Member of the Chartered Society of Designers London. He has worked in creative and design areas within several global buying offices for more than 20 years and is now responsible for design and product development in the US and Asia.

Ms. Leung Ka Pik, Ada

aged 57, joined the Company in December 2007 and is the Human Resources and Administrative Director. She holds a Master Degree in Business Administration from University of Canberra, Australia. She had worked in two listed apparel companies and international accounting firm for many years.

Corporate Governance Report

The Company is committed to maintaining a high standard of corporate governance practices. The Board considers shareholders can maximise their benefits from good corporate governance.

CORPORATE GOVERNANCE PRINCIPLES AND THE COMPANY'S PRACTICES

A. Directors

A.1. Board of Directors

An issuer should be headed by an effective board which should assume responsibility for leadership and control of the issuer and be collectively responsible for promoting the success of the issuer by directing and supervising the issuer's affairs. Directors should take decisions objectively in the interests of the issuer.

Regular Board meetings are held at quarterly intervals. In addition, special Board meetings will be held when necessary. Attendance of individual Directors at shareholders' meetings and board meetings in 2018 are as follows:

		Shareholders' Meeting	**Board Meeting**
Number of meetings		1	4
Executive Directors			
Mr. Ngan Hei Keung	*(Chairman)*	1/1	4/4
Madam Ngan Po Ling, Pauline, *BBS, JP*	*(Deputy Chairman and Managing Director)*	1/1	4/4
Mr. James S. Patterson		0/1	3/4
Ms. Maggie Gu	*(Chief Operating Officer)*	1/1	4/4
Mr. Ngan Siu Hon, Alexander		1/1	4/4
Independent Non-executive Directors			
Mr. Leung Shu Yin, William		1/1	4/4
Mr. Liu Tieh Ching, Brandon, *JP*		1/1	3/4
Mr. Gordon Ng		1/1	3/4

Directors are consulted to include matters in the agenda for regular Board meetings.

Corporate Governance Report

Dates of regular Board meetings are scheduled at least 14 days in advance to provide sufficient notice to give all Directors an opportunity to attend. For all other Board meetings, reasonable notice will be given.

Directors have access to the advice and services of the Company Secretary to ensure that Board procedures, and all applicable rules and regulations, are followed.

Minutes of the Board, the Audit Committee, the Remuneration Committee and the Nomination Committee are kept by the Company Secretary. Minutes are open for inspection at any reasonable time on reasonable notice by any Director.

Minutes of the Board and Board Committees have recorded in sufficient detail the matters considered by the Board and the Committees, decisions reached, including any concerns raised by Directors or dissenting views expressed. Draft and final versions of minutes of the Board are sent to all Directors for their comments and records respectively.

The Board shall resolve to provide separate independent professional advice to Directors to assist Directors to discharge their duties at the Company's expense.

A.2. Chairman and Chief Executive Officer

There are two key aspects of the management of every issuer — the management of the board and the day-to-day management of the issuer's business. There should be a clear division of these responsibilities at the board level to ensure a balance of power and authority, so that power is not concentrated in any one individual.

Code Provision A.2.1 stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

Mr. Ngan Hei Keung is the Chairman of the Company. Mr. Ngan oversees the management of the manufacturing facilities of the Group and also provides leadership for the Board. He ensures that the Board works effectively and discharges its responsibilities, and that all key and appropriate issues are discussed by the Board in a timely manner. Mr. Ngan is also responsible to ensure that all directors are properly briefed on issues arising at board meetings and that all directors receive adequate information, which must be complete and reliable, in a timely manner. Mr. Ngan is the husband of Madam Ngan Po Ling, Pauline, *BBS, JP*.

Madam Ngan Po Ling, Pauline, *BBS, JP* is the Deputy Chairman and Managing Director of the Company. She is responsible for the marketing activities of the Group's Manufacturing Business. Madam Ngan is the wife of Mr. Ngan Hei Keung.

The Board considers that there is adequate segregation of duties within the Board to ensure a balance of power and authority.

Corporate Governance Report

A.3. Board Composition

The board should have a balance of skills and experience appropriate for the requirements of the business of the issuer. The board should ensure that changes to its composition can be managed without undue disruption. The board should include a balanced composition of executive and non-executive directors (including independent non-executive directors) so that there is a strong independent element on the board, which can effectively exercise independent judgement. Non-executive directors should be of sufficient calibre and number for their views to carry weight.

The Board comprises five 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 Independent Non-executive Directors, namely Mr. Leung Shu Yin, William, Mr. Liu Tieh Ching, Brandon, *JP* and Mr. Gordon Ng. All Directors are expressly identified by categories of Executive Directors and Independent Non-executive Directors, in all corporate communications that disclose the names of Directors of the Company.

The Company has complied with Rules 3.10(1) and 3.10(2) of the Listing Rules in relation to the appointment of a sufficient number of independent non-executive directors and an independent non-executive director with appropriate professional qualifications, or accounting or related financial management expertise.

According to Appendix 14 to the Listing Rules, it is recommended that serving more than nine years could be relevant to the determination of a non-executive director's independence. If an independent non-executive director serves more than nine years, any further appointment of such independent non-executive director should be subject to a separate resolution to be approved by shareholders.

Mr. Leung Shu Yin, William and Mr. Liu Tieh Ching, Brandon, *JP* have been appointed as independent non-executive directors for more than nine years. The Company has received from Mr. Leung and Mr. Liu confirmations of independence according to Rule 3.13 of the Listing Rules. Mr. Leung and Mr. Liu have not engaged in any executive management of the Group. Taking into consideration of their independent scope of work in the past years, the Directors consider Mr. Leung and Mr. Liu to be independent under the Listing Rules despite the fact that they have served the Company for more than nine years. The Board believes that Mr. Leung's and Mr. Liu's continued tenure brings considerable stability to the Board and the Board has benefited greatly from the contribution of Mr. Leung and Mr. Liu in relation to their extensive experience in accounting and finance fields, and commercial business field respectively.

Biographies which include relationships of Directors are set out in pages 11 to 13 of the annual report, which demonstrate a diversity of skills, expertise, experience and qualifications among members of the Board.

All Directors attended Corporate Governance training course organised by the Company's legal advisers, or read the materials provided by the Company's legal advisers during the year under review.

Corporate Governance Report

The Chairman has held one meeting with all the Independent Non-executive Directors without the presence of other executive Directors to discuss of the Company's business during the year under review.

A.4. Board Diversity Policy

The Company recognises that increasing diversity at the Board level will support the attainment of the Company's strategic objectives and sustainable development.

The Board has adopted a board diversity policy which sets out the approach to achieve and maintain diversity on the Board.

Pursuant to the board diversity policy, the Company seeks to achieve Board diversity through the consideration of a number of factors, including but not limited to cultural and educational background, ethnicity, professional experience, skills, knowledge and other qualities. The Company also takes into consideration its own business model and specific needs from time to time in determining the optimal composition of the Board.

A.5. Appointments, Re-election and Removal of Directors — Nomination Committee

There should be a formal, considered and transparent procedure for the appointment of new directors to the board. There should be plans in place for orderly succession for appointments to the board. All directors should be subject to re-election at regular intervals. An issuer must explain the reasons for the resignation or removal of any director.

Code Provision A.4.1 stipulates that non-executive directors should be appointed for a specific term, subject to re-election.

According to the Company's bye-law No. 87, at each annual general meeting, one-third of the Directors for the time being (or, if the member is not three or a multiple of three, then the number nearest to but not greater than one-third) shall retire from office by rotation provided that every Director (including those appointed for a specific term, the Chairman of the Board and Managing Director of the Company) shall be subject to retirement by rotation at least once every three years.

All Directors of the Company have a specific term of appointment and all the Independent Non-executive Directors of the Company are subject to retirement by rotation and re-election in accordance with the Company's bye-law No. 87.

All Directors appointed to fill a casual vacancy or as an addition are subject to election by shareholders at the first general meeting after their appointment.

The nomination committee was formed in March 2012 with specific written terms of reference in compliance with the Code. This Committee is chaired by Mr. Liu Tieh Ching, Brandon *JP*. The other members are Mr. Ngan Hei Keung, Mr. Leung Shu Yin, William, Mr. Gordon Ng and Mr. Ngan Siu Hon, Alexander. During the year of 2018, one nomination committee meeting was held, which was attended by all members of the Committee except for Mr. Ngan Hei Keung and Mr. Ngan Siu Hon, Alexander.

Corporate Governance Report

Nomination Committee has considered measurable objectives based on their professional experience and ethnicity to implement the board diversity policy. Such objectives will be reviewed from time to time to ensure their appropriateness and the progress made towards achieving those objectives will be ascertained. Nomination Committee will review the board diversity policy, as appropriate, to ensure its continued effectiveness from time to time.

A proposal for the appointment of a new Director will be considered and reviewed by the Board. All candidates must be able to meet the standards as set forth in Rules 3.08 and 3.09 of the Listing Rules. A candidate who is to be appointed as an Independent Non-executive Director should also meet the independence criteria set out in Rule 3.13 of the Listing Rules.

A.6. Director Nomination Policy

Director Nomination Policy of the Group is in place and was updated in the year taking into consideration the revised Listing Rules effective from 1 January 2019. The updated policy sets out the procedures, process and criteria for identifying and recommending candidates for election to the Board of Directors. No candidate was nominated for directorship in 2018.

A.7. Responsibilities of Directors

Every director is required to keep abreast of the responsibilities as a director of an issuer and of the conduct, business activities and development of that issuer. Given the essential unitary nature of the board, non-executive directors have the same duties of care and skill and fiduciary duties as executive directors.

Every newly appointed director of the Company is ensured to have a proper understanding of the operations and business of the Group and that he is fully aware of his responsibilities under statue and common law, the Listing Rules, applicable legal and regulatory requirements and the business governance policies of the Group. The Directors are continually updated with legal and regulatory developments, business and strategic development of the Group to enable the discharge of their responsibilities.

All Independent Non-executive Directors take an active role in board meetings to bring in independent judgement to bear on issues of strategy, policy, performance, accountability, resources, key appointments and standards of conducts. They scrutinise the Company's performance in achieving agreed corporate goals and objectives, and monitor the reporting of performance. They also take the lead where potential conflicts of interests arise and serve the audit and remuneration committees.

Every Director is aware that he/she should give sufficient time and attention to the affairs of the Company.

Corporate Governance Report

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers 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 Model Code throughout the year ended 31 December 2018.

A.8. Supply of and Access to Information

Directors should be provided in a timely manner with appropriate information in such form and of such quality as will enable them to make an informed decision and to discharge their duties and responsibilities as directors of an issuer.

In respect of regular Board meetings, and so far as practicable in all other cases, an agenda and accompanying board papers are sent in full to all Directors in a timely manner and at least 3 days before the intended date of a Board or Board Committee meeting.

Management are regularly reminded by the Company Secretary that they have an obligation to supply the Board and its Committees with adequate information in a timely manner to enable it to make informed decisions. The information supplied must be complete and reliable. The Board and each Director shall have separate and independent access to the Company's senior management.

All Directors are entitled to have access to Board papers, minutes and related materials. Where queries are raised by Directors, steps are taken to respond as promptly and fully as possible.

B. Remuneration of directors and senior management

B.1. The Level and Make-up of Remuneration and Disclosure

An issuer should disclose information relating to its directors' remuneration policy and other remuneration related matters. There should be a formal and transparent procedure for setting policy on executive directors' remuneration and for fixing the remuneration packages for all directors. Levels of remuneration should be sufficient to attract and retain the directors needed to run the company successfully, but companies should avoid paying more than necessary for this purpose. No director should be involved in deciding his own remuneration.

The Company has established a Remuneration Committee with specific written terms of reference as set out in Code Provisions B.1.3 (a) to (f) of the Code. The Remuneration Committee is responsible for making recommendations to the Board regarding the Company's remuneration policy, and for the formulation and review of the specific remuneration packages of all Executive Directors and senior executives of the Group.

A majority of the members of the Remuneration Committee are Independent Non-executive Directors. This Committee was chaired by Mr. Gordon Ng. The other members were Madam Ngan Po Ling, Pauline, *BBS, JP*, Mr. Leung Shu Yin, William, Mr. Liu Tieh Ching, Brandon, *JP* and Mr. Ngan Siu Hon, Alexander.

Corporate Governance Report

The Remuneration Committee held one meeting in 2018, which was attended by all members of the Committee except for Madam Ngan Po Ling, *BBS, JP* and Mr. Ngan Siu Hon, Alexander. The Committee had considered the following proposals for the remuneration of Directors and senior management and made recommendation to the Board:

1. Annual salary review policy;

2. Offer of share options as part of the long term incentive schemes; and

3. Performance related bonus.

The Group ensures that the pay levels of its employees, including Directors and senior management, are competitive and employees are remunerated based on their positions and performance. Key employees of the Group are also granted share options under the share option schemes operated by the Company.

Details of the amount of Directors' emoluments for 2018 are set out in note 36 to the financial statements. Details of the share option schemes of the Company are set out in the Report of the Director and note 26 to the financial statements.

The remuneration of senior management whose names appear in the "Biographical Details of Directors and Senior Management" section are within the following bands:

	2018	2017
HK$1 — HK$500,000	**—**	—
HK$500,001 — HK$1,000,000	**2**	3
HK$1,000,001 — HK$1,500,000	**—**	—
HK$1,500,001 — HK$2,000,000	**2**	1
HK$2,000,001 — HK$3,000,000	**3**	3
HK$3,000,001 — HK$3,500,000	**—**	—
HK$3,500,001 — HK$4,000,000	**—**	—
HK$4,000,001 — HK$4,500,000	**—**	—

The Remuneration Committee is provided with sufficient resources, including access to professional advice, to discharge its duties if considered necessary.

Corporate Governance Report

C. Accountability and audit

C.1. Financial Reporting

The board should present a balanced, clear and comprehensible assessment of the company's performance, position and prospects.

Management has provided such explanation and information to the Board as would enable the Board to make an informed assessment of the financial and other information put before the Board for approval.

The Directors acknowledge their responsibility to keep proper accounting records and prepare financial statements of each financial period, which shall give a true and fair view of the state of affairs of the Group and of the results and cash flow for that period. In preparing the financial statements for the year ended 31 December 2018, the Directors have made judgements and estimates that are prudent and reasonable and prepared the financial statements on a going concern basis.

A statement by the auditor about his reporting responsibilities is included in the Independent Auditor's Report on pages 55 to 62 of the annual report for the year ended 31 December 2018.

The Board's responsibility to present a balanced, clear and understandable assessment extends to annual and interim reports, other price-sensitive announcements and other financial disclosures required under the Listing Rules, and reports to regulators as well as information required to be disclosed pursuant to statutory requirements.

C.2. Internal Controls

The board should ensure that the issuer maintains sound and effective internal controls to safeguard the shareholders' investment and the issuer's assets.

The Board is responsible for the Group's system of internal controls and for reviewing its effectiveness through the Audit Committee. The Board requires management to establish and maintain sound and effective internal controls. Review of the Group's internal controls covering financial, operational and compliance controls, and risk management functions on different systems is done on a systematic rotational basis based on the risk assessments of the operations and controls.

C.3. Audit Committee

The board should establish formal and transparent arrangements for considering how it will apply the financial reporting and internal control principles and for maintaining an appropriate relationship with the company's auditor. The audit committee established by an issuer pursuant to the Listing Rules should have clear terms of reference.

Corporate Governance Report

The Company has established an Audit Committee with specific written terms of reference which deal clearly with its authority and duties. The terms of reference of the Audit Committee have included the duties set out in Code Provisions C.3.3 (a) to (n) of the Code, with appropriate modifications where necessary. The Audit Committee has made available its terms of reference, on the website of the Company, explaining its role and the authority delegated to it by the Board.

As set out in the terms of reference, the Audit Committee is responsible for reviewing the financial reporting system and internal control procedures, annual report and financial statements and interim report.

The Audit Committee comprises three Independent Non-executive Directors of the Company and is chaired by Mr. Leung Shu Yin, William. This Committee held two meetings in 2018 which were attended by all members of the Committee except for Mr. Liu Tieh Ching, Brandon, *JP* who attended one meeting. External auditor attended one meeting in 2018.

The following is a summary of the work performed by the Audit Committee during the year:

1. Reviewed external auditor audit committee report and management's response;

2. Reviewed and recommended to the Board approval of the audit fee proposal for 2018;

3. Considered and recommended to the Board that the shareholders be asked to re-appoint the existing auditor as the Company's external auditor for 2019;

4. Reviewed and approved the Group's internal audit plan for 2019;

5. Reviewed internal audit reports, and internal controls report and risk management report and brought to the attention of Management on internal control issues and high risk areas;

6. Reviewed the audited financial statements and final results announcement for the year 2017; and

7. Reviewed the Interim Report and the interim results announcement for the six months ended 30 June 2018.

8. Reviewed the determination and reporting of key audit matters.

Corporate Governance Report

All issues raised by the Committee have been addressed by Management. The work and findings of the Committee have been reported to the Board. During the year, no issues brought to the attention of Management and the Board were of sufficient importance to require disclosure in the Annual Report.

The Board agrees with the Audit Committee's proposal for the re-appointment of existing auditor as the Company's external auditor for 2019.

The remuneration of the Group's external auditor is HK$2,195,000 for audit fees and HK$117,000 for other non-assurance services.

Full minutes of Audit Committee meetings are kept by the Company Secretary. Draft and final versions of minutes of the Audit Committee meetings are sent to all members of the Committee for their comments and records respectively, in both cases within a reasonable time after the meeting.

The Audit Committee does not have a former partner of the Company's existing audit firm. The Audit Committee is provided with sufficient resources to perform its duties.

D. DIVIDEND POLICY

Policy on Payment of Dividend of the Company is in place setting out the factors in determination of dividend payment of the Company, the Company's long-term earning capacity and expected cash inflow and outflow, the frequency and form of dividend payments. The policy shall be reviewed periodically and submitted to the Board for approval if amendments are required.

Corporate Governance Report

E. Internal controls and Risk management report

During the year, the Group has complied with the Code Provision C.2 of the CG Code by establishing appropriate and effective risk management and internal control system.

(i) Control Environment

The Group operates within an established control environment and it comprises four layers of roles and responsibilities to manage risk and internal control:

Role	**Accountability**	**Responsibilities**
High level review	Board	Overall responsibility for the Group's risk management and internal control systems; oversees the controls for strategic and operational risks and monitors the effectiveness of the existing control systems through Audit Committee.
Supervision	Audit Committee	Supporting the Board in monitoring the performance of corporate governance, financial reporting, risk management and internal control systems; reviews risks raised during annual risk register execute; approves risk tolerance.
Risk and control owner	Managers of headquarters and business units	Day to day execution and monitoring of internal control; strategic policies and operating guidelines formulation and execution.
Risk monitoring and communication	CFO, company secretary and internal audit team	Evaluation of risk management and internal controls to identify areas for improvement; monitoring of corporate governance disclosure, statutory and listing rules compliance; undertaking of investigations.

(ii) Risk Assessment

The Group's risk management process is embedded into our strategy formulation, business planning, capital allocation, investment decisions, internal controls and day to day operations. Management is responsible for performing risk assessments and owning the design, implementation and maintenance of controls. Finance Department, Human Resources Department, Compliance Department and external professionals provide

Corporate Governance Report

assistance and expertise management to help it in undertaking its responsibilities. Major identified risks are recorded in the risk register which has been monitored and updated regularly to reflect the latest development of situations.

Executive directors communicate regularly with each individual business unit/department heads to identify day to day operational risks and find ways to mitigate them if any.

Regarding financial risks, the board approves Company's yearly financial budgets and reviews its operating and financial performance and key performance indicators against the budget on a semiannual basis. Management closely monitors the financial reports of each business unit on a monthly basis against budget to detect material deviation at business unit level. Board approval is required for all significant capital investment or acquisition decisions.

Chief Financial Officer, Company Secretary and Human Resources and Administrative Director work with external legal and financial advisors to review adherence to relevant laws and regulations, Listing Rules compliance, public disclosure requirements and our standards of compliance practices.

(iii) Control Activities

Among others, control activities include approvals and verifications, reviews, safeguarding of assets and segregation of duties. They are performed by personnel at different levels within the Group with the support of well-defined policies and procedures:

Top-level reviews:	Conducting review of performance versus budget. For all three business sectors (manufacturing, trading and retails,) monthly operation update and financial reports are discussed between business unit heads and Headquarters management to manage operational and financial risks. Besides, for manufacturing business units, monthly production quantity target and defect rate target are set to the factories. Bi weekly KPI meetings and weekly production meetings are held to monitor the actual performance.
Information processing:	Many control functions on accuracy, completeness and authorization of transactions are built-in in ERP system and exception report can be generated for follow up actions if required.
Physical controls:	Inventory and major fixed assets are safeguarded by designed personnel and locations and are subject to periodic checks.
Segregation of duties:	If situation allows, the Group divides and segregates duties amongst different people, to strengthen checks and minimize the risks of errors or abuses.

Corporate Governance Report

(iv) Information and Communication

Information that gathered by business units from customers, suppliers, employees and relevant trade organizations and authorities are discussed internally and are shared with Hong Kong headquarters management formally or informally to facilitate decision making process. Management report to the board up to date status on performance, developments, significant risks and major initiatives and other relevant issues, and the board, in turn, communicate to management what information it needs and provide directions and feedbacks. There are at least four board meetings every year.

(v) Monitoring

Monitoring ensures that internal control continues to operate effectively. It involves assessment by appropriate personnel of the design and operation of controls and taking of suitable follow-up actions.

The Board and Audit Committee oversee the process, assisted by internal audit team. There are two audit committee meetings annually. 2019 audit plan and internal audit report were reviewed and approved by the Audit Committee. No significant internal control weaknesses in 2018 is noted.

Our external auditor, PricewaterhouseCoopers, performs independent statutory audits of the Group's financial statements and reports to the Audit Committee any significant weaknesses in our internal control procedures which come to its notice during the course of the audit.

Overall Assessment

1. The risk management and internal controls and accounting systems of the Group were in place and functioning effectively, and were designed to provide reasonable but not absolute assurance that material assets were protected, business risks attributable to the Group were identified and monitored, material transactions were executed in accordance with management's authorization and the financial statements were reliable to produce.

2. There was an ongoing process in place for identifying, evaluating and managing the significant risks faced by the Group.

3. The resources, qualifications, experience, training programs and budget of the employees of the Group's accounting and financial reporting teams were adequate.

Corporate Governance Report

E. Delegation by the Board

E.1. Management Functions

An issuer should have a formal schedule of matters specifically reserved to the board for its decision. The board should give clear directions to management as to the matters that must be approved by the board before decisions are made on behalf of the issuer.

The Board is responsible for formulating overall strategy, monitoring and controlling the performance of the Group whilst managing the Group's business is the responsibility of Management.

When the Board delegates aspects of its management and administration functions to Management, it has given clear directions as to the powers of Management, in particular, with respect to the circumstances where Management shall report back and obtain prior approval from the Board before making decisions or entering into any commitments on behalf of the Company.

The Company has established schedules of Matters Reserved to the Board for Decision and Matters Delegated to Management. The Board shall review those arrangements on a periodic basis to ensure that they remain appropriate to the needs of the Group.

Matters Reserved to the Board for Decision include:

1. Business plan;

2. Financial statements and budget;

3. Mergers and acquisitions and other substantial investments;

4. Formation of board committees;

5. Appointment and resignation of directors; and

6. Appointment and removal of auditors.

Corporate Governance Report

E.2. Board Committees

Board committees should be formed with specific written terms of reference which deal clearly with the committees' authority and duties.

Apart from Audit Committee (particulars are disclosed under C.3), Remuneration Committee (particulars are disclosed under B.1) and Nomination Committee (particulars are disclosed under A.4), there are no other board committees established by the Board. Where board committees are established to deal with matters, the Board shall prescribe sufficiently clear terms of reference to enable such committees to discharge their functions properly. The terms of reference of board committees shall require such committees to report back to the board on their decisions or recommendations, unless there are legal or regulatory restrictions on their ability to do so.

F. Company Secretary

Ms. Chan Hoi Ying, the Company Secretary of the Company, confirmed that she has taken no less than 15 hours relevant professional training during the financial year.

G. Communication with shareholders

G.1. Effective Communication

The board should endeavour to maintain an on-going dialogue with shareholders and in particular, use annual general meetings or other general meetings to communicate with shareholders and encourage their participation.

At the 2018 Annual General Meeting, a separate resolution was proposed by the Chairman in respect of each separate issue, including the re-election of Directors.

The Chairman of the Board and the chairmen of the Audit and Remuneration Committees shall attend the 2019 Annual General Meeting to answer questions of shareholders.

G.2. Procedures for putting forward proposals at general meetings

Any shareholder who wish to put forward proposals at general meetings of the Company shall submit such proposals to the Board in writing for the boards consideration not less than 7 days prior to the date of a general meeting through the Company Secretary.

The Company also published all corporate correspondence on the Company website, www.mainland.com.hk.

G.3. Voting by Poll

The right to demand a poll was set out in the circular to shareholders of the Company dispatched together with the Annual Report. The results of the voting by poll would be published on the websites of the Stock Exchange and the Company respectively.

Report of the Directors

The directors of the Company (the "Directors") have pleasure in submitting their annual report together with the audited financial statements for the year ended 31 December 2018.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities and other particulars of the subsidiaries are set out in note 16 to the financial statements.

SEGMENTAL INFORMATION

Details of segmental information are set out in note 5 to the financial statements.

RESULTS AND APPROPRIATIONS

An interim dividend of 2 HK cents (2017: 2 HK cent) per share, totaling HK$8,106,000 was paid on 12 October 2018. 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.

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.

To determine the identity of members who are entitled to the final dividend of the Company for the year ended 31 December 2018, 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.

No arrangement has been made under which a shareholder has waived or agreed to waive any dividends.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 146.

Report of the Directors

MAJOR CUSTOMERS AND SUPPLIERS

The information in respect of the Group's sales and purchases attributable to the major customers and suppliers respectively during the financial year is as follows:

	Percentage of the Group's total Purchases	Sales
The largest customer	—	47.5%
Five largest customers in aggregate	—	71.3%
The largest supplier	23.03%	—
Five largest suppliers in aggregate	58.35%	—

As at 31 December 2018, New Era Cap Co., Inc., New Era Cap Company Ltd and New Era Japan GK, major customers of the Group, were affiliated companies of New Era Cap Hong Kong LLC ("NEHK"). NEHK holds 19.64% equity interest in the Company. Mr. Christopher Koch owns 75% of the issued share capital of NEHK.

Save as disclosed above, none of the Directors, their associates or any shareholder of the Company (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had an interest in these major customers or suppliers.

PROPERTY, PLANT AND EQUIPMENT

During the year, the Group spent HK$137,744,000 (2017: HK$116,750,000) on construction of an office and warehouse in the US, and a factory building in Bangladesh. It also includes plant and equipment to upgrade its manufacturing capabilities. Details of movements in property, plant and equipment are set out in note 14 to the financial statements.

SHARE CAPITAL ISSUED IN THE YEAR

Details of the shares issued in the year ended 31 December 2018 are set out in note 25 to the financial statements.

RESERVES

Details of movements in the reserves of the Company during the year are set out in note 35 to the financial statements.

As at 31 December 2018, the Company's reserves available for cash distribution amounted to HK$489,752,000 (2017: HK$423,504,000) as computed in accordance with the Companies Act 1981 of Bermuda. In addition, the Company's share premium account of HK$167,016,000 (2017: HK$166,836,000) as at 31 December 2018 may be distributed in the form of fully paid bonus shares.

Report of the Directors

EQUITY LINKED AGREEMENTS

Share options granted to directors and selected employee

Details of the share options granted in prior years is set out in note 26 of the financial statements and "Share Options" section in this Report of the Directors. For the shares granted, 150,000 shares were issued during the year.

DONATIONS

HK$30,000 charitable and other donations made by the Group during the year (2017: HK$332,000).

DIRECTORS

The Directors during the year and up to the date of this report were:

Executive directors

Mr. Ngan Hei Keung *(Chairman)*
Madam Ngan Po Ling, Pauline, *BBS, JP (Deputy Chairman and Managing Director)*
Mr. James S. Patterson
Ms. Maggie Gu *(Chief Operating Officer)*
Mr. Ngan Siu Hon, Alexander

Independent non-executive directors

Mr. Leung Shu Yin, William
Mr. Liu Tieh Ching, Brandon, *JP*
Mr. Gordon Ng

The Company has received from each of the Independent Non-executive Directors an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules and considers all the independent non-executive directors to be independent.

All the Directors are subject to retirement by rotation and re-election at the annual general meeting in accordance with the Bye-Laws No. 87 of the Company.

In accordance with the Company's Bye-Law No. 87, Mr. James S. Patterson, Mr. Ngan Siu Hon, Alexander and Mr. Brandon Liu Tieh Ching, *JP* shall retire by rotation at the forthcoming annual general meeting. All of the retiring Directors, being eligible, offer themselves for re-election.

Report of the Directors

DIRECTORS' SERVICE CONTRACTS

Each of Mr. Ngan Hei Keung, Madam Ngan Po Ling, Pauline, *BBS, JP*, Ms. Maggie Gu and Mr. Ngan Siu Hon, Alexander has entered into a service contract with the Company which may be terminated by not less than six months' notice in writing served by either party.

Each of Mr. James S. Patterson, Mr. Leung Shu Yin, William, Mr. Liu Tieh Ching, Brandon, *JP* and Mr. Gordon Ng has entered into a service contract with the Company, which may be terminated by not less than three months' notice in writing served by either party.

Save as disclosed above, none of the Directors has an unexpired service contract with the Company or any of its subsidiaries, which is not determinable by the Group within one year without payment of compensation, other than normal statutory obligations.

DIRECTORS' MATERIAL INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS THAT ARE SIGNIFICANT IN RELATION TO THE COMPANY'S BUSINESS

Save as disclosed in notes 23 and 33 to the financial statements and in the section "Connected Transaction" below, no other transactions, arrangements and contracts of significance to which the Company's subsidiaries or its parent company was a party and in which a Director of the Company and the Director's connected party had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year. The Company has complied with the disclosure requirements set out in Chapter 14A of the Listing Rule.

CONNECTED TRANSACTIONS

(i) During the year, the Group paid rental totaling HK$1,560,000 and HK$162,000 under operating lease in respect of office premises to a company beneficially owned by Mr. Ngan Hei Keung, and in respect of office premises jointly owned by Mr. Ngan Hei Keung and Madam Ngan Po Ling, Pauline, *BBS, JP* respectively.

(ii) On 30 September 2014, the Company renewed a manufacturing agreement (the "Manufacturing Agreement") with New Era Cap Hong Kong LLC ("NEHK"), pursuant to which NEHK agreed to purchase products from the Company with minimum purchase commitments for the five financial years ended 31 December 2019. Under the Contingent Purchase Deed, NEHK is entitled to require Mr. Ngan Hei Keung ("Mr. Ngan") and Madam Ngan Po Ling, Pauline, *BBS, JP*, ("Madam Ngan") who are executive directors and controlling shareholders of the Company to purchase up to 39,800,000 shares of the Company from subscription and exercise of the option and owned by NEHK over a six months period after a notice is served by NEHK, if NEHK have agreed to give purchase commitment under the Manufacturing Agreement on the occurrence of several events.

Report of the Directors

On 8 December 2017, independent shareholders of the Company approved the Manufacturing Agreement and the maximum aggregate annual value of supply transactions for the two years ended 31 December 2019 are HK$545,761,000 and HK$661,300,000 respectively.

During the year ended 31 December 2018, affiliated companies of NE purchased goods totalling HK$447,405,000 from the Group.

Due to the interest in and benefits that Mr. Ngan and Madam Ngan (who are connected persons of the Company as they are Directors) can derive from Contingent Purchase Deed, the Manufacturing Agreement (including the supply transactions, subscription and grant of option) will constitute connected transaction and continuing connected transaction under the Listing Rules.

The aforesaid continuing connected transactions have been reviewed by independent non-executive directors of the Company. The independent non-executive directors confirmed that the aforesaid connection transactions were entered into (a) in the ordinary and usual course of business of the Group; (b) either on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; (c) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued an unqualified letter containing his findings and conclusions in respect of the continuing connected transactions disclosed by the Group as above in accordance with paragraph 14A.56 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

PERMITTED INDEMNITY PROVISION

At no time during the financial year and up to the date of this Report of the Directors, there was or is, any permitted indemnity provision being in force for the benefit of any of the directors of the Company (whether made by the Company or otherwise) or an associated company (if made by the Company).

The Company has taken out and maintained directors' liability insurance throughout the year, which provides appropriate cover for the Directors of the Group.

Report of the Directors

DIRECTORS' AND CHIEF EXECUTIVES INTERESTS IN SHARES AND UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY SPECIFIED UNDERTAKING OF THE COMPANY OR ANY OTHER ASSOCIATED CORPORATION

As at 31 December 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 *(notes 1, 2)*	50,800,000 *(notes 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 *(notes 3, 4)*	270,752,000	66.80%
Mr. James S. Patterson	—	—	2,000,000 *(note 5)*	2,000,000	0.49%
Ms. Maggie Gu	—	—	2,200,000 *(note 6)*	2,200,000	0.54%
Mr. Ngan Siu Hon, Alexander	—	—	2,000,000 *(note 7)*	2,000,000	0.49%

Report of the Directors

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, *BBS, JP* as to 40% and 60% respectively.

(2) The 36,252,000 shares are beneficially owned by Madam Ngan Po Ling, Pauline, *BBS, JP* the spouse of Mr. Ngan.

(3) Pursuant to the contingent purchase deed renewed on 30 September 2014 between Mr. Ngan, Madam Ngan and NEHK, NEHK is entitled to require Mr. Ngan and Madam Ngan to purchase up to 39,800,000 shares on the terms and conditions of the said deed.

(4) 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 Hong, 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 (including their spouse and children under 18 years of age) had any interests in the shares or short positions in the shares or underlying shares in, or debentures of, the Company or its specified undertaking or any of its associated corporations as defined in the SFO.

SHARE OPTION SCHEMES

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

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

Report of the Directors

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

The exercise price of the options is the highest of the nominal value of the shares, the closing price of the shares on the Stock Exchange on the date of offer of the options and the average closing price of the shares on the Stock Exchange for the five trading days immediately preceding the date of offer of the options.

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

Unless approved by shareholders in general meeting, the total number of shares issued and which may fall to be issued upon exercise of the options of the New Scheme and the options granted under any other schemes of the Group (including both exercised or outstanding options) to each grantee in any 12-month period shall not exceed 1% of the issued share capital of the Company at the relevant time.

An option may be exercised in accordance with the terms of the New Scheme at any time during the period (which may not expire later than 10 years from the date of offer of that option) to be determined and notified by the Directors to the grantee and in the absence of such determination, from the date of acceptance of the offer of such option to the earlier of the date on which such option lapses in accordance with the terms of the New Scheme and 10 years from the date of offer of that option. A consideration of HK$1 will be payable upon acceptance of the offer.

As at the date of annual report, the total number of shares available for issue, save for those granted but yet to be exercised, under the New Scheme was 40,532,328 shares, which represented 10% of the issued share capital of the Company.

Report of the Directors

At 31 December 2018, the Directors and employees of the Group had the following interests in options to subscribe for shares in the Company (market value per share is HK$1.1 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 HK$	Outstanding at 1.1.2018	Lapsed during the year	Exercised during the year	Outstanding at 31.12.2018	Market value per share at date of grant 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	13.04.2018–12.04.2027	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	13.04.2018–12.04.2027	1.534	11,370,000	—	—	11,370,000	1.50
				28,150,000	(1,000,000)	(150,000)	27,000,000	

Apart from the foregoing, at no time during the year was the Company, its subsidiaries, its parent company or its associated corporations a party to any arrangement to enable the Directors and chief executives of the Company (including their spouses or children under eighteen years of age) to hold any interests or short positions in the shares or underlying shares in, or debentures, of the Company or its specified undertakings or other associated corporation.

Report of the Directors

Substantial shareholders' interests and/or short positions in the shares, underlying shares of the Company

So far as is known to the Directors or chief executives of the Company, as at 31 December 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, *BBS, JP* as to 40% and 60% respectively. The interests of Mr. Ngan Hei Keung and Madam Ngan Po Ling, Pauline, *BBS, JP* in Successful Years International Co., Ltd. are also disclosed in the section headed "Directors' and Chief Executives Interests in Shares and Underlying Shares and Debentures of the Company or Any Specified Undertaking of the Company or Any other Associated Corporation" 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.

Report of the Directors

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 31 December 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.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws and there was no restriction against such rights under the laws of Bermuda which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

PURCHASE, SALE 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.

SUFFICIENCY OF PUBLIC FLOAT

The Directors confirm that, based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has sufficient public float of at least 25% of the Company's issued shares as at 18 March 2019, being the date of this report.

Report of the Directors

AUDITORS

The financial statements have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

Ngan Hei Keung
Chairman

Hong Kong, 18 March 2019

Environmental, Social and Governance Report

The Environmental, Social and Governance Report provides an annual update on sustainability performance of Mainland Headwear Holdings Limited and together with its subsidiaries for the year ended 31 December 2018.

The Group is committed continuously for a reduced environmental impact, better workplace safety, continuous provision of quality products and services for customers, and dedicated practice of people-oriented policies. In the long run, the Group promotes sustainable development.

Our Board of Directors are responsible for supervising the environmental, social and governance strategies, policies and measures while our management is responsible for the execution to ensure the effective implementation.

The following Environmental, Social and Governance Report (the "ESG Report") is prepared under the Environmental, Social and Governance Reporting Guide of Hong Kong Exchanges and Clearing Limited ("Hong Kong Exchange") and in line with the recommended practices for all the listed companies in Hong Kong.

Vision:

To become the global leader and the largest supplier in the global headwear industry.

Mission:

To create value for customers, opportunities for employees and benefit for the community, by designing, manufacturing and promoting a wide variety of headwear products.

Core values:

Customers come first

With customers' interests as our first priority, we are committed to providing them with quality products and excellent services.

Aggressive and innovative

We take a proactive approach in all our undertakings: aggressive in times of opportunity; positive in times of difficulty; and innovative in times of mediocrity.

Serving the community

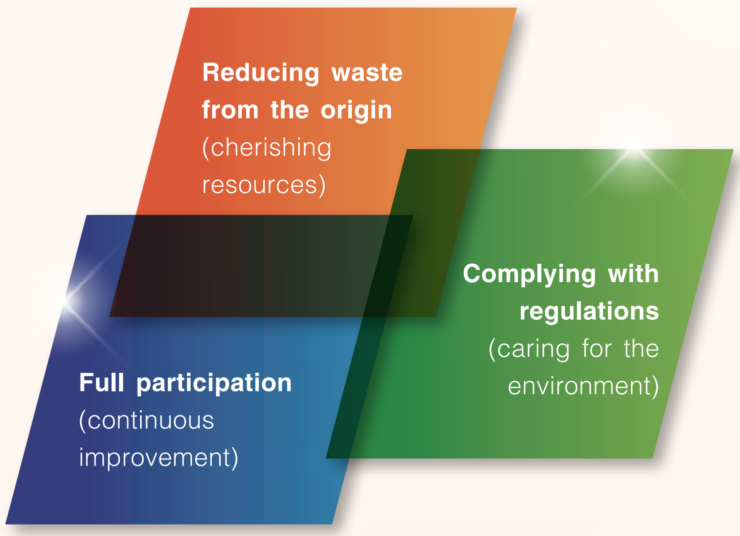
We believe the greatest value of our Group lies in the benefits we can create for the community at large. Apart from contributing our best in the industry, we also devote our time, energy and resources to help those who are less fortunate in our society.

People-oriented

We consider our staff as our most valuable asset. Caring, communication and motivation are the essential cornerstones for building a great team.

Environmental, Social and Governance Report

Mainland Headwear Holdings Limited (the “Group”) advocates a more environmental-friendly practice at work, particularly in the process of daily operation and supporting service.



ENVIRONMENTAL PROTECTION, ENERGY CONSERVATION AND EMISSION REDUCTION

Factory wastes are divided into four main categories:

Sources of greenhouse gas emissions generated in headwear production include carbon dioxide, methane and nitrous oxide, which are mainly created from power consumption and the burning of environmental-friendly biomass particles. Methane and nitrous oxide are generated from emissions of septic tanks.

Measures and achievements for emission reduction

The Group has made efforts to reduce emissions at the source by always being energy-saving and lowering air emissions. It can help realizing sustainable development and operation. The Group is committed to more efficient utilization of energy resources, water and materials, less consumption of natural resources and environment protection. Furthermore, targeting the factory areas with heavy energy consumption, the Group, put emphasis on greenhouse gas controlling waste reduction, categorised recycling and energy conservation and carbon reduction.

Environmental, Social and Governance Report

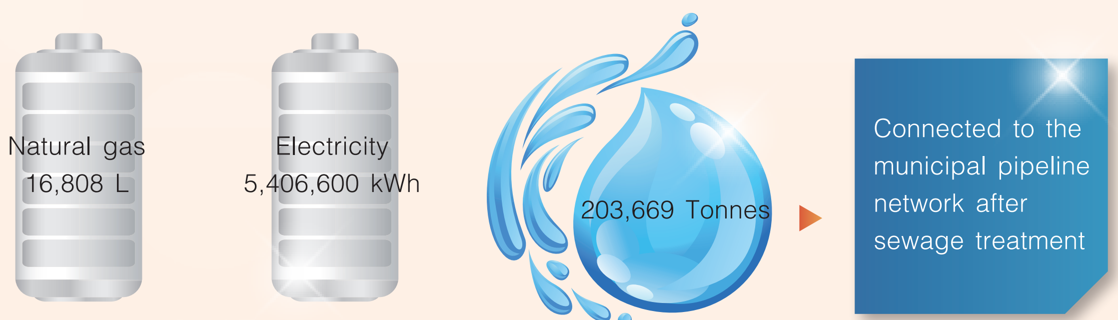
Environmental management policies

To balance production with environmental protection, the Group strives to implement the following measures to protect the environment:

Environmental protection measures

- Introducing an environmental management system with effective operation, preventing environmental pollution, minimizing environmental impact, and make continuous improvement for the sustainability of natural resources.
- Optimizing production process, promoting clean production, reducing the emission of pollutants, and carrying out pollution control and management, with regular detection and inspection. Formulating environmental friendly policies for saving energy.
- Reducing the consumption of hazardous substances, and promoting the measures for industrial waste reduction, resource recycling, energy conservation and carbon reduction, so as to continuously improve the performance of environmental protection.
- Providing more education and training, to improve the environmental consciousness of all the staff and thoroughly fulfill the environmental protection responsibilities.

In respect of actual operation and management, the Group has formulated standards on environmental protection for its factory areas, and established a management system for independent factory with reference to ISO 14001 Environmental Management System.



Energy data of Shenzhen Factory

Annual water consumption for production and domestic use of the Shenzhen Factory

Conforming to local government regulations

Environmental, Social and Governance Report

Energy consumption

Strategic emphases of managing energy consumption are to gradually replace fossil fuels (of high pollution and carbon emission) with electricity of clean fuels. Meanwhile, electric boilers and natural gas boilers are being used to supply steam in our factory.

In respect of energy management, it is planned to prioritize the comprehensive introduction of an energy monitoring system, to help factories on early detection of abnormal energy consumption and work out opportunities for energy conservation.

Wastewater discharge

Headwear production is not a process of considerable water consumption. Hence, staff members consume most of the water in the factory area for their daily life, with only a small amount needed in washing headwear products and processing fabrics.

In terms of the management strategy, top priority shall be given to the waste reduction from source and prevention of generation, and recycling & reuse and proper treatment shall be the final requirements for supervision.

In the headwear plant, most of the polluted water is from the domestic water of employees and a small part is the industrial wastewater from washing and processing for the soft and comfortable headwear products, and the preshrinking of cotton cloth. The factory is equipped with special sewage treatment station to process the industrial wastewater and domestic water for repeated utilization according to the water quality and treatment demands. The inspection institution recognised by the local competent authority has been engaged to conduct the sampling and detection of the discharged water according to the laws, and the wastewater is discharged upon conformity with standards.

Recycling and reuse of discharged water

The Group continuously strives to seek opportunities for the recycling and reuse of water resource in compliance with the management principle of the Group. The proportion of the recycled water of Group's factory in Shenzhen was approximately 25% on average in the year of 2018.

Environmental, Social and Governance Report

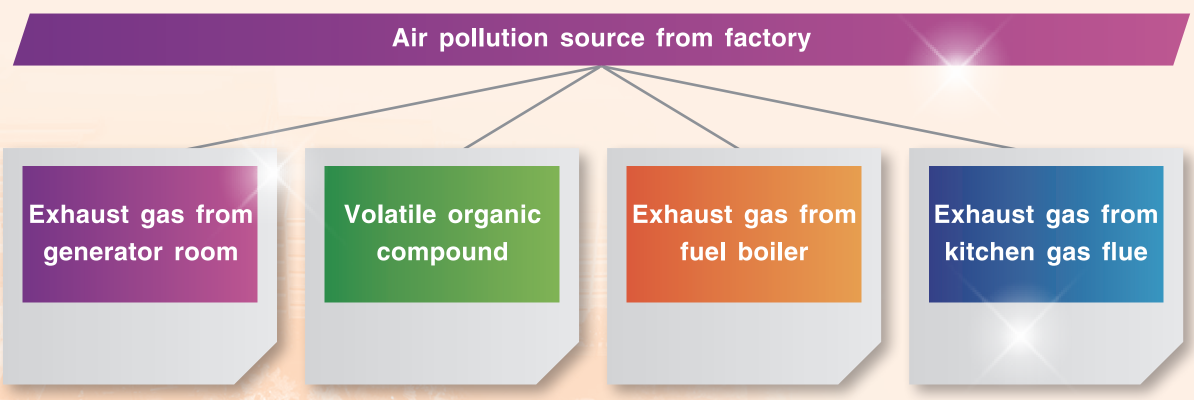
Usage and procurement of raw materials

Shenzhen Factory consumed a total of 46.3 tonnes of packaging materials for finished products in 2018. The raw materials used for the headwear industry are divided into headwear body materials and headwear brim materials.

The factory keeps close communication with brand customers and suppliers for selection of raw materials, purchases materials from suppliers designated by customers, and chooses materials according to the quality standards required by brand customers. In addition, materials shall be inspected in accordance with the list of substance prohibited and limited by customers, and relevant standards of American Society for Testing and Materials and countries to which customers belong, and jointly explores the application of environmental save materials, in headwear with customers.

Compliance of environment and natural resource management

Based on the respect and protection of environmental resources, Shenzhen factory collects the pollutant emissions and entrusts qualified suppliers with treatment during the production and operation, in order to make proper treatment and discharge the waste upon conformity with the requirements of local regulations.



Environmental, Social and Governance Report

Management of air pollution source

Currently, the air pollution sources of Shenzhen Factory mainly include volatile organic compounds, exhaust gas from fuel boiler, exhaust gas from generator room and exhaust gas from kitchen gas flue.

Air pollutant prevention and treatment strategies: Formulate the Administrative Measures for Air Pollution Prevention and Treatment, and evaluate the introduction of clean production process. The proper treatment is the final step to meet requirements of final supervision.

Waste management

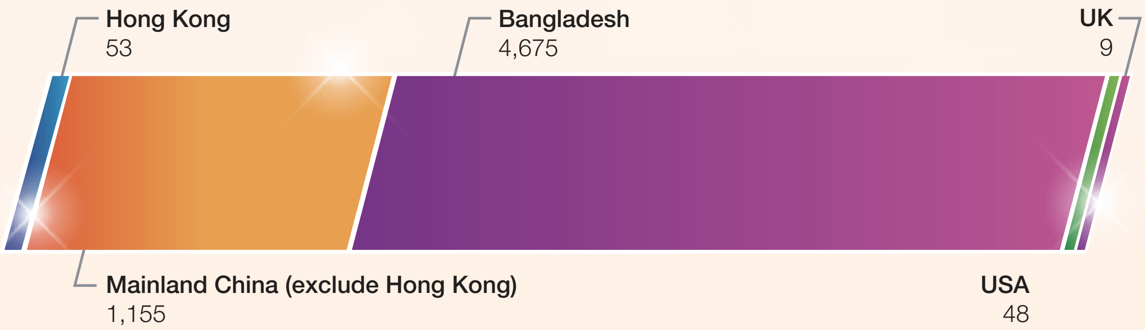
The waste management strategy of Shenzhen Factory focuses on the lawful waste removal, disposal, reduction and recycling. All the wastes shall be removed and disposed of by the qualified contractor recognised by the government in accordance with the local regulations.

By December 2018, the removal, transport and disposal of all the wastes complied with requirements of local regulations.

EMPLOYMENT

Personnel profile

The group has branches in mainland China, Hong Kong, Macau, USA, UK, Bangladesh, etc. According to the statistics, there were approximately 5,940 employees as at 31 December 2018.



Labor force in position systems	Hong Kong	China	Bangladesh	USA	UK
Administrative system	50	316	190	4	2
Engineering technology system	0	78	9	0	7
Manufacturing system	0	649	4,476	12	0
Retail administrative system	0	0	0	0	0
Retail frontline system	3	66	0	13	0
Other systems	0	46	0	19	0

Environmental, Social and Governance Report

Gender and age of labor force (percentage)

Region	Gender		Age		
	Female	Male	Under 29 (inclusive)	30~49	Above 50 (inclusive)
Hong Kong	58.5%	41.5%	5.7%	69.8%	24.5%
Mainland China (exclude Hong Kong)	57.1%	42.9%	11.9%	37.0%	51.1%
Bangladesh	43.5%	56.5%	73.4%	26.0%	0.6%
USA	54.2%	45.8%	12.5%	77.1%	10.4%
UK	11.1%	88.9%	0	33.3%	66.7%

Turnover Rate (percentage) — Gender and age

Region	Gender		Age distribution (%)		
	Female	Male	Under 29 (inclusive)	30~49	Above 50 (inclusive)
Hong Kong	44.4%	55.6%	16.7%	61.1%	22.2%
Mainland China (exclude Hong Kong)	60.7%	39.3%	33.7%	58.3%	8.0%
Bangladesh	36.7%	63.3%	80.0%	20.0%	0
USA	40.0%	60.0%	0	100.0%	0
UK	0	0	0	0	0

Rate of new employees (percentage) — Gender and age

Region	Gender		Age distribution (%)		
	Female	Male	Under 29 (inclusive)	30~49	Above 50 (inclusive)
Hong Kong	40.0%	60.0%	10.0%	60.0%	30.0%
Mainland China (exclude Hong Kong)	64.6%	35.4%	51.5%	43.1%	5.4%
Bangladesh	30.3%	69.7%	84.2%	15.8%	0
USA	67.0%	33.0%	67.0%	33.0%	0
UK	0	0	0	0	0

Environmental, Social and Governance Report

HEALTH AND SAFETY

Safety and sanitation management

Management policies on occupational safety and sanitation

The Group believes that the safety of its customers and staff remains the highest priority. The Shenzhen Factory has taken all the possible measures of improving production safety and labor protection, to ensure the safety of customers, staff and company properties, in addition to implementing "safety first and prevention utmost" as its principle for safe production.

The Shenzhen Factory offers a complete set of labor protection suppliers to create a safe and healthy working environment for the staff for their better health, growth and performance. Moreover, the Factory tries to raise the staff's awareness of safety, occupational health, fire and disaster prevention, and environmental protection, and applies such awareness, concepts as well as safety-related decrees and regulations to all aspects such as research and development (R&D), design, production, inspection and service.

In 2018, the Group had no work-related fatality or loss of working days due to work-related issues.

DEVELOPMENT STRATEGIES OF EDUCATION AND TRAINING

The Group has been dedicated to nurture and retain talents in accordance with its mission, vision, business strategies and objectives, with an aim to evolve itself into a prominent corporate. Through the continuous education and training provided to the staff, the Group strives to enhance the level of merit and quality of its staff to foster a team of excellence, so as to contribute for achieving significant development for both the Company and all staff.

The Group encourages its staff to achieve a better understanding of the Company's culture, code of conduct as well as the commitment to social responsibility, which enables the staff to grow together with the Company, reflecting the people-oriented vision of the Company.

Objective of education and training

The Group continuously improves the level of knowledge, ability and initiative of the staff through training and minimizes the consumption of manpower cost arising from the insufficient knowledge and ability as well as passive attitude of the staff, thus facilitating them to achieve their goals and self-success. The training aims to provide the Company with qualified management personnel, experienced technicians, sales officers and workers, so as to ensure that each staff is suitable for its post. According to the Group's training strategy, trainings will be provided to each staff during the whole tenure of service in the Company, and will integrate the education and training into the staff's career planning, aiming at promoting the synchronous development of the Company and staff to achieve mutual growth in the long run.

Environmental, Social and Governance Report

Labor standards

Recruitment practice:

The Group is committed to acting in the principle of fairness and promoting human right policies, in accordance with relevant laws to each workplace and the International Covenant on Human Rights. The Group adopts and implements the recruitment regulations and conditions that respect workers, and protects their labor rights and interests in accordance with the national and international laws and regulations on labor and social security.

No discrimination policies and protection of working rights

To protect the staff's working rights, no member of staff would be subject to employment discrimination over gender, race, religion, age, disability, sexual orientation, nationality, political view, social community or ethnic background. The Group acts as an equal opportunity employer.

Child labor

The Group will not recruit child labor under the age stipulated by local regulations and strives to ensure no child labor employed during our course of business. Any child labor found working at our properties would be immediately sent back to their hometown or native place, followed by our submission of necessary documents to local authorities and our discussion with the child custodian over the resumption of schooling.

No forced labor

In respect of the staff's working hours, the Group strictly observes relevant national decrees or agreement provisions with brand customers, respects the staff with their working hours, and offers leaves to staff according to the law. As the operational need, the Group has a computer-based attendance system for human resources record, to effectively manage the staff's working hours and leaves and ensure the physical and mental balance of the staff. The Group arranges overtime work of employees out of their own accord to prevent forced overtime work, with overtime work and payment in compliance with domestic rules and regulations in different region.

Employee-employer communication mechanism

The staff's right to freely form associations for collective negotiation. Staff members are free to join in the trade union and other organizations of staff representatives, exercise their rights according to the Articles of Association, conduct sincere and constructive negotiations on a free and voluntary basis and in the principle of good faith, and try to reach collective contracts and agreements.

Environmental, Social and Governance Report

Enhancing the communication mechanism for staff making suggestions and complaints

To encourage communication between the management and the staff, different complaint channels have been established in different regions in the company/factory, including "Company Mailbox", "Trade Union Mailbox" and "Compliance Hotline" to understand and resolve the staff's issues, listen to their voices, adopt improvement suggestions, and ultimately achieve a harmonious relationship between the staff and the employer.

Principles and channels for complaint and reporting

To respond to the staff's suggestions and complaints, the Group establishes the following three complaint and reporting channels according to the "Working Principle":

Supply Chain Management

The Shenzhen Factory has over 68 suppliers.
Shenzhen Factory: The regular suppliers are classified by geographical region as follows:
Mainland China: 51, Hong Kong: 15, Taiwan: 2
Overseas: Overseas suppliers are designated by customers.

With regard to the selection of suppliers, the Group first selects potential suppliers according to its screening process, followed by on-site audits by the internal auditor, competitiveness analyses by the purchasers, and finally the voting by a committee composed of the factory manufacturing unit and relevant departments in a fair, just and open manner, to formally grant the qualification status of the Group's strategic supplier. The strict screening mechanism ensures that the shortlisted suppliers meet the Group's performance demands, develop long-term strategic partnerships and help the Group to build a high-quality system for supply chain management.

In addition to the requirement that suppliers should strict comply with regulations and norms on labor safety and health, human rights and environmental protection, the Group conducts regular appraisals on its suppliers, with quarterly review over the suppliers' performance in all aspects. The indicators of such regular appraisals cover five aspects, namely, quality, price (cost), delivery, service and environmental protection. Each aspect is set with qualitative and quantitative indicators. The appraisal results can help suppliers to continuously improve their operation performance.

According to the annual plan, a visit would be paid to key suppliers each year, for an on-site audit of quality management. Suppliers with defects would be required to present an improvement solution and subsequent prevention measures, with the improvement progress followed on a regular basis. A supplier screening and management mechanism is adopted to select excellent suppliers living up to the expectations of the Group.

Environmental, Social and Governance Report

Product Responsibility

The products manufactured and supplied by the Group shall pass the standard quality inspection required by customers, and have reasonable packaging and detailed product label specifying product dimensions, materials, ingredients, usage instructions, etc. according to the customers' requirements and the exporting countries' laws and regulations. There were no products subject to recalls for safety and health reasons during the year.

Intellectual Property Rights

As a headwear manufacturer, the Group respects the intellectual property rights of the brand customers and strictly follows the brand protection policies of its customers. The intellectual property rights (such as trade marks) are only applied to products according to the scopes authorised by the brand customers, and would not be used for any other unauthorised purposes.

Quality Assurance Process and Recall Procedures

All products are examined and tested according to standardised inspection procedures and strict physical and chemical properties testing standards before they are stored in the warehouse and can be used for production.

In the mass production process, sampling tests will be conducted to prevent inappropriate materials from being used. Some finished headwear must go through the inspection machines or metal detection devices operated by designated employees to ensure there is no metal scrap or sharp objects remaining. The packaging before shipment for all qualified headwear is carried out under the supervision of trained staff with the adoption sealed records for shipment under CCTV surveillance systems, so as to prevent any placing of dangerous items into the packages during delivery.

In order to meet our customers' requirements, our overall production processes (including production, packaging, labeling, etc.) are subject to the monitoring and auditing from customers. Immediate actions are taken and results are reverted to customers when customers raise any issues needed to adjustment and improvement.

Consumer Data Protection and Privacy Policies

The Group is committed to protecting the privacy of personal data. It ensures that its policies and practices in relation to the collection, use, retention, transfer and access of personal data comply with the requirements of the Personal Data (Privacy) Ordinance of Hong Kong.

The purpose for collecting and retaining customers' records is to provide services, facilities and goods to customers, process payments and billings, research and develop products, conduct customer surveys and direct marketing and for other operating purposes. Appropriate security measures are taken to protect the personal data against loss and from unauthorised access, use, modification or disclosure.

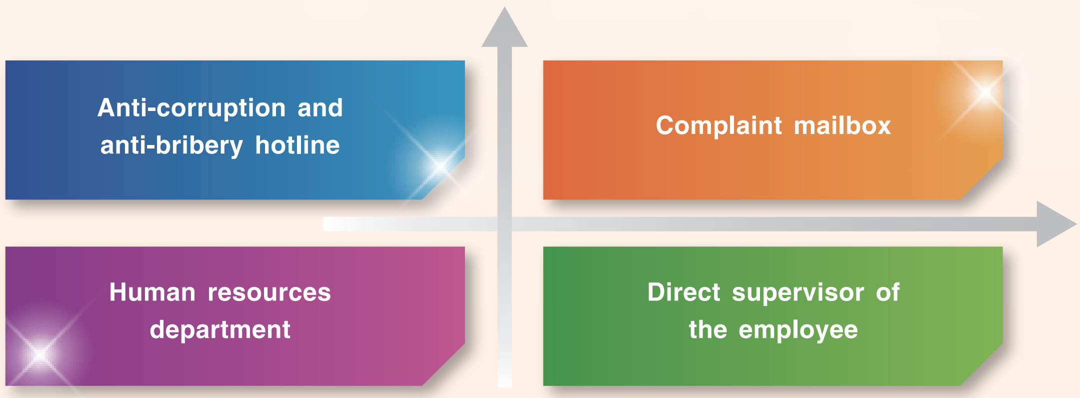
Environmental, Social and Governance Report

Anti-corruption

The Group strictly adheres to relevant local laws and regulations. All employees are prohibited from, directly or indirectly, offering, promising to offer, requesting or receiving any improper benefits of any sort, or taking any other actions without sincerity and integrity, in any illegal way, or in breach of fiduciary duty when conducting business with counterparties. Such behaviours to be prevented include criminal behaviour such as bribery, extortion, fraud and money laundering, and other acts such as making illegal political donations, making improper charity donations or improperly sponsoring charity, offering or receiving gifts, hospitality, or other improper benefits which are perceived as unacceptable in accordance with normal ethical standards, infringing trade confidential information, trademarks, patents, copyrights and other intellectual property rights, and engaging in unfair competition acts, etc. In 2018, there were no legal cases regarding corruption, bribery, extortion, fraud and money laundering practices brought against the Group or its employees, and the Group's Internal Audit Department did not discover or receive any report in relation to any immoral behaviours by the Group or its employees.

The Group discloses its business integrity policies on its internal website or other media channels. The objective is to ensure that the employees of the Group, suppliers, customers or personnel of other organisations relevant to the business clearly understand the Group's philosophy and standards on business integrity. During the course of business engagement, the Group's employees are required to explain to business counterparties the Group's policies and regulations on business integrity, and should explicitly reject any direct or indirect provisions, undertakings, requests for or receipts of improper benefits in whatever manner or form.

In order to prevent employee corruption and respond to the employees' opinions and complaints, the Group has established the following four appeals and reporting channels:



Anyone with information about suspected illegal or dishonest acts by any personnel of the Group can report via the above channels.

Environmental, Social and Governance Report

Corporate Social Responsibility

1. "Good MPF Employer Award 2017–18" granted by Mandatory Provident Fund Schemes Authority

2. "Partner Employer Award" granted by The Hong Kong General Chamber of Small and Medium Business for the 6th consecutive year

3. "Consumer Caring Company" granted by GS1 Hong Kong

4. "Green Management Award — Service Provider" granted by the Green Council

5. "Social Capital Builder Awards" granted by the Labour and Welfare Bureau

Independent Auditor's Report

羅兵咸永道

To the Shareholders of
Mainland Headwear Holdings Limited
(incorporated in Bermuda with limited liability)

Opinion

What we have audited

The consolidated financial statements of Mainland Headwear Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 63 to 145, which comprise:

- the consolidated balance sheet as at 31 December 2018;
- the consolidated statement of profit or loss for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated cash flow statement for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

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Independent Auditor's Report

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters identified in our audit are summarised as follows:

- Provision for inventories
- Impairment of goodwill
- Income taxes

Independent Auditor's Report

Key Audit Matter	**How our audit addressed the Key Audit Matter**
Provision for inventories Refer to note 4 (critical accounting estimates and judgements) and note 20 (inventories) to the consolidated financial statements for the related disclosures. As disclosed in note 2(l) to the consolidated financial statements, inventories are carried at the lower of cost and net realisable value ("NRV"). As at 31 December 2018, the Group held inventories of HK$208.7 million, net of provision for inventories of HK$44.8 million. Management determines the lower of cost and NRV of inventories by considering the aging profile, inventory obsolescence and estimated selling price of individual inventory items. Significant judgement is required in determining the estimated selling price of individual series of products including historical experience of selling products of similar nature and expectation of future sales based on current market conditions. We focused on this area due to significant judgement involved in determining the provision for inventories.	Our audit procedures in relation to management's assessment on NRV and obsolescence of inventories included: — Understood and tested the control procedures performed by management in estimating the NRV of the inventories and conducting periodic review on inventory obsolescence; — Observed client's inventory counts to identify where there is any damaged or obsolete inventories; — Tested, on a sample basis, the accuracy of the ageing profile of individual inventory items by checking to the underlying procurement correspondence and invoices; and — Tested, on a sample basis, the NRV of selected inventory items, by comparing the latest selling price against the carrying values of these individual finished goods. Based on the procedures described, we found the judgement made by management in relation to the provision for inventories was supportable by available evidence.

Independent Auditor's Report

Key Audit Matter	**How our audit addressed the Key Audit Matter**
Impairment of goodwill Refer to note 4 (critical accounting estimates and judgement) and note 17 (goodwill) to the consolidated financial statements for related disclosure. As at 31 December 2018, the Group had goodwill arising from the acquisition of H3 Sportgear LLC ("H3") and San Diego Hat Company ("SDHC") of HK$22.5 million and HK$11.3 million, respectively. Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the cash-generating units ("CGU") containing the goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Significant judgement is required in relation to the assumptions made in such discounted cash flow model including: • Sales growth rate; • Gross profit margin; and • Discount rate. We focused on this area due to significant judgement is required in the estimations of the recoverable amounts of goodwill.	Our audit procedures in relation to management's assessment on the recoverable amounts of goodwill included: — Understood and assessed the appropriateness of the valuation methodologies used by the management; — Compared the current year actual results with prior year forecast to consider the accuracy of historical forecasts and understood the explanation for deviation of the actual results compared with prior year forecast. In addition, we performed the following procedures over management's key assumptions used in the discounted cash flow model: — Discussed with management about sales growth rates and gross profit margin, and compared these assumptions against approved budgets; — Benchmarked the discount rate against our research on the discount rates for comparable companies; — Performed sensitivity analysis to assess the potential impact of reasonably changes to the key assumptions. Based on the procedures described, we found the judgement made by management in relation to the recoverable amounts of goodwill was supportable by available evidence.

Independent Auditor's Report

Key Audit Matter	**How our audit addressed the Key Audit Matter**
Income taxes Refer to note 4 (critical accounting estimates and judgement) and note 11 (income tax expenses) to the consolidated financial statements for related disclosure. For the year ended 31 December 2018, income tax provision of the Group amounted to HK$3.4 million. The Group is subject to taxation in a few jurisdictions and, in many cases, the non-taxable position and the ultimate tax treatment is uncertain until the subject matter is assessed by the relevant tax authority. Consequently, the management makes judgements over the tax liabilities which are subject to the future outcome of assessments by the relevant tax authorities. We focused on this area due to the significant judgement by management in respect of the application of relevant law and regulations.	Our audit procedures in relation to management's assessment on income tax provision included: — Discussed with the management to understand their interpretation of the relevant tax rules and regulations and the basis of determining the tax provision; — Evaluated the judgements made by the management with the involvement of our tax specialists based on our understanding of the relevant tax rules and regulations; and — Examined the correspondences between the Group and the tax authorities and between the Group and its external tax advisers, where applicable. Based on the procedures described, we found the judgement made by management in relation to income tax provision was supportable by available evidence.

Other Information

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Independent Auditor's Report

Responsibilities of Directors and Audit Committee for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The audit committee are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, in accordance with Section 90 of the Companies Act 1981 of Bermuda and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

Independent Auditor's Report

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the audit committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Independent Auditor's Report

We also provide the audit committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the audit committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Chan Tak Wai, Daniel.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 18 March 2019

Consolidated Statement of Profit or Loss

For the year ended 31 December 2018

	Note	2018 HK$'000	2017 HK$'000
Revenue	5	**941,493**	890,707
Cost of sales	8	**(649,969)**	(602,913)
Gross profit		**291,524**	287,794
Other income	6	**11,987**	10,302
Other gains — net	7	**854**	3,921
Selling and distribution costs	8	**(105,740)**	(89,228)
Administration expenses	8	**(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	9	**1,527**	1,516
Finance costs	9	**(276)**	(966)
Finance income – net		**1,251**	550
Profit before income tax		**70,736**	85,578
Income tax expense	11	**(3,390)**	(4,355)
Profit for the year		**67,346**	81,223
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	12		
Basic (HK cents per share)		**15.42**	19.06
Diluted (HK cents per share)		**15.27**	18.67

The notes on pages 70 to 145 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2018

	2018 HK$'000	2017 HK$'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

The notes on pages 70 to 145 are an integral part of these consolidated financial statements.

Consolidated Balance Sheet

As at 31 December 2018

	Note	2018 HK$'000	2017 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment	14	**376,838**	270,808
Investment properties	15	**41,061**	42,139
Goodwill	17	**33,798**	33,798
Other intangible assets	18	**11,980**	13,219
Deferred income tax assets	19	**2,189**	1,616
Available-for-sale financial asset	23	**—**	5,985
Financial assets at fair value through profit or loss	23	**21,746**	15,944
Other financial assets at amortised cost	21	**81**	425
		487,693	383,934
Current assets			
Inventories	20	**208,656**	176,825
Other current assets	22	**29,174**	10,533
Other financial assets at amortised cost	21	**17,662**	15,937
Trade receivables	21	**215,401**	152,942
Financial assets at fair value through profit or loss	23	**11,078**	20,380
Tax recoverable		**823**	1,204
Short-term bank deposits	24	**3,852**	3,907
Cash and cash equivalents	24	**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	25	**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

Consolidated Balance Sheet

As at 31 December 2018

	Note	2018 HK$'000	2017 HK$'000
LIABILITIES			
Non-current liabilities			
Other payables	27	**2,572**	1,977
Borrowings	29	**609**	—
Deferred income tax liabilities	19	**3,892**	3,959
		7,073	5,936
Current liabilities			
Trade and other payables	27	**183,787**	137,229
Amount due to a non-controlling interest	28	**713**	649
Borrowings	29	**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

The financial statements on pages 63 to 145 were approved by the Board of Directors on 18 March 2019 and were signed on its behalf.

Ngan Hei Keung
Director

Ngan Po Ling, Pauline, *BBS, JP*
Director

The notes on pages 70 to 145 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2018

	Attributable to owners of the Company									
	Share capital HK$'000	Share premium HK$'000	Capital reserve 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 2(a)(i))	—	—	—	—	239	—	(239)	—	—	—
Total equity as at 1 January 2018, as restated	40,517	166,836	25,878	9,471	8,042	22,907	395,087	668,738	5,030	673,768
Profit for the year	—	—	—	—	—	—	62,513	62,513	4,833	67,346
Other comprehensive loss:										
— Exchange differences on translation of financial statements of foreign operations	—	—	—	—	—	(8,855)	—	(8,855)	(695)	(9,550)
Total comprehensive (loss)/income for the year, net of tax	—	—	—	—	—	(8,855)	62,513	53,658	4,138	57,796
2017 final dividend paid	—	—	—	—	—	—	(12,160)	(12,160)	—	(12,160)
2018 interim dividend paid	—	—	—	—	—	—	(8,106)	(8,106)	—	(8,106)
Share options scheme:										
— Value of services provided	—	—	—	3,050	—	—	—	3,050	—	3,050
— Share options exercised	15	180	—	(49)	—	—	—	146	—	146
— Share options lapsed	—	—	—	(522)	—	—	522	—	—	—
Total contribution by and distribution to owners of the Company	15	180	—	2,479	—	—	(19,744)	(17,070)	—	(17,070)
Balance at 31 December 2018	40,532	167,016	25,878	11,950	8,042	14,052	437,856	705,326	9,168	714,494

Consolidated Statement of Changes in Equity

For the year ended 31 December 2018

	Attributable to owners of the Company									
	Share capital HK$'000	Share premium HK$'000	Capital reserve 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 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 year	—	—	—	—	—	—	77,228	77,228	3,995	81,223
Other comprehensive (loss)/income:										
— Change in the fair value of available-for-sale financial asset	—	—	—	—	(239)	—	—	(239)	—	(239)
— Exchange differences on translation of financial statements of foreign operations	—	—	—	—	—	5,881	—	5,881	122	6,003
Total comprehensive (loss)/income for the year, net of tax	—	—	—	—	(239)	5,881	77,228	82,870	4,117	86,987
2016 final dividend paid	—	—	—	—	—	—	(12,152)	(12,152)	—	(12,152)
2017 interim dividend paid	—	—	—	—	—	—	(8,103)	(8,103)	—	(8,103)
Dividends paid to non-controlling interests	—	—	—	—	—	—	—	—	(187)	(187)
Share options scheme:										
— Value of services provided	—	—	—	3,618	—	—	—	3,618	—	3,618
— Share options exercised	16	181	—	(29)	—	—	—	168	—	168
Acquisition of non-controlling interests	—	—	—	—	—	—	(2,768)	(2,768)	898	(1,870)
Total contribution by and distribution to owners of the Company	16	181	—	3,589	—	—	(23,023)	(19,237)	711	(18,526)
Balance at 31 December 2017	40,517	166,836	25,878	9,471	7,803	22,907	395,326	668,738	5,030	673,768

The capital reserve of the Group represents the difference between the nominal value of the share capital of the subsidiaries acquired pursuant to the Group's reorganisation for the purpose of the listing of the Company's shares on the Stock Exchange in 2000 over the nominal value of the share capital of the Company issued in exchange therefor.

The notes on pages 70 to 145 are integral part of these consolidated financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2018

	Note	2018 HK$'000	2017 HK$'000
Cash flows from operating activities			
Cash generated from operations	30	**32,055**	101,846
Income tax paid		**(6,344)**	(8,457)
Income tax refunded		**381**	410
Interest paid		**(3,944)**	(1,837)
Net cash generated from operating activities		**22,148**	91,962
Cash flows from investing activities			
Interest received		**1,527**	1,516
Proceeds from disposals of property, plant and equipment		**—**	9
Purchase of property, plant and equipment		**(134,076)**	(115,879)
Purchase of an available-for-sale financial asset		**—**	(6,224)
Purchase of financial assets at fair value through profit or loss		**—**	(23,560)
Proceed from disposal of a financial asset at fair value through profit or loss		**8,110**	—
Short-term bank deposits		**55**	(714)
Net cash used in investing activities		**(124,384)**	(144,852)
Cash flows from financing activities			
Dividends paid		**(20,266)**	(20,255)
Dividends paid to non-controlling interests		**—**	(187)
Repayment of bank borrowings		**(57,454)**	(40,248)
Proceeds from bank borrowings		**94,947**	94,155
Proceeds from exercise of share options		**146**	168
Acquisition of non-controlling interests		**—**	(1,870)
Net cash generated from financing activities		**17,373**	31,763
Net decrease in cash and cash equivalents		**(84,863)**	(21,127)
Cash and cash equivalents at beginning of year		**182,843**	201,881
Effect of foreign exchange rate changes		**(726)**	2,089
Cash and cash equivalents at end of year	24	**97,254**	182,843

The notes on pages 70 to 145 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 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 set out in note 16 to the financial statements.

These financial statements are presented in Hong Kong dollars ("HK$"), unless otherwise stated.

2. SUMMARY OF SIGNIFICANT 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 Company and its subsidiaries (together the "Group") have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs") and the requirements of the Hong Kong Companies Ordinance Cap. 622. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial asset ("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. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 4.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

	As at 31 December 2017, as originally presented HK$'000	Reclassify from available-for-sale financial asset to financial asset at fair value through profit or loss (note (a)) HK$'000	As at 1 January 2018, as restated HK$'000
Available-for-sale financial asset			
— Unlisted equity investment in the United States of America (the "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 asset 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 financial asset 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

There is no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at FVPL and the Group does not have any such liabilities.

Impairment of financial assets

The Group has two types of financial assets that are subject to HKFRS 9'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 other financial assets at amortised cost, 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. The Group measures the expected credit losses on a combination of both individual and collective basis.

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 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 1 January 2018.

(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, see note 31. 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

(b) Principles of consolidation

(i) Subsidiaries

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated balance sheet respectively.

(ii) Changes in ownership interests

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in equity attributable to owners of the Company.

When the Group ceases to consolidate or equity account for an investment because of a loss of control or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in consolidated statement of profit or loss. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associated company, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss or transferred to another category of equity as specified/ permitted by applicable HKFRSs.

If the ownership interest in an associated company is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

(c) Business combinations

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the:

- fair values of the assets transferred
- liabilities incurred to the former owners of the acquired business
- equity interests issued by the Group
- fair value of any asset or liability resulting from a contingent consideration arrangement, and
- fair value of any pre-existing equity interest in the subsidiary.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

Acquisition-related costs are expensed as incurred. The excess of the

- consideration transferred,
- amount of any non-controlling interest in the acquired entity, and
- acquisition-date fair value of any previous equity interest in the acquired entity

over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognised directly in consolidated statement of profit or loss as a bargain purchase.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in consolidated statement of profit or loss.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date. Any gains or losses arising from such remeasurement are recognised in consolidated statement of profit or loss.

(d) Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

(e) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive directors that make strategic decisions.

(f) Foreign currencies translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in HK$, which is the Company's functional and the Group's presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognised in consolidated statement of profit or loss. Foreign exchange gains and losses are presented in the consolidated statement of profit or loss on a net basis within other gains, net.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair values are reported as part of the fair

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

value gain or loss. For example, translation differences on non-monetary assets and liabilities such as equities held at FVPL are recognised in consolidated statement of profit or loss as part of the fair value gain or loss and translation differences on non-monetary asset such as equity classified as financial asset at FVOCI are recognised in other comprehensive income.

(iii) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(a) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(b) income and expenses for each statement of profit or loss are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

(c) all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, are recognised in other comprehensive income. When a foreign operation is sold, the associated exchange differences are reclassified to consolidated statement of profit or loss, as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate. Current translation differences arising are recognised in other comprehensive income.

(iv) Disposal of foreign operation and partial disposal

On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation), all of the currency translation differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to consolidated statement of profit or loss.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

In the case of a partial disposal that does not result in the Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in consolidated statement of profit or loss.

(g) Property, plant and equipment

Leasehold land classified as finance lease and all other property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the consolidated statement of profit or loss during the financial period in which they are incurred.

Freehold land with indefinite useful life is stated at historical cost less impairment loss.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate cost to their residual values over their estimated useful lives, as follows:

Buildings	3.33% to 10%
Furniture and equipment	20% to 33%
Leasehold improvements	10% to 50%
Machinery	10%
Motor vehicles	12.5% to 20%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within "other gains — net" in the consolidated statement of profit or loss.

Construction in progress represents property, plant and equipment under construction or pending installation, and is stated at cost less impairment losses. Cost comprises direct costs of construction including borrowing costs attributable to the construction during the period of construction. No provision for depreciation is made on construction in progress until such time as the relevant assets are completed and ready for intended use.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

(h) Investment properties

Investment properties, principally comprising land and buildings, are held for long-term rental yields or for capital appreciation or both, and that is not occupied by the Group. Land held under operating leases are accounted for as investment properties when the rest of the definition of an investment property is met. In such cases, the operating leases concerned are accounted for as if they were finance leases. Investment property is initially measured at cost, including related transaction costs and where applicable borrowing costs. After initial recognition, investment properties are carried at fair values, representing open market value determined at each reporting date by external valuers. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If the information is not available, the Group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. Changes in fair values are recorded in the consolidated statement of profit or loss as part of a valuation gain or loss in "other gains — net".

(i) Intangible assets

(i) Goodwill

Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is not amortised but it is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The units or groups of units are identified at the lowest level at which goodwill is monitored for internal management purposes, being the operating segments.

(ii) Contractual customer relationships

Contractual customer relationships acquired in a business combination are recognised at fair values at the acquisition date. The contractual customer relations have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated on straight-line basis over their estimated useful life (10 years).

(iii) Trademarks and licensing rights

Separately acquired trademarks and licensing rights are shown at historical cost. Trademarks and licensing rights acquired in a business combination are recognised at fair values at the acquisition date. Trademarks and licensing rights have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated on a straight line basis over their estimated useful life (2–10 years).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

(j) Impairment of non-financial assets

Goodwill is not subject to amortisation is tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(k) Financial assets and liabilities

(i) Classification

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

— those to be measured subsequently at FVPL, 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 the 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 FVOCI.

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

(ii) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

(iii) Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at 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 the consolidated statement of profit or loss.

Debt instruments

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

(1) Amortised cost

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

(3) Fair value through profit or loss

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

Equity instruments

The Group subsequently measures all equity investments at fair values. 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 the consolidated statement of profit or loss when the Group's right to receive payments is established.

Changes in the fair value of financial asset at FVPL are recognised in 'other gains — net' in the 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.

(iv) 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.

(v) Accounting policies applied until 31 December 2017

The Group has applied HKFRS 9 retrospectively, but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the Group's previous accounting policy.

Until 31 December 2017, the Group classifies its financial assets in loans and receivables and AFS. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Reclassification

Reclassifications were made at fair value as of the reclassification date. Fair value became the new cost or amortised cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date were subsequently made.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

Subsequent measurement

The measurement at initial recognition did not change on adoption of HKFRS 9, see description above. AFS is subsequently carried at fair values. Loans and receivables are subsequently carried at amortised cost using the effective interest method. Changes in the fair values of monetary and non-monetary securities classified as AFS are recognised in other comprehensive income.

When securities classified as AFS are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the consolidated statement of profit or loss.

Impairment

The Group assesses at each of the balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the assets are impaired.

Assets carried at amortised cost

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated statement of profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated statement of profit or loss.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

Assets classified as available-for-sale

If there is objective evidence of impairment for AFS, the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the consolidated statement of profit or loss — is removed from equity and recognised in the consolidated statement of profit or loss. Impairment losses on equity instruments that were recognised in the consolidated statement of profit or loss are not reversed through the consolidated statement of profit or loss in a subsequent period.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the consolidated balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or the counterparty.

(l) Inventories

Raw materials, work in progress and finished goods are stated at the lower of cost and net realisable value. Cost comprises direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Costs are assigned to individual items of inventory on the basis of weighted average costs. Costs of purchased inventory are determined after deducting rebates and discounts. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

(m) Trade and other receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. Trade receivables are generally due for settlement within 30–120 days and therefore are all classified as current.

Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Group holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method less provision for impairment.

When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against 'net impairment losses on financial assets' in the consolidated statement of profit or loss.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

(n) Cash and cash equivalents

For the purpose of presentation in the consolidated statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(o) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(p) Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade and other payables are recognised initially at fair values and subsequently measured at amortised cost using the effective interest method.

(q) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are removed from the consolidated balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in consolidated statement of profit or loss as finance costs.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

General and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

Other borrowing costs are expensed in the period in which they are incurred.

(r) Current and deferred income tax

The income tax expense for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

(i) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(ii) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

The deferred tax liability in relation to investment property that is measured at fair value is determined assuming the property will be recovered entirely through sale.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

(s) Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision, where appropriate, is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(ii) Pension obligations

Group companies operate various defined contribution pension schemes. The schemes are generally funded through payments to insurance companies or trustee-administered funds, determined by periodic actuarial calculations. The Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis.

The Group also operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "Pension Scheme") set up pursuant to the Mandatory Provident Fund Schemes Ordinance, for all of its employees in Hong Kong. Contributions are made based on a percentage of the employees' basic salaries and are charged to the consolidated statement of profit or loss as they become payable in accordance with the rules of the Pension Scheme. The assets of the Pension Scheme are held separately from those of the Group in an independently administrated fund. The Group's employer contributions vest fully with the employees when contributed to

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

the Pension Scheme, except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to vesting fully in the contributions, in accordance with the rules of the Pension Scheme. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

In addition, pursuant to the government regulations in the People's Republic of China (the "PRC"), the Group is required to contribute an amount to certain retirement benefit schemes based on approximately 7% to 20% of the wages for the year of those employees in the PRC. The local municipal government undertakes to assume the retirement benefits obligations of those employees of the Group. Contributions to these retirement benefits schemes are charged to the consolidated statement of profit or loss as incurred.

(iii) Profit-sharing and bonus plans

The Group recognises a liability and an expense for bonuses and profit-sharing, based on a formula that takes into consideration the profit attributable to the Company's shareholders after certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

(t) Share-based payments

The Group operates an equity-settled, share-based compensation plans, under which the entity receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions (for example, an entity's share price);
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and
- including the impact of any non-vesting conditions (for example, the requirement for employees to save or hold shares for a specified period of time).

The total expense is recognised over the vesting period which is the period over which all of the specified vesting conditions are to be satisfied.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-marketing performance and service conditions. It recognises the impact of the revision to original estimates, if any, in the consolidated statement of profit or loss, with a corresponding adjustment to equity.

When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital and share premium.

The grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity.

(u) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

(v) Revenue recognition

(i) 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

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 other payables and accruals in the consolidated balance sheet.

(ii) Rental income

Rental income from investment property is recognised in the consolidated statement of profit or loss on a straight-line basis over the term of the lease.

(iii) Interest income

Interest income is recognised using the effective interest method.

(w) Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated statement of profit or loss on a straight-line basis over the period of the lease.

(x) Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's and the Company's financial statements in the period in which the dividends are approved by the Company's shareholders.

(y) Government grants

Grants from the government are recognised in "other income" in the consolidated statements of profit or loss at their fair values where there is a reasonable assurance that the grant will be received and the Group will comply with all the attached conditions.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

3. FINANCIAL RISK MANAGEMENT

(a) Categories of financial instruments

	2018 HK$'000	2017 HK$'000
Financial assets		
Financial assets at amortised cost/loans and receivables:		
— Trade receivables	**215,401**	152,942
— Other financial assets at amortised costs	**17,743**	16,362
— Short-term bank deposits	**3,852**	3,907
— Cash and cash equivalents	**97,254**	182,843
	334,250	356,054
Available-for-sale financial asset	**—**	5,985
Financial assets at fair value through profit or loss	**32,824**	36,324
	367,074	398,363
Financial liabilities		
Financial liabilities at amortised cost:		
— Trade and other payables	**171,571**	121,123
— Amount due to a non-controlling interest	**713**	649
— Borrowings	**150,021**	112,528
	322,305	234,300

(b) Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk, and liquidity risk. The Group's overall risk management objectives focus on the unpredictability of financial markets and seek to minimise potential adverse effects on the Group's financial performance.

In light of the simplicity of the structure, the risk management of the Group is carried out by the Board of Directors directly. The Board discusses both formally and informally principles for overall risk management, as well as policies covering specific areas, such as foreign currency exchange risk, interest rate risk, credit risk, liquidity risk and use of financial instruments.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

(i) Market risk

(a) Foreign currency risk

The Group is exposed to foreign currency risk primarily through sales and purchases that are denominated in a currency other than the functional currency of the operations to which they relate. The currencies giving rise to this risk are primarily United States dollars ("US$"), Renminbi ("RMB"), Great British Pound ("GBP") and Bangladesh Taka ("BDT"), and there are no significant assets and liabilities denominated in other currencies. The Group is subject to foreign exchange rate risk arising from future commercial transactions and recognised assets and liabilities which are denominated in a currency other than HK$, US$, RMB or GBP, which are the functional currencies of the major operating companies within the Group. The Group currently does not hedge its foreign currency exposure.

For the companies with HK$ as their functional currency

The exchange rate of RMB to HK$ is subject to the rules and regulations of foreign exchange control promulgated by the PRC government. The Group manages its foreign currency risk by closely monitoring the movement of the foreign currency rates.

As HK$ is pegged to US$, management believes that the exchange rate risk for translations between HK$ and US$ do not have material impact to the Group.

At 31 December 2018, if RMB had weakened/strengthened by 5% against the HK$ with all other variables held constant, post-tax profit for the year would have been approximately HK$509,000 (2017: HK$1,266,000) lower/higher, mainly as a result of the foreign exchange difference on translation of RMB denominated current account with group companies.

As at 31 December 2018, if GBP had weakened/strengthened by 5% against HK$ with all other variables held constant, post-tax profit for the year would have been approximately HK$404,000 (2017: HK$781,000) lower/higher, mainly as a result of the foreign exchange difference on translation of GBP denominated current amount with group companies.

For the companies with US$ as their functional currency

At 31 December 2018, if BDT had weakened/strengthened by 5% against the US$ with all other variables held constant, post-tax profit for the year would have been approximately HK$1,050,000 (2017: HK$831,000) higher/lower, mainly as a result of the foreign exchange difference on translation of BDT denominated accrued charges and other payables.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

For the companies with GBP as their functional currency

At 31 December 2018, if US$ had weakened/strengthened by 5% against the GBP with all other variables held constant, post-tax profit for the year would have been approximately HK$249,000 (2017: HK$248,000) higher/lower, mainly as a result of the foreign exchange difference on translation of US$ denominated current account with group companies.

(b) Cash flow and fair value interest rate risk

The Group's interest rate risk primarily arises from bank deposits and bank borrowings. The Group has not used any derivative contracts to hedge its exposure to interest rate risk.

At 31 December 2018, it is estimated that a general increase/decrease of 50 basis points (2017: 50 basis points) in bank deposits and bank borrowings interest rates, with all other variables held constant, would decrease/increase (2017: increase/decrease) the Group's post-tax profit for the year by approximately HK$217,000 (2017: HK$310,000). The 50 basis points increase/decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next annual balance sheet date.

(c) Price risk

The Group is exposed to equity price risk through its investments in listed securities in Hong Kong classified as financial assets at FVPL. If the market bid prices of the investments had been 10% higher/lower, with all other variables held constants, the Group's post-tax profit for the year would increase/decrease by approximately HK$1,108,000 (2017: HK$1,227,000). A 10% change is used when reporting the price risk internally to the management.

Management constantly reviews the portfolio of investments and maintains the Group's exposures to price risk within an acceptable level.

(ii) Credit risk

The Group's credit risk is primarily attributable to trade receivables, other financial assets at amortised cost, financial assets at FVPL, short-term bank deposits and cash and cash equivalents. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

The carrying amount of these balances in the consolidated balance sheet represents the Group's maximum exposure to credit risk in relation to its financial assets.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

(a) *Risk management*

Majority of the Group's short-term bank deposits and cash and cash equivalents are placed in those banks and financial institutions with a sound credit rating. Management does not expect any losses from non-performance by these banks and financial institutions as they have no default history in the past.

Trade receivables are due within 30 to 120 days from the date of billing depending on the trading relationship. Debtors of the Group may be affected by the unfavorable economic conditions and the lower liquidity situation, which could in turn impact their ability to repay the amounts owed. Deteriorating operating conditions for debtors may also have an impact on management's cash flow forecasts and assessment of the impairment of receivables. To the extent that information is available, management has properly reflected revised estimate of expected future cash flows in their impairment assessments.

The credit quality of the customers is assessed based on its financial position, past experience and other factors.

At the balance sheet date, the Group has certain concentration of credit risk as 61% (2017: 52%) and 75% (2017: 71%) of the total trade receivables was due from the Group's largest customer and the five largest customers respectively.

(b) *Impairment of financial assets*

Trade receivables for sales of goods of the Group are subject to the expected credit loss model. While other financial assets at amortised cost, 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.

Trade and bills receivables

The Group applies the HKFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. The Group measures the expected credit losses on a combination of both individual and collective basis.

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 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

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.

As at 31 December 2018, the balance of loss allowance in respect of these collectively assessed receivables was HK$2,545,000 based on expected credit loss rates up to 4.1% applied on different groupings.

Impairment losses on receivables are presented as 'net impairment loss on financial assets' in the consolidated statement of profit or loss. When a receivable is uncollectible, it is written off against the allowance account for receivables. Subsequent recoveries of amounts previously written off are credited against the same line item.

Other financial assets at amortised cost, short-term bank deposits and cash and cash equivalents.

There is no significant loss allowance for other financial assets at amortised cost, short-term bank deposits and cash and cash equivalents as at 31 December 2018 (2017: same).

Previous accounting policy for impairment of trade receivables

Trade receivables are due within 30 to 120 days from the date of billing depending on the trading relationship. Debtors of the Group may be affected by the unfavorable economic conditions and the lower liquidity situation, which could in turn impact their ability to repay the amounts owed. Deteriorating operating conditions for debtors may also have an impact on management's cash flow forecasts and assessment of the impairment of receivables. To the extent that information is available, management has properly reflected revised estimate of expected future cash flows in their impairment assessments. The credit quality of the customers is assessed based on its financial position, past experience and other factors.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

The impact of transition to HKFRS 9 on 1 January 2018 (date of adoption of HKFRS 9) as a result of applying the expected credit risk model was immaterial.

(iii) Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants by reviewing each operating entity's cash flow forecast, to ensure that the Group maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

As at 31 December 2018, the Group's total available banking facilities, amounted to approximately HK$381,271,000 (2017: HK$364,371,000), of which approximately HK$161,888,000 (2017: HK$131,421,000) has been utilised.

The table below analyses the Group's non-derivative financial liabilities based on the remaining period at the balance sheet date to the contractual expiry date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying values, as the impact of discounting is not significant.

31 December 2018

	Within one year HK$'000	In the second to fifth years inclusive HK$'000	Total HK$'000
Trade and other payables	169,511	2,060	171,571
Amount due to a non-controlling interest	713	—	713
Borrowings	149,412	609	150,021
Total	319,636	2,669	322,305

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

31 December 2017

	Within one year HK$'000	In the second to fifth years inclusive HK$'000	Total HK$'000
Trade and other payables	119,603	1,520	121,123
Amounts due to non-controlling interests	649	—	649
Bank borrowings	112,528	—	112,528
Total	232,780	1,520	234,300

Specifically, for term loans which contain a repayment on demand clause which can be exercised at the bank's sole discretion, the analysis shows the cash outflow based on the earliest period in which the entity can be required to pay, that is if the lenders were to invoke their unconditional rights to call the loans with immediate effect. The maturity analysis for other bank borrowings is prepared based on the scheduled repayment dates.

The table that follows summaries the maturity analysis of term loans with a repayment on demand clause based on agreed scheduled repayments set out in the loan agreements. The amounts include interest payments computed using contractual rates. As a result, these amounts were greater than the amounts disclosed in the "on demand" time band in the maturity analysis above. Taking into account the Group's financial position, the directors do not consider that it is probable that the bank will exercise its discretion to immediate repayment. The directors believe that such term loans will be repaid in accordance with the scheduled repayment dates set out in the loan agreements.

	Due on demand or within 1 year HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 5 years HK$'000	More than 5 years HK$'000	Total HK$'000
31 December 2018					
Principal	**41,379**	**41,379**	**66,471**	**—**	**149,229**
Interest	**1,040**	**2,081**	**6,030**	**—**	**9,151**
	42,419	**43,460**	**72,501**	**—**	**158,380**
31 December 2017					
Principal	40,409	29,711	42,408	—	112,528
Interest	1,096	1,640	3,906	—	6,642
	41,505	31,351	46,314	—	119,170

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

(c) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk, and to support the Group's sustainable growth and to provide capital for the purpose of potential mergers and acquisitions.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings, and makes adjustments to the capital structure in light of changes in economic conditions. The Group monitors capital on the basis of the gearing ratio and the Group will have sufficient financial resources and banking facilities to meet its commitments and working capital requirements. The Group's gearing ratio (being the Group's total borrowings over total equity) is as follows.

	2018	2017
	HK$'000	HK$'000
Borrowings	**150,021**	112,528
Equity	**714,494**	673,768
Gearing ratio (%)	**21.0**	16.7

(d) Fair value estimation

(i) Fair value hierarchy

The table below analyses the Group's financial instruments carried at fair values as at 31 December 2018 by level of the inputs to valuation techniques used to measure fair values. Such inputs are categorised into three levels within a fair value hierarchy as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

See note 15 for disclosures of investment properties that are measured at fair values. The following tables present the Group's financial assets that are measured at fair values:

	2018			
	Level 1	**Level 2**	**Level 3**	**Total**
	HK$'000	**HK$'000**	**HK$'000**	**HK$'000**
Assets				
Financial assets at fair value through profit or loss				
— Unlisted convertible bonds in Hong Kong	**—**	**—**	**15,916**	**15,916**
— Unlisted equity investment in the USA	**—**	**—**	**5,830**	**5,830**
— Listed securities in Hong Kong	**11,078**	**—**	**—**	**11,078**
Total financial assets	**11,078**	**—**	**21,746**	**32,824**

	2017			
	Level 1	Level 2	Level 3	Total
	HK$'000	HK$'000	HK$'000	HK$'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

There were no transfers of financial assets between the fair value hierarchy classifications during the year (2017: same).

There were no other changes in valuation techniques during the year (2017: same).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

Financial instruments in level 1

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and equity securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

Financial instruments in level 2

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques which maximise the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

Financial instruments in level 3

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for unlisted equity investment in the USA and unlisted convertible bonds in Hong Kong.

(ii) Valuation techniques used to determine fair values

Specific valuation techniques used to value level 3 financial instruments include techniques such as discounted cash flow analysis and net asset value model. There are no changes in valuation techniques during the year.

The Group's finance department reviews the valuations of financial assets required for financial reporting purposes, including level 3 fair values. As part of the valuation process, this team reports directly to the chief financial officer (CFO) and external valuers will be engaged, if necessary.

In applying the discounted cash flow technique, management has taken into account the estimated amount that the Group would receive to sell the instrument at the balance sheet date, taking into account current interest rates and the current credit worthiness of the counterparties. Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate for a similar instrument at the balance sheet date.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

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

The following table presents the changes in level 3 financial instruments for the year ended 31 December 2018:

	Financial asset at fair value through profit or loss			
	Unlisted equity investment in the USA HK$'000	**Unlisted fund investment in Hong Kong HK$'000**	**Unlisted convertible bonds in Hong Kong HK$'000**	**Total HK$'000**
As at 31 December 2017, as originally presented	—	8,110	15,944	24,054
Change in accounting policy (Note 2(a)(i))				
— Reclassify from AFS	5,985	—	—	5,985
As at 1 January 2018, as restated	5,985	8,110	15,944	30,039
Fair value losses on revaluation recognised in the consolidated statement of profit or loss	(155)	—	(28)	(183)
Disposal	—	(8,110)	—	(8,110)
As at 31 December 2018	5,830	—	15,916	21,746
Changes in fair values for the year included in consolidated statement of profit or loss attributable to balances held at the balance sheet date	(155)	—	(28)	(183)

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

The following table presents the changes in level 3 financial instruments for the year ended 31 December 2017:

	Available-for-sale financial asset Unlisted equity investment in the USA HK$'000	Financial asset at fair value through profit or loss Unlisted fund investment in Hong Kong HK$'000	Financial asset at fair value through profit or loss Unlisted convertible bonds in Hong Kong HK$'000	Total HK$'000
At 1 January 2017	—	—	—	—
Additions	6,224	8,000	15,560	29,784
Fair value gains on revaluation recognised in consolidated statement of profit or loss	—	110	384	494
Fair value losses on revaluation recognised in other comprehensive income	(239)	—	—	(239)
At 31 December 2017	5,985	8,110	15,944	30,039
Changes in fair value for the year included in consolidated statement of profit or loss attributable to balances at the end of the reporting period	—	110	384	494

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

As at 31 December 2018, the fair value of the unlisted equity investment is determined based on the net assets value of the company after adjusting the carrying amounts of the underlying investment properties to their fair values, which are reference to recent transaction prices with certain adjustments to reflect the differences between the properties and the recent transactions (2017: same).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

The unlisted convertible bonds classified as financial asset at FVPL represent investment in an unlisted callable convertible bond issued by an unlisted company in Hong Kong, which is not traded in an active market. The valuation of the investment is based on the valuation carried out by independent professionally qualified valuer, Stirling Appraisals Limited, who holds a recognised relevant professional qualification and has relevant experience. The fair value gains are included in "other gains — net" in the consolidated statement of profit or loss.

The key unobservable assumption used in the valuation of the unlisted convertible bonds as at 31 December 2018 and 31 December 2017 is:

Valuation technique	**Unobservable input**	**As at 31 December 2018**	**As at 31 December 2017**
Binomial option pricing model	Discount rate	6.23%	4.98%

As at 31 December 2018, the pre-tax discount rate used to compute the fair value is 6.23% (2017: 4.98%). If the discount rate shifted upward by 1%, the impact on profit or loss would be approximately HK$186,000 (2017: HK$229,000). The higher the pre-tax discount rate, the lower the fair value.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in Note 2(j). The recoverable amounts of CGUs have been determined based on value in use calculations. These calculations require the use of estimates.

Estimating the value in use requires an estimate of the expected future cash flows from the cash-generating unit and also a suitable discount rate in order to calculate the present value of those cash flows. Judgement is required to determine key assumptions adopted in the cash flow projections and changes to key assumptions could affect these cash flow projections and therefore the results of the impairment review.

(b) Provision for inventories

Inventories are carried at the lower of cost and net realisable value. The cost of inventories is written down to net realisable value when there is an objective evidence that the cost of inventories may not be recoverable. The cost of inventories may not be recoverable if those inventories are aged and damaged, if they have become wholly or partially obsolete, or if their selling prices have declined. The cost of inventories may also not be recoverable if the estimated costs to be incurred to make the sales have increased.

The amount written off to the consolidated statement of profit or loss is the difference between the carrying value and net realisable value of the inventories. In determining whether the inventories can be recoverable, significant judgement is required. In making this judgement, the Group evaluates, among other factors, the duration and extent by all means to which the amount will be recovered.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

(c) Income taxes

The Group is subject to income taxes in several jurisdictions. Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be required. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

5. 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 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 United States market.

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

Segment assets exclude investment properties, deferred income tax assets, tax recoverable, AFS, financial assets at FVPL, short-term bank deposits and cash and cash equivalents.

Segment liabilities exclude current and deferred income tax liabilities, borrowings and corporate liabilities which are not directly attributable to the business activities of any operating segment.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

	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 gains 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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

(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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

6. OTHER INCOME

	2018 HK$'000	2017 HK$'000
Rental income	**9,245**	8,839
Sundry income	**2,742**	1,463
	11,987	10,302

7. OTHER GAINS — NET

	2018 HK$'000	2017 HK$'000
Financial assets at fair value through profit or loss		
— fair value (loss)/gain	**(1,375)**	430
— interest income of unlisted convertible bonds in Hong Kong	**830**	—
Net foreign exchange gain	**1,138**	2,492
Fair value gain on investment properties *(note 15)*	**290**	1,018
Losses on disposals of property, plant and equipment	**(29)**	(19)
	854	3,921

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

8. EXPENSES BY NATURE

	2018	2017
	HK$'000	HK$'000
Employee benefit expense *(note 10)*	**250,216**	250,066
Cost of inventories *(note 20)*	**394,817**	362,872
Auditors' remuneration		
— Audit services	**3,019**	3,433
— Non-audit services	**117**	117
Licence fees	**2,176**	3,381
Depreciation of property, plant and equipment *(note 14)*	**24,217**	23,624
Amortisation of other intangible assets *(note 18)*	**7,464**	5,737
Operating lease charges in respect of office premises, shops, factories and warehouses	**23,727**	25,629
Net impairment losses on financial assets		
— Net impairment loss/(reversal of impairment loss) on trade receivables *(note 21)*	**1,126**	(470)
Net provision for inventories *(note 20)*	**7,781**	7,598
Claims expense	**2,542**	3,392
Delivery expenses	**34,367**	29,220
Others	**133,280**	105,303
Total	**884,849**	819,902

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

9. FINANCE INCOME — NET

	2018 HK$'000	2017 HK$'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%).

10. EMPLOYEE BENEFIT EXPENSE

	2018 HK$'000	2017 HK$'000
Employee remuneration (including directors' emoluments and retirement benefit costs)		
— Salaries and allowances	**237,492**	237,312
— Contribution to retirement scheme	**9,674**	9,136
— Share-based payments expenses	**3,050**	3,618
	250,216	250,066

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

(a) Five highest paid individuals

The five highest paid individuals included three (2017: three) directors whose emoluments are reflected in the analysis shown in note 36. The details of the emoluments of the remaining two (2017: two) highest paid individuals are as follows:

	2018 HK$'000	2017 HK$'000
Basic salaries, housing allowances, other allowances and benefits in kind	**4,754**	4,448
Discretionary bonuses	**435**	639
Contributions to retirement scheme	**18**	18
	5,207	5,105

The emoluments of these two (2017: two) employees are within the following bands:

	2018	2017
HK$2,500,001 — HK$3,000,000	**2**	2

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

11. INCOME TAX EXPENSE

	2018 HK$'000	2017 HK$'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 *(note 19)*	**(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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the tax rate of the home country of the Company as follows:

	2018 HK$'000	2017 HK$'000
Profit before income tax	**70,736**	85,578
Calculated at a taxation rate of 16.5% (2017: 16.5%)	**11,671**	14,120
Effect of different taxation rates in other countries	**(11,759)**	(8,843)
Expenses not deductible for tax purposes	**5,143**	6,075
Income not subject to tax	**(3,444)**	(1,932)
Tax losses for which no deferred income tax assets was recognised	**6,425**	2,201
Over-provision in prior years	**(4,646)**	(7,360)
Deferred tax remeasurement due to US federal tax rate reduction	**—**	94
Income tax expense	**3,390**	4,355

12. 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 HK$'000	2017 HK$'000
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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

(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.

	2018	2017
	HK$'000	HK$'000
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

13. 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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

14. PROPERTY, PLANT AND EQUIPMENT

	Construction in progress HK$'000	Land and buildings HK$'000	Furniture and equipment HK$'000	Leasehold improvements HK$'000	Machinery HK$'000	Motor vehicles HK$'000	Total HK$'000
At 1 January 2017							
Cost	—	118,800	65,502	47,074	233,792	12,408	477,576
Accumulated depreciation and impairment	—	(11,536)	(48,958)	(39,888)	(191,650)	(10,508)	(302,540)
Net book amount	—	107,264	16,544	7,186	42,142	1,900	175,036
Year ended 31 December 2017							
Opening net book amount	—	107,264	16,544	7,186	42,142	1,900	175,036
Additions	34,555	66,392	3,931	637	11,149	86	116,750
Disposals	—	—	(27)	—	—	(1)	(28)
Depreciation	—	(5,555)	(5,503)	(2,409)	(9,305)	(852)	(23,624)
Exchange differences	—	193	115	105	2,249	12	2,674
Closing net book amount	34,555	168,294	15,060	5,519	46,235	1,145	270,808
At 31 December 2017							
Cost	34,555	185,386	61,655	39,888	239,858	12,528	573,870
Accumulated depreciation and impairment	—	(17,092)	(46,595)	(34,369)	(193,623)	(11,383)	(303,062)
Net book amount	34,555	168,294	15,060	5,519	46,235	1,145	270,808
Year ended 31 December 2018							
Opening net book amount	34,555	168,294	15,060	5,519	46,235	1,145	270,808
Additions	109,306	1,519	9,423	295	16,082	1,119	137,744
Transfers	(84,723)	84,723	—	—	—	—	—
Disposals	—	—	(29)	—	—	—	(29)
Depreciation	—	(6,118)	(5,871)	(1,995)	(9,566)	(667)	(24,217)
Exchange differences	(151)	(2,868)	(493)	(44)	(3,896)	(16)	(7,468)
Closing net book amount	58,987	245,550	18,090	3,775	48,855	1,581	376,838
At 31 December 2018							
Cost	58,987	267,677	69,225	39,611	248,604	11,746	695,850
Accumulated depreciation and impairment	—	(22,127)	(51,135)	(35,836)	(199,749)	(10,165)	(319,012)
Net book amount	58,987	245,550	18,090	3,775	48,855	1,581	376,838

Depreciation expense of HK$16,681,000 (2017: HK$16,325,000) has been charged in cost of sales, HK$772,000 (2017: HK$1,594,000) in selling and distribution costs and HK$6,764,000 (2017: HK$5,705,000) in administration expenses.

The Group's land is freehold and located outside Hong Kong.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

15. INVESTMENT PROPERTIES

	2018 HK$'000	2017 HK$'000
At fair value		
Opening balance at 1 January	**42,139**	39,775
Net gains from fair value adjustment	**290**	1,018
Exchange differences	**(1,368)**	1,346
Closing balance at 31 December	**41,061**	42,139

The following amounts have been recognised in the consolidated statement of profit or loss:

	2018 HK$'000	2017 HK$'000
Rental income	**3,872**	3,612
Direct operating expenses arising from investment property that generated rental income	**(1,671)**	(1,348)

The period of leases whereby the Group leases out its investment properties under operating leases ranged from 1 to 5 years.

At 31 December 2018 and 2017, the future aggregate minimum rentals receivables under non-cancellable operating leases are as follows:

	2018 HK$'000	2017 HK$'000
No later than 1 year	**3,748**	3,600
Later than 1 year and not later than 5 years	**6,942**	11,002
	10,690	14,602

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

The valuation of the investment properties is based on the valuation carried out by independent professionally qualified valuer, Stirling Appraisals Limited, who holds a recognised relevant professional qualification and has recent experience in the locations and segments of the investment properties valued. The revaluation gains are included in "other gains — net" in the consolidated statement of profit or loss. The following table analyses the investment properties carried at fair value, by level of inputs to valuation techniques used to measure fair value. Such inputs are categorised into three levels within a fair value hierarchy as follows:

- Quoted prices (unadjusted) in active markets for identical assets (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset that are not based on observable market data (that is, unobservable inputs) (level 3).

The Group's policy is to recognise transfers into and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer. There were no transfers among levels 1, 2 and 3 during the year (2017: same).

	Fair value measurements at 31 December 2018 using			
Description	**Quoted prices in active markets for identical assets (Level 1) HK$'000**	**Significant other observable inputs (Level 2) HK$'000**	**Significant unobservable inputs (Level 3) HK$'000**	**Total HK$'000**
Investment properties:				
Production facilities in the PRC	—	—	18,090	18,090
Residential building units in the PRC	—	4,921	—	4,921
Residential building units in the USA	—	18,050	—	18,050
	—	22,971	18,090	41,061

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

Description	Fair value measurements at 31 December 2017 using			
	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
	HK$'000	HK$'000	HK$'000	HK$'000
Investment properties:				
Production facilities in the PRC	—	—	19,167	19,167
Residential building units in the PRC	—	5,000	—	5,000
Residential building units in the USA	—	17,972	—	17,972
	—	22,972	19,167	42,139

The Group's finance department reviews the valuations performed by the independent valuers for financial reporting purposes. This team reports directly to the chief financial officer and group senior management for discussions in relation to the valuation processes and the reasonableness of the valuation results.

The valuation of the residential units in the USA and in the PRC was determined using the sale comparison approach. Sales prices of comparable properties in close proximity are adjusted for differences in key attributes such as rental value, time, location, size and other relevant factors. The most significant input into this valuation approach is the rental value.

The valuation of the production facilities in the PRC was determined using the income approach. The potential rent of the property (with reference to current market rent) of which the Group is entitled to receive for the residual term of the lease of property is capitalised. The most significant impact into this valuation approach is the rental value.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

These significant unobservable inputs include:

Description	Fair values at 31-Dec-18 (HK$'000)	Valuation technique	Unobservable inputs	Range of unobservable inputs (probability-weighted average)	Relationship of unobservable inputs to fair value
Production facilities in the PRC	18,090	Income approach	Term rent	RMB15–RMB19 per month per square metre	The higher the rent, the higher the fair value
			Market rent	RMB17 per month per square metre	The higher the rent, the higher the fair value
			Term yield	6%	The higher the yield, the lower the fair value
			Market yield	8%	The higher the yield, the lower the fair value

Description	Fair values at 31-Dec-17 (HK$'000)	Valuation technique	Unobservable inputs	Range of unobservable inputs (probability-weighted average)	Relationship of unobservable inputs to fair value
Production facilities in the PRC	19,167	Income approach	Term rent	RMB15–RMB19 per month per square metre	The higher the rent, the higher the fair value
			Market rent	RMB18 per month per square metre	The higher the rent, the higher the fair value
			Term yield	6%	The higher the yield, the lower the fair value
			Market yield	8%	The higher the yield, the lower the fair value

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

16. SUBSIDIARIES

The following is a list of the principal subsidiaries at 31 December 2018 and 31 December 2017:

Name of company	Place of incorporation/ registration	Principal place of operation	Nominal value of issued ordinary share capital/ registered capital	Interest held by the Group 2018	2017	Principal activities
China Wintax (Shenzhen) Company Limited	PRC *(note b)*	PRC	HK$1,000,000	100%	—	Trading of machineries, fabric and accessory materials
Drew Pearson International (Europe) Ltd. *(note a)*	The United Kingdom	The United Kingdom	£10,000	90%	90%	Trading of headwear and accessories
Exquisite Property Limited	The United Kingdom	The United Kingdom	£1	100%	100%	Property holding
Famewell Corp	USA	USA	US$100	100%	100%	Property holding
Guang Zhou Jian Hao Headwear Manufacturing Ltd.	PRC *(note b)*	PRC	RMB45,777,729	100%	100%	Property holding
H3 Sportgear LLC	USA	USA	US$3,649,700	100%	100%	Trading of headwear, apparel and accessories
Hatworld (Hong Kong) Ltd.	Hong Kong	Hong Kong	HK$1	100%	100%	Retailing
Mainland Development (BD) Co. Ltd.	Bangladesh	Bangladesh	BDT90,000,000	100%	100%	Property holding
Mainland Sewing Headwear Manufacturing Limited	Hong Kong	Hong Kong	HK$10,000	100%	100%	Trading of headwear
Profit Longest Limited	Hong Kong	Hong Kong	HK$100	100%	100%	Sourcing and trading of headwear and accessories
Rhys Trading Ltd.	The British Virgin Islands	Hong Kong	US$10,000	100%	100%	Investment holding
San Diego Hat Company	USA	USA	US$10,000	100%	100%	Trading of headwear and accessories
SDHC Holding Co.	USA	USA	US$3,000,000	100%	100%	Property holding and investment holding
SDHC Property LLC	USA	USA	US$1	100%	100%	Property holding
SDH3 Whiptail LLC	USA	USA	US$1	100%	—	Property holding
Simplylife LLC	USA	USA	US$1	100%	—	E-commerce business
SMS FBA LLC	USA	USA	US$1	100%	—	E-commerce business

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

Name of company	Place of incorporation/ registration	Principal place of operation	Nominal value of issued ordinary share capital/ registered capital	Interest held by the Group 2018	2017	Principal activities
Raise Your Game LLC	USA	USA	US$1	100%	—	E-commerce business
Medone LLC	USA	USA	US$1	100%	—	E-commerce business
Sky Trade Global Limited *(note a)*	The British Virgin Islands	Bangladesh	US$1	90%	90%	Trading of headwear
Top Super Sportswear (Shenzhen) Co., Ltd.	PRC *(note b)*	PRC	HK$52,000,000	100%	100%	Manufacture and sale of headwear
Unimas Sportswear Ltd. *(note a)*	Bangladesh	Bangladesh	BDT84,109,700	90%	90%	Manufacture and sale of headwear
Wintax Caps (Shenzhen) Co., Ltd.	PRC *(note b)*	PRC	HK$20,000,000	100%	100%	Manufacture and sale of headwear
Wintax Trading Limited	Macau	Macau	MOP$100,000	100%	100%	Trading of headwear and provision of digitizing services
Wintax Macao Commercial Offshore Co Ltd	Macau	Macau	MOP$50,000	100%	100%	Provision of research and development, quality control and administrative services
上海成顏豐商貿有限公司 *(note a)*	PRC *(note b)*	PRC	RMB10,000,000	75%	75%	Retailing and wholesales

Other than Rhys Trading Ltd. which is held directly by the Company, all subsidiaries are held by the Company indirectly.

note a:

The non-controlling interests in respect of these companies are not material.

note b:

These companies are registered in the PRC in the form of wholly foreign-owned enterprises.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

17. GOODWILL

	2018 HK$'000	2017 HK$'000
Opening net book amount	**33,798**	33,798
Closing net book amount	**33,798**	33,798
Cost	**38,756**	38,756
Accumulated impairment	**(4,958)**	(4,958)
Net book amount	**33,798**	33,798

The carrying amount of goodwill, net of impairment loss, is allocated to the following CGU:

	2018 HK$'000	2017 HK$'000
Trading Business — H3	**22,488**	22,488
Trading Business — SDHC	**11,310**	11,310
	33,798	33,798

The recoverable amount of a CGU is determined based on the higher of the fair values less costs to sell and value in use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates of 2% (2017: 2%). The growth rate does not exceed the long-term average growth rate for the respective countries.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

The key assumptions used are as follows:

	2018	2017
Trading Business — H3		
Sales growth rate	**15%**	12%
Discount rate	**16%**	16%
Gross profit margin	**25%**	28%
Trading Business — SDHC		
Sales growth rate	**9%**	9%
Discount rate	**16%**	16%
Gross profit margin	**57%**	58%

The budgeted sales and gross profit margin of the CGUs were determined by the management based on past performance and their expectations for market development. Management believes that any reasonably foreseeable change in any of the above key assumptions would not result in impairment of goodwill. The discount rate used is pre-tax and reflect specific risks relating to the segment.

For the Trading Business — H3, the recoverable amount calculated based on value in use exceeded carrying value as at 31 December 2018 (2017: same). A decrease in gross profit margin by 6% (2017: 4%) would remove the remaining headroom.

For Trading Business — SDHC, the recoverable amount calculated based on value in use exceeded carrying value as at 31 December 2018 (2017: same). A decrease in gross profit margin by 5% (2017: 6%) would remove the remaining headroom.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

18. OTHER INTANGIBLE ASSETS

	Trademark	Licensing rights	Acquired customer relationship	Total
	HK$'000	HK$'000	HK$'000	HK$'000
Year ended 31 December 2017				
Opening net book amount	2,077	3,430	8,467	13,974
Additions	—	4,893	—	4,893
Amortisation	(1,079)	(3,150)	(1,508)	(5,737)
Exchange differences	—	89	—	89
Closing net book amount	998	5,262	6,959	13,219
At 31 December 2017				
Cost	6,495	10,309	15,083	31,887
Accumulated amortisation	(5,497)	(5,047)	(8,124)	(18,668)
Net book amount	998	5,262	6,959	13,219
Year ended 31 December 2018				
Opening net book amount	998	5,262	6,959	13,219
Additions	—	6,158	—	6,158
Amortisation	(998)	(4,875)	(1,591)	(7,464)
Exchange differences	—	67	—	67
Closing net book amount	—	6,612	5,368	11,980
At 31 December 2018				
Cost	6,495	13,193	15,083	34,771
Accumulated amortisation	(6,495)	(6,581)	(9,715)	(22,791)
Net book amount	—	6,612	5,368	11,980

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

19. DEFERRED INCOME TAXATION

At the balance sheet date, components of the deferred income tax assets and liabilities of the Group provided are as follows:

	Assets		Liabilities	
	2018	2017	**2018**	2017
	HK$'000	HK$'000	**HK$'000**	HK$'000
Depreciation allowances	**(228)**	(308)	**—**	—
Net revaluation surplus on investment properties	**—**	—	**(3,892)**	(3,959)
Others	**2,417**	1,924	**—**	—
Deferred income tax assets/ (liabilities)	**2,189**	1,616	**(3,892)**	(3,959)

The movement for the year in the Group's net deferred income tax assets is as follows:

	2018	2017
	HK$'000	HK$'000
Net deferred income tax liabilities at 1 January	**(2,343)**	(1,677)
Credited/(charged) to consolidated statement of profit or loss *(note 11)*	**492**	(533)
Exchange differences	**148**	(133)
Net deferred income tax liabilities at 31 December	**(1,703)**	(2,343)

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

The movement in deferred income tax assets and liabilities during the year is as follows:

Deferred income tax assets/(liabilities)	Assets			Liabilities		
	Depreciation allowances HK$'000	Others HK$'000	Sub total HK$'000	Net revaluation surplus on investment properties HK$'000	Sub total HK$'000	Total HK$'000
At 1 January 2017	(262)	2,166	1,904	(3,581)	(3,581)	(1,677)
Charged to the consolidated statement of profit or loss	(13)	(242)	(255)	(278)	(278)	(533)
Exchange differences	(33)	—	(33)	(100)	(100)	(133)
At 31 December 2017	(308)	1,924	1,616	(3,959)	(3,959)	(2,343)
Credit/(charged) to the consolidated statement of profit or loss	71	493	564	(72)	(72)	492
Exchange differences	9	—	9	139	139	148
At 31 December 2018	(228)	2,417	2,189	(3,892)	(3,892)	(1,703)

The Group did not recognise deferred income tax assets in respect of cumulative tax losses of HK$126,033,000 (2017: HK$102,210,000) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. These tax losses have no expiry date except HK$90,627,805 (2017: HK$75,281,000) which will expire in 5 years to 20 years (2017: 5 years to 20 years).

20. INVENTORIES

	2018 **HK$'000**	2017 HK$'000
Raw materials	**95,089**	74,268
Work-in-progress	**24,452**	20,044
Finished goods	**89,115**	82,513
	208,656	176,825

The cost of inventories recognised as expense and included in cost of sales amounted to HK$394,817,000 (2017: HK$362,872,000).

Provision for inventories of HK$7,781,000 has been recognised to cost of sales (2017: HK$7,598,000).

The gross amount of inventories carried at net realisable value amounted to approximately HK$44,759,000 (2017: HK$38,892,000) as at 31 December 2018. Full provision has been made with regards to these balances.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

21. 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 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 from April 2016 to February 2019. The note is secured by the personal guarantee of the owner of the customer.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

(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 HK$'000	2017 HK$'000
At 1 January	**4,515**	5,700
Net provision for impairment loss/(reversal of impairment loss) for the year (Note 8)	**1,126**	(470)
Uncollectible amounts written off	**(3,074)**	(737)
Exchange difference	**(22)**	22
At 31 December	**2,545**	4,515

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

22. OTHER CURRENT ASSETS

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

23. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS AVAILABLE-FOR-SALE FINANCIAL ASSET

(a) Financial assets at fair value through profit or loss

As at 31 December 2018, the Group's financial assets at FVPL represent investment in unlisted convertible bonds, listed securities and unlisted equity investment (2017: unlisted convertible bonds, listed securities and unlisted investment fund). The investment in unlisted convertible bonds, listed securities are mandatory measured at FVPL, while the Group does not elect to classify the unlisted equity investment as financial asset at fair value through other comprehensive income. The financial assets measured at FVPL are with the following details:

	2018	2017
	HK$'000	HK$'000
As at 31 December, as originally presented		
As at 1 January	**36,324**	9,304
Change in accounting policy *(Note 2a(i))*		
— Reclassify from AFS to financial asset at FVPL	**5,985**	—
As 1 January, as restated	**42,309**	9,304
Additions	**—**	34,458
Disposals	**(8,110)**	(7,868)
Fair value (loss)/gain on revaluation recognised in consolidated statement of profit or loss	**(1,375)**	430
	32,824	36,324
Non-current		
Unlisted convertible bonds in Hong Kong	**15,916**	15,944
Unlisted equity investment in the USA	**5,830**	—
	21,746	15,944
Current		
Listed securities in Hong Kong	**11,078**	12,270
Unlisted investment fund in Hong Kong	**—**	8,110
	11,078	20,380
	32,824	36,324

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

On 28 June 2017, the Company entered into a guaranteed convertible bonds subscription agreement ("Subscription Agreement") with an unlisted company, Living Design Limited (the "Issuer"), pursuant to which, the Group agreed to subscribe a three-year convertible bonds ("CB") in principal amount of US$2,000,000. The CB carries an interest of LIBOR plus 2%, which is payable semi-annually. The Issuer is ultimately owned by Mr. Ngan Shun On, a brother of Madam Ngan Po Ling, Executive Director of the Company. The Issuer is principally engaged in the business of trading in electronic commerce platforms.

The Group, as a holder of the CB, has the option to convert the CB into ordinary shares at the conversion price initially set at US$20,000 per share, subject to certain adjustments as detailed in the Subscription Agreement, at any time falling 7 days prior to the maturity date. The Issuer also has the option to redeem the CB at the redemption price equals the principal amount, at any time prior to the maturity date.

The carrying amounts of the Group's financial assets at FVPL are denominated in the following currencies:

	2018	2017
	HK$'000	HK$'000
US$	**21,746**	15,944
HK$	**11,078**	20,380
	32,824	36,324

(b) Available-for-sale financial asset

As at 31 December 2017, the Group's AFS include unlisted equity interest in the USA with the following details:

	2017
	HK$'000
As at 1 January	—
Addition	6,224
Fair value loss on revaluation recognised in other comprehensive income	(239)
As at 31 December	5,985

The carrying amount of the AFS is denominated in US$.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

24. CASH AND CASH EQUIVALENTS AND SHORT-TERM BANK DEPOSITS

	2018	2017
	HK$'000	HK$'000
Cash at bank and on hand	**97,254**	182,843
Cash and cash equivalents	**97,254**	182,843
Short-term bank deposits	**3,852**	3,907

The effective interest rate on short-term bank deposits was 1.2% (2017: 0.87%) per annum; these deposits have an average maturity of 90 days as at 31 December 2018 (2017: 90 days).

Funds of the Group amounting HK$47,994,000 (2017: HK$45,328,000) are kept in the bank accounts opened with banks in the PRC and Bangladesh where the remittance of funds is subject to foreign exchange control.

25. SHARE CAPITAL

	Number of shares of HK$0.10 each	**HK$'000**
Authorised:		
At 1 January 2017, 31 December 2017, 1 January 2018 and 31 December 2018	1,000,000,000	100,000
Issued and fully paid:		
At 31 December 2016, 1 January 2017	405,013,284	40,501
Share option scheme:		
— Exercise of share option *(note 26)*	160,000	16
At 31 December 2017, 1 January 2018	405,173,284	40,517
Share option scheme:		
— Exercise of share option *(note 26)*	150,000	15
At 31 December 2018	405,323,284	40,532

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

26. EQUITY SETTLED SHARE-BASED PAYMENT TRANSACTIONS

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

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

On 15 July 2015 and 13 April 2017, a total of 11,900,000 and 20,370,000 share options were granted to certain directors and employees of the Group, respectively. The share option period shall be ten years from the date of grant and the share option shall lapse at the expiry of the option period. 20% of the options shall vest on the first to fifth anniversary dates of the date of grant each year.

The total number of shares which may be issued upon exercise of all options to be granted under the New Scheme and any other share option schemes of the Group may not in aggregate exceed 39,858,328, being 10% of the shares in issue of the Company as at 29 December 2011, the date of adoption of the New Scheme. Upon refreshing of the scheme mandate limit, the Company may grant options entitling holders thereof to subscribe for up to a maximum of 40,532,328 shares, representing 10% of the shares in issue of the Company as at 16 May 2018.

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

(a) Movements in share options

	2018		2017	
	Number of share options	**Weighted average exercise price HK$**	Number of share options	Weighted average exercise price HK$
At 1 January	**45,350,000**	**1.241**	26,140,000	1.023
Granted	**—**	**—**	20,370,000	1.534
Exercised	**(150,000)**	**0.969**	(160,000)	1.055
Forfeited	**(1,000,000)**	**1.190**	(1,000,000)	1.534
At 31 December	**44,200,000**	**1.243**	45,350,000	1.241
Options vested at 31 December	**23,764,000**	**1.081**	18,570,000	0.987

At the balance sheet date, the options have a weighted average contractual terms of 5.5 years (2017: 6.4 years).

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

		Number of share options	
Expiry date	**Exercise price HK$**	**2018 '000**	2017 '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

Out of the total 44,200,000 (2017: 45,350,000) outstanding options, 23,764,000 options (2017: 18,570,000) are exercisable. 150,000 share options were exercised during the year ended 31 December 2018 (2017: 160,000).

Under this share option scheme, HK$3,050,000 (2017: HK$3,618,000) of share-based payment expense has been included in the consolidated statement of profit or loss for 2018 and a corresponding amount has been credited to share based compensation reserve.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

27. TRADE AND OTHER PAYABLES

	2018 HK$'000	2017 HK$'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 HK$'000	2017 HK$'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

Contract liabilities of HK$2,777,000 (2017: HK$5,289,000) are recognised when a customer pays consideration, or is contractually required to pay consideration and the amounts are already due, before the Group recognised the related revenue. The Group expects to deliver the goods to satisfy the remaining performance obligation of these contract liabilities within one year or less.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

28. AMOUNT DUE TO A NON-CONTROLLING INTEREST

The amount is unsecured and repayable on demand. Among the total balance, HK$721,000 (2017: HK$658,000) is interest bearing at 5% (2017: 5%) per annum.

29. BORROWINGS

	2018 HK$'000	2017 HK$'000
Non current:		
Finance lease liability	**609**	—
Current:		
Bank borrowings	**149,229**	112,528
Finance lease liability	**183**	—
	149,412	112,528
	150,021	112,528

As at 31 December 2018, the bank borrowings would be matured from 1 to 5 years but repayable on demand (2017: same).

The weighted average effective interest rate per annum for borrowings was 2.62% (2017: 2.69%).

The borrowings as at 31 December 2018 and 2017 are unsecured. The carrying amounts of the borrowings approximate their fair values.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

30. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of profit before income tax to net cash generated from operations

	2018	2017
	HK$'000	HK$'000
Profit before income tax	**70,736**	85,578
Finance income	**(1,527)**	(1,516)
Finance expenses	**3,944**	1,837
Borrowing costs capitalised	**(3,668)**	(871)
Losses on disposals of property, plant and equipment	**29**	19
Fair value loss/(gain) on financial assets at fair value through profit or loss	**1,375**	(430)
Interest income of unlisted convertible bonds in Hong Kong	**(830)**	—
Fair value gain on investment properties	**(290)**	(1,018)
Depreciation of property, plant and equipment	**24,217**	23,624
Amortisation of other intangible assets	**7,464**	5,737
Net provision for inventories	**7,781**	7,598
Share-based payment expenses	**3,050**	3,618
Net impairment loss/(net reversal of impairment loss) on financial assets	**1,126**	(470)
Changes in working capital:		
Inventories	**(39,612)**	(2,590)
Trade receivables and other financial assets at amortised cost	**(64,158)**	(3,996)
Other current assets	**(18,641)**	(1,095)
Trade and other payables	**40,895**	(10,731)
Amounts due to non-controlling interests	**64**	(418)
Financial assets at fair value through profit or loss	**—**	(3,030)
Cash generated from operations	**32,055**	101,846

(b) In the cash flow statement, proceeds from sale of property, plant and equipment comprise:

	2018	2017
	HK$'000	HK$'000
Net book amount *(note 14)*	**29**	28
Losses on disposals of property, plant and equipment	**(29)**	(19)
Proceeds from disposals of property, plant and equipment	**—**	9

Notes to the Consolidated Financial Statements
For the year ended 31 December 2018

(c) Reconciliation of liabilities arising from financing activities

This section sets out the movement in liabilities arising from financing activities:

	Borrowings due within 1 year	
	2018	2017
	HK$'000	HK$'000
As at 1 January	**112,528**	58,621
Cash flows	**37,493**	53,907
As at 31 December	**150,021**	112,528

31. OPERATING LEASE COMMITMENTS

At the balance sheet date, the Group had total future minimum lease payments under non-cancellable operating leases of land and buildings which are payable as follows:

	2018	2017
	HK$'000	HK$'000
Within one year	**6,028**	10,053
In the second to fifth years inclusive	**7,994**	4,378
Over five years	**2,328**	1,367
	16,350	15,798

Payment obligations in respect of operating lease on properties with rentals vary with gross revenues apart from base rental are not included as future minimum lease payments.

32. CAPITAL COMMITMENTS

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

	2018	2017
	HK$'000	HK$'000
Contracted but not provided for	**9,428**	58,429

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

33. SIGNIFICANT RELATED PARTY TRANSACTIONS

The ultimate holding company of the Company is Successful Years International Company Limited, a company incorporated in the British Virgin Islands. The ultimate controlling party of the Group is Mr. Ngan Hei Keung and Madam Ngan Po Ling, Pauline, *BBS, JP*.

In addition to the transactions and balances disclosed elsewhere in these financial statements, the Group entered into the following significant related party transactions.

(a) Sale and purchase of goods and services

	Note	**2018** **HK$'000**	2017 HK$'000
Sales of goods to affiliated companies of a shareholder	(i)	**447,405**	385,072
Rental paid in respect of office premises to directors and a company controlled by a director	(ii)	**1,722**	1,722
Claim charges paid to affiliated companies of a shareholder	(iii)	**479**	555

(i) Sales of goods to affiliated companies of a shareholder were transacted pursuant to the terms and conditions set out in the manufacturing agreement entered into by the Company and NEHK on 30 September 2014. These transactions are connected transactions as defined in Chapter 14A of the Listing Rules.

(ii) Rental paid in respect of office premises to directors and a company controlled by a director were charged at a fixed monthly fee mutually agreed between the two parties. This transaction is a connected transaction as defined in Chapter 14A of the Listing Rules.

(iii) Claim charges were paid to affiliated companies of a shareholder at a fee mutually agreed between two parties.

Notes to the Consolidated Financial Statements
For the year ended 31 December 2018

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

	2018 HK$'000	2017 HK$'000
Trade receivables from affiliated companies of a shareholder	**132,207**	80,626

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, including amounts paid to the Company's directors as disclosed in note 36 and certain of the highest paid employees as disclosed in note 10, is as follows:

	2018 HK$'000	2017 HK$'000
Short-term employee benefits	**32,192**	34,098
Retirement scheme contributions	**204**	168
	32,396	34,266

34. CONTINGENT LIABILITIES

As at 31 December 2018 and 2017, the Group had no contingent liabilities.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

35. BALANCE SHEET AND RESERVE OF THE COMPANY

	Note	2018 HK$'000	2017 HK$'000
ASSETS			
Non-current assets			
Interests in subsidiaries		**691,808**	605,359
Financial asset at fair value through profit or loss		**15,916**	15,944
		707,724	621,303
Current assets			
Other financial assets at amortised cost		**831**	—
Financial assets at fair value through profit or loss		**—**	8,110
Cash and cash equivalents		**2,061**	14,410
		2,892	22,520
Total assets		**710,616**	643,823
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company			
Share capital		**40,532**	40,517
Other reserves	(a)	**278,397**	275,738
Retained earnings	(a)	**390,321**	324,073
		709,250	640,328
LIABILITIES			
Current liabilities			
Accrued charges and other payables		**1,366**	3,495
		1,366	3,495
Total equity and liabilities		**710,616**	643,823

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

Note (a) Reserve movement of the Company

	Share premium HK$'000	Contributed surplus HK$'000	Share based compensation reserve HK$'000	Retained earnings HK$'000	Total HK$'000
At 1 January 2017	166,655	99,431	5,882	280,720	552,688
Profit for the year	—	—	—	63,608	63,608
2016 final dividend paid	—	—	—	(12,152)	(12,152)
2017 interim dividend paid	—	—	—	(8,103)	(8,103)
Share option scheme:					
— Value of services provided	—	—	3,618	—	3,618
— Share options exercised	181	—	(29)	—	152
At 31 December 2017	166,836	99,431	9,471	324,073	599,811
At 1 January 2018	166,836	99,431	9,471	324,073	599,811
Profit for the year	—	—	—	85,992	85,992
2017 final dividend paid	—	—	—	(12,160)	(12,160)
2018 interim dividend paid	—	—	—	(8,106)	(8,106)
Share option scheme:					
— Share options lapsed	—	—	(522)	522	—
— Value of services provided	—	—	3,050	—	3,050
— Share options exercised	180	—	(49)	—	131
At 31 December 2018	167,016	99,431	11,950	390,321	668,718

The contributed surplus of the Company represents the difference between the combined net asset value of the subsidiaries acquired over the nominal value of the share capital of the Company issued in exchange therefor pursuant to a Group reorganisation in 2000.

Under the Companies Act 1981 of Bermuda, contributed surplus is available for distribution to shareholders. However, a company cannot declare or pay a dividend, or make a distribution out of contributed surplus, if:

(i) the company is, or would after the payment be, unable to pay its liabilities as they become due; or

(ii) the realisable value of the company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

36. BENEFITS AND INTERESTS OF DIRECTORS (DISCLOSURES REQUIRED BY SECTION 383 OF THE HONG KONG COMPANIES ORDINANCE (CAP. 622), COMPANIES (DISCLOSURE OF INFORMATION ABOUT BENEFITS OF DIRECTORS) REGULATION (CAP. 622G) AND HK LISTING RULES)

(a) Directors' emoluments

The remunerations of each director for the year are as follows:

For the year ended 31 December 2018

	Emoluments paid or receivable in respect of a person's services as a director, whether of the Company or its subsidiary undertaking						
	Year ended 31 December 2018						
	Fees HK$'000	Salaries HK$'000	Discretionary bonus HK$'000	Housing allowances HK$'000	Estimated monetary value of other benefits (Note (a)) HK$'000	Employer's contributions to a retirement benefit scheme HK$'000	Total HK$'000
Mr. Ngan Hei Keung	—	1,950	2,000	—	306	—	4,256
Madam Ngan Po Ling, Pauline, *BBS, JP* *(Managing Director)*	—	1,612	2,000	1,440	458	78	5,588
Mr. James S. Patterson	—	120	311	—	153	—	584
Ms. Maggie Gu	—	2,312	225	—	181	18	2,736
Mr. Ngan Siu Hon, Alexander	—	745	200	—	176	18	1,139
Mr. Leung Shu Yin, William	120	—	—	—	—	—	120
Mr. Liu Tieh Ching, Brandon, *JP*	120	—	—	—	—	—	120
Mr. Gordon Ng	120	—	—	—	—	—	120
Total	360	6,739	4,736	1,440	1,274	114	14,663

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

For the year ended 31 December 2017

	Emoluments paid or receivable in respect of a person's services as a director, whether of the Company or its subsidiary undertaking						
	Year ended 31 December 2017						
	Fees HK$'000	Salaries HK$'000	Discretionary bonus HK$'000	Housing allowances HK$'000	Estimated monetary value of other benefits (Note (a)) HK$'000	Employer's contributions to a retirement benefit scheme HK$'000	Total HK$'000
Mr. Ngan Hei Keung	—	1,950	2,000	—	325	—	4,275
Madam Ngan Po Ling, Pauline, *BBS, JP* *(Managing Director)*	—	1,768	2,000	1,440	488	78	5,774
Mr. James S. Patterson	—	120	312	—	163	—	595
Ms. Maggie Gu	—	2,218	250	—	210	18	2,696
Mr. Ngan Siu Hon, Alexander	—	728	200	—	202	18	1,148
Mr. Andrew Ngan	57	—	—	—	—	—	57
Mr. Leung Shu Yin, William	120	—	—	—	—	—	120
Mr. Liu Tieh Ching, Brandon, *JP*	120	—	—	—	—	—	120
Mr. Gordon Ng	120	—	—	—	—	—	120
Total	417	6,784	4,762	1,440	1,388	114	14,905

Note (a): Other benefits include leave pay, share option and insurance premium.

No director waived any emoluments in respect of the years ended 31 December 2018 and 2017.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

(b) Directors' retirement benefits and termination benefits

None of the directors received or will receive any retirement benefits or termination benefits during the year (2017: Nil).

(c) Consideration provided to third parties for making available directors' services

The Group did not pay consideration to any third parties for making available directors' services during the year (2017: Nil).

(d) Information about loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors

No loans, quasi-loans and other dealing were made available in favour of the directors, controlled body corporates and connected entities of such directors at the end of the year or at any time during the year (2017: Nil).

(e) Directors' material interests in transactions, arrangements or contracts

During the year, the Group entered into business transactions with related parties in the normal course of business. Details of the transactions are disclosed in note 33 to the consolidated financial statements.

Other than the above, no significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Financial Summary

Results			**Year ended 31 December**		
	2014	2015	2016	2017	**2018**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
Turnover	917,533	870,998	870,291	890,707	**941,493**
Gross profit	249,753	265,112	288,017	287,794	**291,524**
Profit before income tax	35,952	56,050	83,822	85,578	**70,736**
Profit for the year attributable to:	30,420	51,376	75,192	81,223	**67,346**
Owners of the Company	33,042	52,554	71,586	77,228	**62,513**
Non-controlling interests	(2,622)	(1,178)	3,606	3,995	**4,833**
Basic earnings per share (HK cents)	8.3	13.2	17.9	19.1	**15.4**
Dividends	11,958	11,958	20,122	20,255	**20,266**

Assets and liabilities			**As at 31 December**		
	2014	2015	2016	2017	**2018**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
Non-current assets	242,197	269,386	265,217	383,934	**487,693**
Current assets	506,333	509,454	569,757	564,571	**583,900**
Current liabilities	(230,359)	(223,539)	(225,037)	(268,801)	**(350,026)**
Net current assets	275,974	285,915	344,720	295,770	**233,874**
Non-current liabilities	(4,250)	(4,591)	(4,630)	(5,936)	**(7,073)**
Net assets	513,921	550,710	605,307	673,768	**714,494**

Notes: The information of the financial summary for two years ended 31 December 2017 and 2018 have been extracted from the audited consolidated statement of profit or loss and consolidated balance sheet which are set out on page 63 to page 66 of the annual report.