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

(Incorporated in Bermuda with limited liability)

(Stock code: 1100)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2019

The Board of Directors (the "Directors") of Mainland Headwear Holdings Limited (the "Company") hereby announces the unaudited interim results of the Company and its subsidiaries (collectively, the "Group") for the six months ended 30 June 2019 (the "Period") together with comparative figures for the corresponding period in 2018.

Interim Condensed Consolidated Statement of Profit or Loss (Unaudited)

For the six months ended 30 June 2019

		Six months ended 30 June	
		2019	2018
		(Unaudited)	(Unaudited)
			(Restated)
	Note	***HK$'000***	*HK$'000*
Continuing operations			
Revenue	3	**521,181**	435,838
Cost of sales		**(370,795)**	(302,139)
Gross profit		**150,386**	133,699
Other income		**4,924**	5,568
Other gains — net		**7,476**	1,570
Selling and distribution costs		**(45,765)**	(31,721)
Administration expenses		**(69,808)**	(61,470)
Net impairment loss on financial assets		**(512)**	(98)
Profit from operations	4(a)	**46,701**	47,548

* *For identification purpose only*

	Note	Six months ended 30 June 2019 (Unaudited) HK$'000	2018 (Unaudited) (Restated) HK$'000
Finance income		**717**	1,193
Finance costs		**(1,809)**	(594)
Finance (costs)/income — net	4(b)	**(1,092)**	599
Profit before income tax	4	**45,609**	48,147
Income tax expense	5	**(5,663)**	(5,497)
Profit from continuing operations		**39,946**	42,650
Discontinued operations			
Loss from discontinued operations	13	**(4,632)**	(5,748)
Profit for the period		**35,314**	36,902
Attributable to:			
Owners of the Company		**34,578**	36,067
Non-controlling interests		**736**	835
		35,314	36,902
Earnings per share attributable to owners of the Company			
From continuing and discontinued operations			
Basic (HK cents per share)	6(a)	**8.53**	8.90
Diluted (HK cents per share)	6(b)	**8.52**	8.79
From continuing operations			
Basic (HK cents per share)	6(a)	**9.67**	10.32
Diluted (HK cents per share)	6(b)	**9.66**	10.19
From discontinued operations			
Basic (HK cents per share)	6(a)	**(1.14)**	(1.42)
Diluted (HK cents per share)	6(b)	**(1.14)**	(1.40)

Interim Condensed Consolidated Statement of Comprehensive Income (Unaudited)
For the six months ended 30 June 2019

	Six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
		(Restated)
	HK$'000	*HK$'000*
Profit for the period	**35,314**	36,902
Other comprehensive loss		
Item that may be subsequently reclassified to profit or loss:		
Exchange differences on translation of financial statements of foreign operations	**(425)**	(5,503)
Total comprehensive income for the period, net of tax	**34,889**	31,399
Attributable to:		
Owners of the Company	**34,153**	31,010
Non-controlling interests	**736**	389
Total comprehensive income for the period	**34,889**	31,399
Attributable to:		
Continuing operations	**40,313**	37,460
Discontinued operations	**(5,424)**	(6,061)
	34,889	31,399

Interim Condensed Consolidated Balance Sheet (Unaudited)

As at 30 June 2019

	Note	**30 June 2019 (Unaudited)** ***HK$'000***	31 December 2018 (Audited) *HK$'000*
ASSETS			
Non-current assets			
Property, plant and equipment	8	**396,972**	376,838
Right-of-use assets		**22,049**	—
Investment properties	8	**41,061**	41,061
Goodwill		**33,922**	33,798
Other intangible assets	8	**33,882**	11,980
Deferred income tax assets		**2,190**	2,189
Financial assets at fair value through profit or loss		**21,746**	21,746
Other financial assets at amortised cost	9	**—**	81
		551,822	487,693
Current assets			
Inventories		**215,209**	208,656
Other current assets		**21,281**	29,174
Other financial assets at amortised cost		**8,203**	17,662
Trade receivables		**304,184**	215,401
Financial assets at fair value through profit or loss		**9,638**	11,078
Tax recoverable		**2,329**	823
Short-term bank deposits		**3,277**	3,852
Cash and cash equivalents		**136,319**	97,254
		700,440	583,900
Assets of disposal company classified as held for sale	12	**24,090**	—
		724,530	583,900
Total assets		**1,276,352**	1,071,593

	Note	**30 June 2019 (Unaudited) *HK$'000***	31 December 2018 (Audited) *HK$'000*
EQUITY			
Equity attributable to owners of the Company			
Share capital		**40,532**	40,532
Other reserves		**223,068**	226,938
Retained earnings		**464,598**	437,856
		728,198	705,326
Non-controlling interests		**9,904**	9,168
Total equity		**738,102**	714,494
LIABILITIES			
Non-current liabilities			
Other payables	10	**16,827**	2,572
Borrowings		**—**	609
Lease liabilities		**12,513**	—
Deferred income tax liabilities		**4,290**	3,892
		33,630	7,073
Current liabilities			
Trade and other payables	10	**169,914**	183,787
Amount due to a non-controlling interest		**503**	713
Current income tax liabilities		**19,527**	16,114
Lease liabilities		**9,663**	—
Borrowings		**288,883**	149,412
		488,490	350,026
Liabilities of disposal company classified as held for sale	12	**16,130**	—
		504,620	350,026
Total liabilities		**538,250**	357,099
Total equity and liabilities		**1,276,352**	1,071,593
Net current assets		**219,910**	233,874
Total assets less current liabilities		**771,732**	721,567

Notes

1. BASIS OF PREPARATION

This interim condensed consolidated financial information for the six months ended 30 June 2019 has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). This interim condensed consolidation financial information does not include all the notes of the type normally included in annual consolidated financial statements. Accordingly, this interim condensed consolidated financial information should be read in conjunction with the annual consolidated financial statements for the year ended 31 December 2018, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

This interim condensed consolidated financial information is presented in Hong Kong dollars ("HK$'000") and has not been audited.

Pursuant to an agreement signed between Mainland Aquarius Investments Ltd ("Mainland Aquarius"), a wholly-owned subsidiary of the Company, and the sole shareholder of Aquarius Ltd. ("Aquarius"), Mainland Aquarius acquired the entire issued share capital of Aquarius in the forms of (i) Fixed cash consideration of US dollars ("US$") 7,000,000 (equivalent to approximately HK$54,460,000); and (ii) Contingent consideration of US$2,000,000 (equivalent to approximately HK$15,560,000). Upon the completion of the acquisition on 30 May 2019, Aquarius became a subsidiary of Mainland Aquarius.

During six months ended 30 June 2019, in light of continuing loss and the uncertain market outlook, the Group intends to exit the retail business. The Group has been active in negotiating with a potential buyer to sell its entire stake in Shanghai CFY Company Limited (the "Disposal Company"), a 75%-owned subsidiary of the Company, (the "Potential Disposal"), which engaging in selling Sanrio products. In addition to the Potential Disposal, the Group also closed all the headwear stores in Hong Kong ("Hatworld") of the current period. Accordingly, the financial results of the Disposal Company and Hatworld are presented in the interim condensed consolidated statement of profit or loss for the six months ended 30 June 2019 as discontinued operations of the Group in accordance with HKFRS 5 "Non-current Assets Held for Sales and Discontinued Operation" issued by the HKICPA. Comparative figures for the six months ended 30 June 2018 have also been restated.

2. ACCOUNTING POLICIES

The accounting policies applied are consistent with those of the annual consolidated financial statements for the year ended 31 December 2018, as described in those annual consolidated financial statements, except for estimation of income tax, the adoption of new and amended standards and the accounting policies related to non-current assets (or disposal group) held for sale and discontinued operations as set out below.

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

(a) New and amended standards adopted by the Group

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the interim condensed consolidated statement of profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

HKFRS 16 Leases

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the fixed lease payments. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be determined, or the Group's incremental borrowing rate.

Right-of-use assets are measured at cost comprising the following:

— the amount of the initial measurement of lease liability;

— prepayment;

— any initial direct costs; and

— restoration costs.

Payments associated with short-term leases are recognised on a straight-line basis as an expense in interim condensed consolidated income statement. Short-term leases are leases with a lease term of 12 months or less.

(ii) Impact of adoption

The Group has adopted HKFRS 16 retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provision in the standard. The adjustments arising from the new leasing rules are therefore recognised in the opening interim condensed consolidated balance sheet on 1 January 2019.

In applying HKFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

— the use of a single discount rate to a portfolio of lease with reasonably similar characteristics; and

— the accounting for operating lease with a remaining lease term of less than 12 months as at 1 January 2019 as short-term lease.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date, the Group relied on its assessment made applying HKAS 17 and HKFRIC 4 "Determining whether and Arrangement contains a Lease".

On adoption of HKFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as "operating leases" under the principles of HKAS 17 Leases ("HKAS 17"). These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019 (date of initial application of HKFRS 16). The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 3.8%.

For leases previously classified as finance leases, the entity recognised the carrying amount of the lease asset and lease liability immediately before transition as the carrying amount of the right-of-use asset and the lease liability at the date of initial application. The measurement principles of HKFRS 16 are only applied after that date. The remeasurements to the lease liabilities were recognised as adjustments to the related right-of-use assets immediately after the date of initial application. As at 1 January 2019, the date of initial application, the adoption of HKFRS 16 does not have significant impact to the Group in relation to a lease previously classified as finance lease under HKAS 17.

On adoption of HKFRS 16, the Group did not need to make any adjustments to the accounting for investment property held as lessor as a result of adopting the new leasing to a lease standard.

The reconciliation between the operating lease commitments as disclosed by applying HKAS 17 as at 31 December 2018 and the lease liabilities recognised in the opening of the interim condensed consolidated balance sheet as at 1 January 2019 (date of initial application of HKFRS 16) is as follows:

	Unaudited *HK$'000*
Operating lease commitments disclosed as at 31 December 2018	16,350
Discounted using the lessee's incremental borrowing rate at the date of initial application	(1,532)
Add:	
Finance lease liability recognised as at 31 December 2018 reclassified from property, plant and equipment	792
Less:	
Short-term leases recognised on a straight-line basis as expense	(1,148)
Lease liabilities recognised as at 1 January 2019	14,462
Of which are:	
— Current lease liabilities	4,225
— Non-current lease liabilities	10,237
	14,462

The associated right-of-use assets were measured at the amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised as at 1 January 2019. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

The change in accounting policy increased both right-of-use assets and lease liabilities by HK$14,462,000 in the opening of the interim condensed consolidated balance sheet on 1 January 2019. The recognised right-of-use assets of HK$14,462,000 are related to properties and a motor vehicle.

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

Certain new accounting standards and interpretations have been published that are not mandatory for this reporting period and have not been early adopted by the Group. These standards are not expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

(c) Non-current assets (or disposal groups) held for sale and discontinued operations

Non-current assets (or disposal groups) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. They are measured at the lower of their carrying amount and fair value less costs to sell.

An impairment loss is recognised for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset (or disposal group) is recognised at the date of derecognition.

Non-current assets (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised.

The assets of a disposal group classified as held for sale are presented separately from the other assets in the balance sheet. The liabilities of a disposal group classified as held for sale are presented separately from other liabilities in the interim condensed consolidated balance sheet.

A discontinued operation is a component of the entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately in the interim condensed consolidated statement of profit or loss.

3. SEGMENT INFORMATION

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

The executive directors assess the performance of the operating segments based on a measure of earnings before interest expense, taxes, depreciation and amortization ("EBITDA"), excluding fair value gain on financial asset at fair value through profit or loss ("FVPL") and loss from discontinued operations.

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

Continuing operations:

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

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

Discontinued operations:

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

	Continuing operations						**Discontinued operations**	
	Manufacturing		**Trading**		**Total**		**Retail**	
	Six months ended		**Six months ended**		**Six months ended**		**Six months ended**	
	2019	2018	**2019**	2018	**2019**	2018	**2019**	2018
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)	**(Unaudited)**	(Unaudited)	**(Unaudited)**	(Unaudited)
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Revenue from external customers	**355,053**	319,937	**166,128**	115,901	**521,181**	435,838	**22,157**	31,140
Inter-segment revenue	**48,528**	36,218	**—**	—	**48,528**	36,218	**—**	—
Reportable segment revenue	**403,581**	356,155	**166,128**	115,901	**569,709**	472,056	**22,157**	31,140
Reportable segment profit/(loss)	**55,853**	51,836	**(9,164)**	490	**46,689**	52,326	**(4,643)**	(5,762)
Fair value gain on financial assets at FVPL					**2,613**	286	—	—
Gain on disposal of financial assets at FVPL					**5,068**	—	—	—
Share-based payment expenses					**(879)**	(1,620)	—	—
Unallocated corporate income					**4,793**	5,063	—	—
Unallocated corporate expenses					**(11,583)**	(8,507)	—	—
Profit/(loss) from operations					**46,701**	47,548	(4,643)	(5,762)
Finance (costs)/income — net					**(1,092)**	599	11	14
Income tax expense					**(5,663)**	(5,497)	—	—
Profit/(loss) for the period					**39,946**	42,650	(4,632)	(5,748)

Segment assets exclude investment properties, deferred income tax assets, financial assets at FVPL, tax recoverable, short-term bank deposits and cash and cash equivalents. In addition, corporate assets which are not directly attributable to the business activities of any operating segment are not allocated to a segment, which primarily applies to the Group's headquarters.

	Continuing operations				Discontinued operations			
	Manufacturing		Trading		Retail		Total	
	30 June 2019 (Unaudited) *HK$'000*	31 December 2018 (Audited) *HK$'000*	**30 June 2019 (Unaudited) *HK$'000***	31 December 2018 (Audited) *HK$'000*	**30 June 2019 (Unaudited) *HK$'000***	31 December 2018 (Audited) *HK$'000*	**30 June 2019 (Unaudited) *HK$'000***	31 December 2018 (Audited) *HK$'000*
Reportable segment assets	**493,702**	501,729	**541,052**	371,842	**25,038**	20,019	**1,059,792**	893,590
Investment properties							**41,061**	41,061
Deferred income tax assets							**2,190**	2,189
Financial assets at FVPL							**31,384**	32,824
Tax recoverable							**2,329**	823
Short-term bank deposits							**3,277**	3,852
Cash and cash equivalents							**136,319**	97,254
Total assets							**1,276,352**	1,071,593

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

	Continuing operations				Discontinued operations			
	Manufacturing		Trading		Retail		Total	
	30 June 2019 (Unaudited) *HK$'000*	31 December 2018 (Audited) *HK$'000*	**30 June 2019 (Unaudited) *HK$'000***	31 December 2018 (Audited) *HK$'000*	**30 June 2019 (Unaudited) *HK$'000***	31 December 2018 (Audited) *HK$'000*	**30 June 2019 (Unaudited) *HK$'000***	31 December 2018 (Audited) *HK$'000*
Reportable segment liabilities	**126,246**	144,724	**72,548**	18,519	**26,183**	21,255	**224,977**	184,498
Deferred income tax liabilities							**4,290**	3,892
Current income tax liabilities							**19,527**	16,114
Bank borrowings							**288,883**	150,021
Other corporate liabilities							**573**	2,574
							538,250	357,099
Capital expenditure incurred during the period/year	**33,075**	63,412	**30,449**	80,177	—	313	**63,524**	143,902

4. PROFIT BEFORE INCOME TAX

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

	Six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
		(Restated)
	HK$'000	*HK$'000*
Continuing operations		
(a) Operating profit		
Gain on disposal of financial assets at FVPL	**(5,068)**	—
Fair value gain on financial assets at FVPL	**(2,613)**	(286)
Net exchange loss/(gain)	**235**	(1,179)
Depreciation of property, plant and equipment	**14,101**	11,559
Depreciation of right-of-use assets	**3,660**	—
Amortisation of other intangible assets	**4,356**	1,035
Net provision for inventories	**1,990**	4,008
(b) Finance (costs)/income — net		
Interest on bank loans, overdrafts and other borrowings	**(3,738)**	(1,930)
Interest accretion on license fee payables	**(149)**	(78)
Interest on lease liabilities	**(317)**	—
	(4,204)	(2,008)
Amount capitalised *(note)*	**2,395**	1,414
Finance costs	**(1,809)**	(594)
Finance income	**717**	1,193
Finance (costs)/income — net	**(1,092)**	599

Note:

Interest expenses on bank borrowings were capitalised at the weighted average rate of its general borrowings of approximately 3.8% (six months ended 30 June 2018: 3.1%).

5. INCOME TAX EXPENSE

	Six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Current year		
— Hong Kong profits tax	**350**	379
— Overseas tax	**6,001**	7,670
	6,351	8,049
Over-provision in prior years		
— Hong Kong profits tax	**(987)**	(408)
— Overseas tax	**(98)**	(2,067)
	(1,085)	(2,475)
Deferred income tax	**397**	(77)
	5,663	5,497

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

Hong Kong profits tax has been provided at the rate of 16.5% (six months ended 30 June 2018: 16.5%) on the estimated assessable profits for the period. Taxation on overseas profits has been calculated on the estimated assessable profits for the period at the rates of taxation prevailing in the countries in which the Group operates.

6. EARNINGS PER SHARE

(a) Basic

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

	Six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
		(Restated)
Profit/(loss) attributable to owners of the Company *(HK$'000)*		
— Continuing operations	**39,210**	41,815
— Discontinued operations	**(4,632)**	(5,748)
	34,578	36,067
Weighted average number of ordinary shares in issue	**405,323,284**	405,272,179
Basic earnings per share *(HK cents)*		
— Continuing operations	**9.67**	10.32
— Discontinued operations	**(1.14)**	(1.42)
	8.53	(8.90)

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all outstanding share options. A calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming exercise of the share options.

	Six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited) (Restated)
Profit/(loss) attributable to owners of the Company *(HK$'000)*		
— Continuing operations	**39,210**	41,815
— Discontinued operations	**(4,632)**	(5,748)
	34,578	36,067
Weighted average number of ordinary shares in issue	**405,323,284**	405,272,179
Adjustment for share options	**453,120**	4,820,490
Weighted average number of ordinary shares for diluted earnings per share	**405,776,404**	410,092,669
Diluted earnings per share *(HK cents)*		
— Continuing operations	**9.66**	10.19
— Discontinued operations	**(1.14)**	(1.40)
	8.52	8.79

7. DIVIDENDS

(a) Dividends attributable to the period

	Six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Interim dividend declared of 2 HK cents (2018: 2 HK cents) per share	**8,106**	8,106

The interim dividend declared after the balance sheet date has not been recognised as a liability at the balance sheet date, but will be reflected as an appropriation of retained earnings for the six months ended 30 June 2019.

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

	Six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Final dividend paid in respect of 2018 of 3 HK cents (2017: 3 HK cents) per share	**12,160**	12,160

8. CAPITAL EXPENDITURE

During the six months ended 30 June 2019, the Group acquired property, plant and equipment of HK$36,763,000 including HK$940,000 arising from acquisition of a subsidiary (six months ended 30 June 2018: HK$67,941,000) and intangible assets of HK$26,761,000, including HK$24,637,000 arising from acquisition of a subsidiary (six months ended 30 June 2018: HK$1,063,000).

As at 30 June 2019, other intangible assets represent acquired customer relationship of HK$4,913,000 (31 December 2018: HK$5,368,000), and licensing rights for the use of certain licensed trademark, brands and logos in the Group's products of HK$28,969,000 (31 December 2018: HK$6,612,000).

The Group's investment properties were revalued at 31 December 2018. No valuation was performed during the period as there was no indication of significant changes in the value since last annual reporting date (six months ended 30 June 2018: same).

9. TRADE RECEIVABLES AND OTHER FINANCIAL ASSETS AT AMORTISED COST

	30 June 2019 (Unaudited) ***HK$'000***	31 December 2018 (Audited) *HK$'000*
Trade receivables	**307,241**	217,946
Less: provision for impairment loss	**(3,057)**	(2,545)
Trade receivables, net	**304,184**	215,401
Other financial assets at amortised cost	**8,765**	18,305
Less: provision for impairment loss	**(562)**	(562)
	8,203	17,743
	312,387	233,144
Less: non-current portion of other financial assets at amortised cost	**—**	(81)
Current portion	**312,387**	233,063

The carrying amounts of the trade receivables and other financial assets at amortised cost approximate their fair values.

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

	30 June 2019 (Unaudited) ***HK$'000***	31 December 2018 (Audited) *HK$'000*
0–30 days	**85,783**	74,305
31–60 days	**91,114**	58,945
61–90 days	**73,743**	38,412
91–120 days	**27,661**	19,842
Over 121 days	**28,940**	26,442
	307,241	217,946

10. TRADE AND OTHER PAYABLES

	30 June 2019 (Unaudited) ***HK$'000***	31 December 2018 (Audited) *HK$'000*
Trade payables	**71,060**	77,276
Bills payables	**5,753**	11,867
Accrued charges and other payables	**109,928**	97,216
	186,741	186,359
Less: other non-current payables	**(16,827)**	(2,572)
Current portion	**169,914**	183,787

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

	30 June 2019 (Unaudited) ***HK$'000***	31 December 2018 (Audited) *HK$'000*
0–30 days	**45,782**	38,432
31–60 days	**10,308**	21,336
61–90 days	**4,109**	12,429
Over 90 days	**10,861**	5,079
	71,060	77,276

Revenue recognised during the period ended 30 June 2019 that was included in the contract liabilities balance at the beginning of the period amounted to HK$532,000 (six months ended 30 June 2018: HK$487,000). The Group recognised its contract liabilities under other payables and accruals in the interim condensed consolidated balance sheet.

11. BUSINESS COMBINATION

Pursuant to an agreement signed between Mainland Aquarius, a wholly-owned subsidiary of the Company, and the sole shareholder of Aquarius, Mainland Aquarius acquired the entire issued share capital of Aquarius in the forms of:

(i) Fixed cash consideration of US$7,000,000 (equivalent to approximately HK$54,460,000); and

(ii) Contingent consideration of US$2,000,000 (equivalent to approximately HK$15,560,000).

Upon the completion of the acquisition on 30 May 2019, Aquarius became a subsidiary of Mainland Aquarius. Acquisition-related costs of HK$4,069,000 have been charged to administrative expenses in the interim condensed consolidated statement of profit or loss for the period ended 30 June 2019.

The goodwill is attributable a number of factor, among others, to the synergies in sales and cost saving opportunities expected to arise after the Group's acquisition of this subsidiary. None of the goodwill recognised is expected to be deductible for income tax purposes.

The provisional fair values of assets acquired and liabilities assumed, the consideration paid and the carrying value of non-controlling interest at the acquisition date are summarised in the table below:

	HK$'000
Consideration	
Cash paid	54,460
Contingent consideration payable	15,560
	70,020
Recognised amounts of identifiable assets acquired and liabilities assumed	
Property, plant and equipment	940
Right-of-use assets	4,431
Intangible assets — customer relationships	309
Intangible assets — licensing rights	24,328
Deferred income tax assets	345
Inventories	49,316
Other current assets	1,755
Other financial assets at amortised cost	2,388
Trade receivables	72,208
Tax recoverable	1,268
Cash and cash equivalents	181
Trade and other payables	(54,680)
Borrowings	(28,397)
Lease liabilities	(4,431)
Deferred income tax liabilities	(65)
Total identifiable net assets	69,896
Goodwill	124
	70,020
Cash consideration paid	54,460
Less: cash and cash equivalents acquired	(181)
Net cash outflow on acquisition for the period	54,279
Acquisition-related costs included in administrative expenses in the interim condensed consolidated statement of profit or loss for the period	4,069

The fair value of trade receivables is HK$72,208,000. The gross contractual amount for trade receivables due is HK$72,208,000, all of which is expected to be collectible.

The fair value of the acquired identifiable assets was provisional pending receipt of the final valuations of those assets. Deferred income tax liabilities of HK$65,000 have been provided in relation to the fair value adjustments of intangible assets arising from the acquisition.

The contingent consideration payable represents the amount payable up to US$2,000,000 (equivalent to approximately HK$15,560,000) upon fulfillment of certain profit targets. The maximum potential undiscounted amount of all future payments that the Group could be required to make under this arrangement is US$2,000,000. Management is confident to meet its profit targets and hence, contingent consideration of US$2,000,000 was recognised.

The revenue included in the interim condensed consolidated statement of profit or loss since 30 May 2019 contributed by Aquarius was HK$25,157,000. It had net profit of HK$1,803,000 over the same period.

Had Aquarius been consolidated from 1 January 2019, the interim condensed consolidated statement of profit or loss would show pro-forma revenue for continuing operations of HK$649,401,000 and profit of HK$36,694,000.

12. ASSETS AND LIABILITIES OF DISPOSAL COMPANY CLASSIFIED AS HELD-FOR-SALE

During six months ended 30 June 2019, in light of continuing loss and the uncertain market outlook, the Group intends to exit the retail business. The Group has been active in negotiating with a potential buyer to sell its entire stake in the Disposal Company, a 75%-owned subsidiary of the Company, which engaging in selling Sanrio products.

(a) Assets of Disposal Company classified as held-for-sale

	As at 30 June 2019 *HK$'000*
Property, plant and equipment	**1,541**
Right-of-use assets	**949**
Inventories	**16,127**
Trade receivables	**2,432**
Other current assets	**921**
Other financial assets at amortised cost	**1,149**
Cash and cash equivalent	**971**
	24,090

(b) Liabilities of Disposal Company classified as held-for-sale

	As at 30 June 2019 *HK$'000*
Trade and other payables	**15,177**
Lease liabilities	**953**
	16,130

(c) Cumulative income recognised in other comprehensive income relating to Disposal Company classified as held-for-sale

	As at 30 June 2019 *HK$'000*
Exchange difference arising on translation of the financial statements of foreign subsidiaries	**2,089**

The expected consideration of the transaction is higher than the aggregate carrying amount of the related assets and liabilities. Therefore, no impairment loss was recognised on reclassification of the assets and liabilities as held-for-sale.

13. DISCONTINUED OPERATION

During the six months ended 30 June 2019, apart from the Disposal Company, the Group also closed all its Hatworld headwear stores in Hong Kong. This, together with the Disposal Company, during the periods ended 30 June 2019 and 2018 were reclassified as discontinued operations of the Group.

	2019	2018
	HK$'000	*HK$'000*
Results of the discontinued operations:		
Revenue	**22,157**	31,140
Cost of sales	**(12,080)**	(15,166)
Gross profit	**10,077**	15,974
Other income	**77**	5
Selling and distribution expenses	**(9,882)**	(16,153)
Administrative expenses	**(4,915)**	(5,588)
Operating loss	**(4,643)**	(5,762)
Finance income	**11**	42
Finance costs	**—**	(28)
Loss for the period	**(4,632)**	(5,748)
Exchange difference arising on translation of discontinued operations	**(792)**	(313)
Other comprehensive loss from discontinued operations	**(5,424)**	(6,061)
Loss from discontinued operations attributable to:		
— Owners of the Company	**(5,424)**	(6,061)
— Non-controlling interests	**—**	—
	(5,424)	(6,061)
Cash flows from discontinued operations:		
Net cash (outflow)/inflow from operating activities	**(855)**	753
Net cash outflow from investing activities	**—**	(218)
Net cash outflow from financing activities	**(21)**	—

MANAGEMENT DISCUSSION AND ANALYSIS

The Board of Directors (the "Directors") of Mainland Headwear Holdings Limited (the "Company") is pleased to announce the unaudited interim results of the Company and its subsidiaries (collectively, "Mainland Headwear" or the "Group") for the six months ended 30 June 2019 (the "Period").

FINANCIAL REVIEW

In the first half of 2019, the ongoing China-US trade tensions added to the uncertainty surrounding the global economy. Nevertheless, Mainland Headwear had expanded its production base into Bangladesh as early as 2013, leveraging China's Belt and Road initiative. With the trade war escalating, the Group's Bangladesh factory has become one of its major competitive advantages and satisfied the keen demand from its US customers for orders from production bases outside China, driving the business growth of the Group. Against similar headwinds, compounded by the lackluster trading and retail environment around the globe, its Trading and Retail businesses are facing unprecedented challenges. In view of the highly volatile retail markets in Mainland China and Hong Kong in these years, the management elected to pave the way for termination of the Retail Business.

During the Period, the Group continued to receive a stable revenue stream from its primary income source, the Manufacturing Business, and continuing operations achieved a turnover of HK$521,181,000 (2018 Interim: HK$435,838,000), a marked increase of 19.6% when compared with that of last year. Gross profit for continuing operations was up 12.5% to HK$150,386,000 (2018 interim: HK$133,699,000). However, due to rising material costs and labour cost faced by the Manufacturing Business, and more promotions offered by its Trading Business, gross profit margin for continuing operations decreased by 1.8 percentage points to 28.9% (2018 Interim: 30.7%). Owing to the less-than-stellar performance of the Trading Business profit from continuing operations fell by 6.3% to HK$39,946,000 (2018 Interim: HK$42,650,000). As for the discontinued operations, the loss was narrowed to HK$4,632,000 (2018 Interim: loss of HK$5,748,000). Profit attributable to shareholders fell by 4.1% to HK$34,578,000 (2018 Interim: HK$36,067,000).

BUSINESS REVIEW

Manufacturing Business

Based on the unique advantages of the Bangladesh factory, the Group has been receiving strong orders from customers. During the Period, the Manufacturing Business achieved segment revenue of HK$403,581,000 (2018 Interim: HK$356,155,000), while revenue from external customers surged by 11.0% to HK$355,053,000 (2018 Interim: HK$319,937,000) accounting for approximately 68.1% of the Group's total revenue for continuing operations.

Operating profit of the Manufacturing Business grew by 7.7% to HK$55,853,000 (2018 Interim: HK$51,836,000), mainly attributable to the increasing proportion of production from the Bangladesh factory, with the factory's production contributing around 85% of the Group's total capacity. This was achieved in the face of rising material costs and labour cost, the latter of which was due to the increase in minimum wage in the Bangladesh garments industry since December 2018 subsequent to the authority's review conducted every five years. To mitigate the rising labour cost, the Group introduced automation and information technology-enabled production equipment, which can in turn reduce its reliance on manpower and improve production efficiency.

Output increased by approximately 16.7% from about 3 million pieces of headwear products per month in the same period last year to about 3.5 million pieces per month, which was a result of maturing production techniques and a growing workforce. As at 30 June 2019, the Bangladesh factory had approximately 5,400 employees (31 December 2018: about 5,000 employees).

As for the factory in Shenzhen with a workforce of around 860, it mainly serves as the Group's product R&D and design centre, while also supporting the implementation of automation at its Bangladesh counterpart and providing high value-added services. It also focuses on producing products that are sold in Australia, Japan and the China domestic market.

Trading Business

Despite being impacted by such uncertainties as the lackluster US and UK retail markets shadowed by the China-US trade war and Brexit, the Group's Trading Business still recorded a solid 43.3% top-line growth, mainly attributable to (i) H3 Sportgear LLC ("H3") seeing double-digit growth in orders from a multinational retail enterprise customer, clear evidence of the success of its business consolidation strategy, especially under such an uneasy environment; and (ii) consolidation of the financial results of Aquarius Ltd. ("Aquarius") from 1 June 2019 subsequent to the Group's acquisition. Revenue of the segment was HK$166,128,000 (2018 Interim: HK$115,901,000), accounting for 31.9% of the Group's total revenue for continuing operations. However, as the procurement sentiment has become more cautious, the Group offered more promotions to drive sales. Consequently, operating loss of the business for the Period amounted to HK$9,164,000 (2018 Interim profit: HK$490,000).

To diversify the income stream and broaden its product offerings, the Group has completed the acquisition of Aquarius, a leading accessories supplier in the USA, on 30 May 2019. The acquisition marked a step forward in strengthening and expanding the Group's existing business segment by widening the spectrum from headwear to the accessories segment. Subsequent to completion, Subsequent to completion, Aquarius has become a wholly-owned subsidiary of the Group.

Established in St. Louis, Missouri, the USA for nearly 50 years, Aquarius is an established company in designing and marketing accessories and one of the country's largest suppliers of 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. After completion of the acquisition, the Group now offers a full series of accessories ranging from headwear products, scarves, belts, wallet, backpacks and gloves to a wide spectrum of customers through different channels in the off-price market, mass market as well as high-end market segments.

The Group expects to benefit from the synergy in sales and cost savings as their customer base, product mix and license portfolio are complementary to each other. At the same time, the Group and Aquarius can share talent and resources in design, warehousing and back office facilities.

Discontinued Operations

As discussed above, the Group was proceeding ontrack terminating the Retail Business. Consequently, revenue of the segment amounted to HK$22,157,000 (2018 Interim: HK$31,140,000), and operating loss was narrowed to HK$4,643,000 (2018 Interim: loss of HK$5,762,000).

As for the sales of headwear products, the Group had only one NOP brand self-operated store in Hong Kong left during the Period. Since the lease expired in June 2019, the Group has officially retreated from the Hong Kong retail market.

The Group and Sanrio have been discussing the details of transferring the entire Retail Business in the Greater China Region to Sanrio, including operations, staff, stores, inventories, etc.

The management believes that by concluding retail operations on both sides of the border, it will be able to focus resources on advancing the core Manufacturing Business and Trading Business in the best interest of the Company and its shareholders.

PROSPECTS

The management expects the business environment for the coming year to remain challenging in the face of uncertainty surrounding political and economic developments around the world. The protracted China-US trade dispute has been the root cause of such uncertainly, and will likely worsen following the decision by the US Government to impose a tariff on the remaining US$300 billion worth of goods and products from China starting on 1 September 2019, with the possibility of further increasing the tariff. A mitigating factor is that the imposition of tariffs on some goods will be delayed until 15 December or excluded altogether.

However, the presence of Mainland Headwear in Bangladesh has gradually been strengthened following years of hard work, laying a solid foundation for its long-term development. Phase II of the factory is expected to start production by the end of this year. The number of workers will increase to around 8,000, and the monthly capacity will achieve five million pieces of headwear products in the future. The management believes that it will bring a greater contribution to the Group next year. When it is fully utilised, full capacity in Bangladesh will rise from around 85% to 90% of the Group's total capacity and the economies of scale would be even more obvious.

As for product variety, the new factory will be able to manufacture products beyond headwear to cover accessories, such as belts, wallets, gloves, etc, which can support not only its customers, but also the newly acquired Aquarius, enabling the Group to benefit from greater synergies and capture more opportunities. The Group will flexibly allocate resources of its two production bases in Bangladesh and Shenzhen to meet its customers' needs.

Regarding the Trading Business, the newest development of the trade war will add to the challenges already affecting the US retail market and buyers are becoming even more cautious. But benefitting from the acquisition of Aquarius, together with the investments during previous years, the management believes that this business will see greater contributions to the Group in second half year.

In respect of the discontinued Retail Business, the management is confident that a transfer agreement will be inked with Sanrio very soon. The Group will make a timely disclosure of any relevant transaction in accordance with the listing rules.

Given the Group's strengthened presence in Bangladesh and active efforts in diversifying its product portfolio, it possesses the strengths as well as the growth momentum necessary to confidently face the future. The management will also direct its focus and energies to enhancing efficiency across all areas of operation which will ultimately create value for shareholders.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2019, the Group had cash and bank balances, short-term deposits and a portfolio of liquid investments totaling Hong Kong dollars ("HK$") 149.2 million (31 December 2018: HK$112.2 million). About 34%, 32% and 16% of these liquid funds were denominated in Renminbi, United States dollars and Hong Kong dollars respectively. As at 30 June 2019, the Group had banking facilities of HK$533.6 million (31 December 2018: HK$381.3 million), of which HK$239.0 million (31 December 2018: HK$219.4 million) were not utilised.

The gearing ratio (being the Group's net borrowings over total equity) of the Group is at 39.1% (31 December 2018: 21.0%). In view of the strong financial and liquidity position, the Group has sufficient financial resources to meet its commitments and working capital requirements.

ACQUISITION OF A SUBSIDIARY

Pursuant to an agreement signed between Mainland Aquarius Investments Ltd ("Mainland Aquarius"), a wholly-owned subsidiary of the Company, and Aquarius, Ltd., ("Aquarius"), Mainland Aquarius acquired entire issued share capital of Aquarius on 30 May 2019 in the forms of Fixed cash consideration of US dollars ("US$") 7,000,000 (equivalent to approximately HK$54,460,000); and Contingent consideration of US$2,000,000 (equivalent to approximately HK$15,560,000).

CAPITAL EXPENDITURE

During the Period, the Group spent HK$18.6 million (2018 Interim: HK$63.5 million) on the construction of a factory building in Bangladesh. The Group spent approximately HK$14.5 million (2018 Interim: HK$4.0 million) on additions to equipment to further upgrade and expand its manufacturing capabilities, HK$2.7 million (2018 Interim: HK$0.9 million) for additions of equipment and systems of Trading and Retail Business.

As at 30 June 2019, the Group had authorised a capital commitment of HK$38.3 million in respect of construction of a factory building in Bangladesh and manufacturing plants and equipment. The Group had also authorised a capital commitment of HK$5.0 million in respect of equipment upgrade for Trading business.

EXCHANGE RISK

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

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2019, the Group employed a total of 1,076 (2018 Interim: 1,298) workers and employees in the PRC (include Hong Kong), 5,432 (2018 Interim: 3,990) workers and employees in Bangladesh, and 153 (2018 Interim: 44) employees in the USA and the UK. The expenditures for the employees during the Period were approximately HK$138.6 million (2018 Interim: HK$125.0 million). The Group ensures that the pay levels of its employees are competitive and employees are remunerated based on their position and performance. Key employees of the Group, including Directors, are also granted share options under the share option schemes operated by the Company.

INTERIM DIVIDEND

The Board has declared an interim dividend of 2 HK cents (2018: 2 HK cents) per share, payable on or after 10 October 2019.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 16 September 2019 to 18 September 2019 (both dates inclusive). In order to qualify for the interim dividend, all transfers, accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong Branch Share Registrar, Tricor Tengis Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on 13 September 2019.

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

During the six months ended 30 June 2019, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

CODE ON CORPORATE GOVERNANCE PRACTICES

In the opinion of the Board, the Company has complied with the code provisions in the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Listing Rules during the six months ended 30 June 2019.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules. All Directors have confirmed, following enquiries by the Company, that they have complied with the required standard set out in Model Code throughout the period ended 30 June 2019.

AUDIT COMMITTEE

The Company has complied with Rule 3.21 of the Listing Rules in relation to the establishment of an audit committee. The audit committee members comprise of all independent non-executive directors. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control procedures of the Group. The audit committee has reviewed the interim condensed consolidated financial information for the period ended 30 June 2019.

By Order of the Board
Ngan Hei Keung
Chairman

Hong Kong, 26 August 2019

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