Mainland Headwear Holdings Limited

(Stock code: 1100)

Interim Report **2013**

Contents

Management Discussion and Analysis

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 2013 (the "Period") together with comparative figures for the corresponding period in 2012.

FINANCIAL REVIEW

During the period under review, the appreciation of the RMB and increasing staff and material costs have presented serious challenges for the Group, and in particular to its Manufacturing Business. However, the Group's strong operational capabilities, good reputation in the global headwear industry and diversified development strategy implemented in recent years have paved the way for its steady development.

As at 30 June 2013, the Group's turnover climbed 18.4% from the same period last year to HK$428,418,000 (2012 Interim: HK$361,955,000). The strong turnover increase was mainly due to a vigorous demand for the Group's headwear products combined with a new income stream from San Diego Hat Company ("SDHC"), a leading high-end designer, importer and marketer of women's hats in the US that the Group acquired last year, and the satisfactory performance of H3 Sportgear.

On the other hand, the labour shortage in Mainland China and rising labour costs have imposed a heavy burden on the Group's operations. In addition, due to the rapid surge in material costs, the Group's gross profit dropped by 3.6% to HK$102,768,000 (2012 Interim: HK$106,654,000) and the gross profit margin reached 24.0% (2012 Interim: 29.5%). Facing the rising production costs in Mainland China, the Group decided to scale down the operations of its factory in Panyu, Guangdong Province, China. Taking account of a write-down on the plant and equipment and inventories of about HK$16 million, the Group recorded a loss attributable to shareholders of HK$16,864,000 (2012 Interim: profit attributable to shareholders: HK$14,707,000).

Management Discussion and Analysis

BUSINESS REVIEW

Manufacturing Business

During the period under review, the Manufacturing Business remained as the Group's principal revenue generator, accounting for around 66.6% of total turnover. Capitalising on the Group's leading presence and strong reputation in the headwear industry, there was a strong demand for its products which led to an enormous volume of orders, thus turnover rose 11.7% to HK$304,644,000 (2012 Interim: HK$272,686,000).

However, as the labour shortage became more acute in Mainland China, the Group was unable to fulfil all of the orders that it received. In a related development, the Group scaled down the operation of its factory in Panyu, Guangdong Province in July because of the rising production cost. As a result, the Group made a provision of approximately HK$16,000,000 for the plant, equipment and inventories, leading to an operating loss of this segment to HK$3,737,000 (2012 Interim: operating profit HK$32,171,000).

The Group's Bangladesh factory Unimas Sportswear Limited ("Unimas"), which was acquired in March this year, generated a turnover of HK$6,700,000 for the Group. The factory is currently under extension of construction. The 7-storey building consists of two workshops which can produce around 250,000 pieces of headwear products each month. Along with the scale reduction of the Panyu factory, the Group is shifting more production to Unimas, where production costs are far lower than in Mainland China, in order to mitigate production cost pressure and improve the overall operating efficiency of the Group.

At the same time, the partnership with New Era continued to make a significant contribution to the Group. During the period, the Group delivered orders worth US$16,786,000 from New Era, ie, 42.0% of the annual minimum US$40,000,000 order value stated in the Manufacturing Agreement.

Management Discussion and Analysis

Trading Business

Trading Business performed satisfactorily during the period, partly attributable to H3 Sportgear continued to report a stable performance. H3 Sportgear enabled the Group to extend its reach directly to the US retail market. Besides, some of the orders produced in late 2012 were delivered during the period. In addition, the Group continued to strengthen its sales team in the Trading Business segment with the aim to expand its customer base. As one of the leading headwear distributors in Europe, the Group secured the distribution rights in Europe for headwear from more English Premier League ("EPL") clubs during the period under review. The acquisition of San Diego Hat Company ("SDHC") last year, a leading high-end designer, importer and marketer of women's hats in the US, has provided the Group with entry into the high-end headwear market and created new income streams. All these factors contribute to the turnover of this segment surged 96.0% to HK$91,469,000 (2012 Interim: HK$46,667,000).

Nonetheless, certain administrative expenses were incurred subsequent to the acquisition of SDHC, which boosted the operating cost for the period, thus the operating profit of the Trading Business dropped to HK2,047,000 (2012 Interim: HK$3,923,000).

H3 Sportgear enabled the Group to extend its reach directly to the US retail market. During the period under review, H3 Sportgear continued to report a satisfactory performance. The performance of SDHC acquired at the end of last year also met the Group's expectation. On top of expanding its customer base in the high-end women's fashion sector and diversifying its product mix, the well-established and strongly recognised brands owned by SDHC is set to bring significant contribution to the Group.

Retail Business

The uncertain growth in Mainland China's economy has also caused the retail market there slow down slightly. The Group has proactively adjusted its product sales strategy to maintain profitability, rather than rushing ahead blindly to expand its market share. During the period under review, turnover of the Retail Business segment increased to HK$61,461,000, 2.6% higher than HK$59,920,000 during the corresponding period last year. Despite the surge in staff costs and rentals in Mainland China and Hong Kong, the Group was able to narrow the loss in this segment to HK$8,994,000 (2012 Interim: HK$11,648,000) thanks to its efforts to strictly monitor the sales performance of all retail stores and flexibility adjust operational strategies while closing those stores with an unsatisfactory performance.

Management Discussion and Analysis

As at 30 June 2013, the Group operated a total of 44 Sanrio self-owned stores and 77 franchise stores. It also had 16 "LIDS" self-owned stores and 5 "LIDS" franchise stores. 10 of the LIDS self-owned stores are located in Mainland China while the remaining 6 outlets are in Hong Kong. The Group also owned 15 "NOP" retail stores and 1 "New Era" retail store.

Prospects

Uncertainties continue to loom large over the global economy. The slow economic recovery in the US, the lingering uncertainties of the EURO zone debt crisis and the slowdown in economic growth within Mainland China have combined to dampen market and consumer confidence. The Group continues to face a range of challenges such as the labour shortage and rising salaries and rentals in Mainland China. It will continue to closely monitor market trends and developments so as to formulate appropriate measures to enhance business efficiency and to drive continued business growth.

As for the Manufacturing Business, after reducing the operating scale of the Panyu factory, the Group is adjusting its strategies in accordance with market conditions. It plans to focus on the development of the Bangladesh factory in the future and add one more workshop in the factory by the end of this year, as well as complete all construction by the second half of 2014. The Bangladesh factory is to have production capacity of 1,500,000 units per month upon completion, further increasing the Group's existing production capacity by one-third. The Group has clearly allocated tasks and responsibilities for all of its factories. As the staff in factories across Mainland China offer higher value-added skills and greater efficiency, these facilities will be responsible for manufacturing more sophisticated and high value-added products. The factories in Bangladesh will be mainly responsible for manufacturing products with simpler specifications requiring less complex production processes. The coordination of tasks among all the production bases enables them to leverage each other's strengths and boost overall efficiency.

In the Trading Business, H3 Sportgear has made a notable contribution to the Group which will help the Group directly enter the US retail market and secure orders from renowned retailers there. The European sales team will also strive to secure more licenses for EPL headwear as it aims to grow the business. The performance of the recently acquired SDHC to date has met the Group's expectations. The management expects this business to perform better in the future and further broaden the Group's customer base in Europe and the US.

Management Discussion and Analysis

In the Retail Business, the Group is devoting resources to improving the information technology infrastructure of its Sanrio Business, so as to enhance logistics and administrative efficiency. Since the franchise business is an effective strategic tool to penetrate the market within Mainland China, the Group is continuing to develop the Sanrio Business through franchising and particularly focusing on existing franchisees with growth potentials. As for the LIDS Business, observing the rising consumption power in the new towns in Hong Kong's New Territories, the Group will continue to seek suitable locations to open "NOP" retail outlets within those districts. At the same time, the Group is striving to diversify its brands and develop attractive new product designs to more accurately address the needs of the market in a bid to boost its sales and profit margins and maintain steady business growth.

Looking ahead, the management will focus on reducing cost pressures and exploring new income sources through a range of strategic initiatives. Moreover, just as it has consistently done in the past, the Group will assign first priority to delivering the best returns to its shareholders.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2013, the Group had cash and bank balances and a portfolio of liquid investments totaling HK$138.5 million (31 December 2012: HK$149.5 million). About 47% and 34% of these liquid funds were denominated in US dollars and Renminbi respectively. As at 30 June 2013, the Group had banking facilities of HK$172.2 million (31 December 2012: HK$172.9 million), of which HK$107.4 million (31 December 2012: HK$119.9 million) was not utilised.

The gearing ratio (being the Group's net borrowings over total equity) of the Group is at 7.1% (31 December 2012: 8.1%). In view of the strong financial and liquidity position, the Group will have sufficient financial resources to meet its commitments and working capital requirements.

ACQUISITION OF A SUBSIDIARY

On 13 March 2013, the Group acquired 80% equity interest in Unimas Sportswear Ltd. ("Unimas"), a company incorporated in Bangladesh. Unimas operates a factory in Bangladesh for the production of headwear products. The aggregate consideration for the acquisition amounted to US$1,720,000 which will be settled in the following manner: i) US$1,290,000 in form of cash, and ii) US$430,000 by way of issuance and allotment of ordinary shares of the Company at the price of HK$1.03 per share. The consideration is subject to certain adjustments based on the finalised net asset value of Unimas.

Management Discussion and Analysis

CAPITAL EXPENDITURE

During the Period, the Group spent approximately HK$4.5 million (2012: HK$2.9 million) on additions to equipment to further upgrade its manufacturing capabilities, and HK$3.2 million (2012: HK$1.8 million) for the opening of retail stores and for trading business, and HK$12.9 million for purchasing two houses in the USA for investment propose.

As at 30 June 2013, the Group had authorised capital commitment of HK$24.3 million in respect of manufacturing plants and equipment. In addition, the Group also had authorised capital commitment of HK$3.0 million for the opening of new retail outlets.

EXCHANGE RISK

Most assets and liabilities of the Group are denominated either in HK dollars, US dollars or Renminbi. The Group estimates that any 1% appreciation of the Renminbi is expected to reduce the gross margin of the Group by about 0.6%.

EMPLOYEES AND REMUNERATION POLICIES

At 30 June 2013, the Group employed a total of 2,956 (2012: 2,803) workers and employees in the PRC, 573 (2012: nil) workers and employees in Bangladesh, 112 (2012: 111) employees in Hong Kong and Macau, and 44 (2012: 19) employees in the USA and the UK. The expenditures for the employees during the Period were approximately HK$118.0 million (2012: HK$89.8 million). The Group ensures that the pay levels of its employees are competitive and employees are remunerated based on their position and performance. Key employees of the Group, including Directors, are also granted share options under the share option schemes operated by the Company.

Interim Dividend and Closure of Register of Members

INTERIM DIVIDEND

The Board has declared an interim dividend of 1 HK cent (2012: 2 HK cents) per share, payable on or after 18 October 2013.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 24 September 2013 to 27 September 2013 (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 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on 23 September 2013.

Independent Review Report

TO THE BOARD OF DIRECTORS OF
MAINLAND HEADWEAR HOLDINGS LIMITED
(incorporated in Bermuda with limited liability)

INTRODUCTION

We have reviewed the interim financial information set out on pages 11 to 37, which comprises the interim condensed consolidated balance sheet of Mainland Headwear Holdings Limited (the "Company") and its subsidiaries (together, the "Group") as at 30 June 2013 and the related interim condensed consolidated statements of income, comprehensive income, changes in equity and cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Independent Review Report

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting".

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 30 August 2013

Condensed Consolidated Income Statement (Unaudited)

For the six months ended 30 June 2013

	Note	Six months ended 30 June 2013 *HK$'000*	 2012 *HK$'000*
Revenue	5 & 6	**428,418**	361,955
Cost of sales		**(325,650)**	(255,301)
Gross profit		**102,768**	106,654
Other income		**1,453**	572
Other losses – net		**(350)**	(890)
Selling and distribution costs		**(54,977)**	(41,579)
Administration expenses		**(63,866)**	(45,219)
(Loss)/profit from operations		**(14,972)**	19,538
Finance income		**971**	309
Finance costs		**(1,728)**	(1,880)
Finance costs – net	7(a)	**(757)**	(1,571)
(Loss)/profit before income tax	7	**(15,729)**	17,967
Income tax expense	8	**(1,607)**	(3,785)
(Loss)/profit for the period		**(17,336)**	14,182
Attributable to:			
Owners of the Company		**(16,864)**	14,707
Non-controlling interests		**(472)**	(525)
		(17,336)	14,182
(Loss)/earnings per share attributable to owners of the Company	9		
Basic		**(4.2 HK cents)**	3.7 HK cents
Diluted		**(4.2 HK cents)**	3.7 HK cents

The notes on pages 18 to 37 form an integral part of these condensed consolidated interim financial information.

	Note	*HK$'000*	*HK$'000*
Dividends	10	**3,986**	7,972

Condensed Consolidated Statement of Comprehensive Income (Unaudited)

For the six months ended 30 June 2013

	Six months ended 30 June	
	2013	2012
	HK$'000	*HK$'000*
(Loss)/profit for the period	**(17,336)**	14,182
Other comprehensive income – items that will be reclassified subsequently to the income statement when specific conditions are met:		
Exchange differences on translation of financial statements of foreign operations	**1,341**	3,822
Total comprehensive income for the period, net of tax	**(15,995)**	18,004
Attributable to:		
Owners of the Company	**(15,555)**	18,501
Non-controlling interests	**(440)**	(497)
Total comprehensive income for the period	**(15,995)**	18,004

The notes on pages 18 to 37 form an integral part of these condensed consolidated interim financial information.

Condensed Consolidated Balance Sheet (Unaudited)

At 30 June 2013

	Note	30 June 2013 (Unaudited) HK$'000	31 December 2012 (Audited) HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment	11	**118,901**	93,802
Land use rights		**479**	545
Investment properties	11	**12,889**	–
Goodwill		**31,342**	31,342
Other intangible assets	11	**33,413**	40,301
Deferred income tax assets		**1,866**	1,416
Other non-current receivables	12	**16,609**	25,268
Non-current bank deposits		**1,680**	1,750
		217,179	194,424
Current assets			
Inventories		**144,169**	161,455
Trade and other receivables	12	**190,978**	204,383
Amount due from a related company		**–**	1,321
Financial assets at fair value through profit or loss		**2,331**	3,083
Derivative financial instruments		**322**	601
Income tax recoverable		**262**	262
Cash and cash equivalents		**136,160**	146,382
		474,222	517,487
Total assets		**691,401**	711,911

Condensed Consolidated Balance Sheet (Unaudited)

At 30 June 2013

	Note	30 June 2013 (Unaudited) HK$'000	31 December 2012 (Audited) HK$'000
EQUITY			
Equity attributable to owners of the Company			
Share capital	13	**39,858**	39,858
Other reserves		**225,956**	224,583
Retained earnings			
– Declared dividends		**3,986**	7,972
– Others		**198,308**	219,158
		468,108	491,571
Non-controlling interests		**610**	(361)
Total equity		**468,718**	491,210
LIABILITIES			
Non-current liabilities			
Other non-current payables	14	**3,474**	7,847
Long service payment payable		**407**	367
		3,881	8,214
Current liabilities			
Trade and other payables	14	**164,691**	152,423
Amount due to a related company		**640**	517
Derivative financial instruments		**–**	135
Current income tax liabilities		**19,971**	19,412
Borrowings	15	**33,500**	40,000
		218,802	212,487
Total liabilities		**222,683**	220,701
Total equity and liabilities		**691,401**	711,911
Net current assets		**255,420**	305,000
Total assets less current liabilities		**472,599**	499,424

The notes on pages 18 to 37 form an integral part of these condensed consolidated interim financial information.

Condensed Consolidated Statement of Changes in Equity (Unaudited)

For the six months ended 30 June 2013

	Attributable to owners of the Company								
	Share capital	Share premium	Contributed surplus	Share based compensation reserve	Exchange reserve	Retained earnings	Total	Non-controlling interests	Total equity
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2013	39,858	160,230	25,878	6,358	32,117	227,130	491,571	(361)	491,210
Loss for the period	–	–	–	–	–	(16,864)	(16,864)	(472)	(17,336)
Other comprehensive income:									
– Exchange differences on translation of financial statements of foreign operations	–	–	–	–	1,309	–	1,309	32	1,341
Total comprehensive income for the period	–	–	–	–	1,309	(16,864)	(15,555)	(440)	(15,995)
Acquisition of a subsidiary	–	–	–	–	–	–	–	1,411	1,411
2012 final dividend paid	–	–	–	–	–	(7,972)	(7,972)	–	(7,972)
Equity settled share-based transactions	–	–	–	64	–	–	64	–	64
Total contributions by and distribution to owners of the Company	–	–	–	64	–	(7,972)	(7,908)	1,411	(6,497)
At 30 June 2013	39,858	160,230	25,878	6,422	33,426	202,294	468,108	610	468,718
Representing:									
2013 declared interim dividend						3,986			
Other retained earnings						198,308			
						202,294			

Condensed Consolidated Statement of Changes in Equity (Unaudited)

For the six months ended 30 June 2013

	Attributable to owners of the Company								
	Share capital	Share premium	Contributed surplus	Share based compensation reserve	Exchange reserve	Retained earnings	Total	Non-controlling interests	Total equity
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*'HK$'000*	*HK$'000*
At 1 January 2012	39,858	160,230	25,878	5,719	28,688	237,863	498,236	801	499,037
Profit/(loss) for the period	–	–	–	–	–	14,707	14,707	(525)	14,182
Other comprehensive income:									
– Exchange differences on translation of financial statements of foreign operations	–	–	–	–	3,794	–	3,794	28	3,822
Total comprehensive income for the period	–	–	–	–	3,794	14,707	18,501	(497)	18,004
Capital contribution from non-controlling shareholder	–	–	–	–	–	–	–	494	494
2011 final dividend paid	–	–	–	–	–	(11,957)	(11,957)	–	(11,957)
Equity settled share-based transactions	–	–	–	1,126	–	–	1,126	–	1,126
Total contribution by and distribution to owners of Company	–	–	–	1,126	–	(11,957)	(10,831)	494	(10,337)
At 30 June 2012	39,858	160,230	25,878	6,845	32,482	240,613	505,906	798	506,704
Representing:									
2012 declared interim dividend						7,972			
Other retained earnings						232,641			
						240,613			

The notes on pages 18 to 37 form an integral part of these condensed consolidated interim financial information.

Condensed Consolidated Cash Flow Statement (Unaudited)

For the six months ended 30 June 2013

	Six months ended 30 June	
	2013	2012
	HK$'000	*HK$'000*
Net cash generated from operating activities	**22,103**	24,497
Net cash used in investing activities	**(19,625)**	(3,212)
Net cash used in financing activities	**(14,472)**	(13,439)
Net (decrease)/increase in cash and cash equivalents	**(11,994)**	7,846
Cash and cash equivalents at the beginning of the period	**146,382**	188,896
Effect of foreign exchange rate changes	**1,772**	3,439
Cash and cash equivalents at the end of the period	**136,160**	200,181

The notes on pages 18 to 37 form an integral part of these condensed consolidated interim financial information.

Notes to the Unaudited Interim Financial Information

For the six months ended 30 June 2013

1. BASIS OF PREPARATION

This condensed consolidated interim financial information for the six months ended 30 June 2013 has been prepared in accordance with HKAS 34, 'Interim financial reporting'. The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2012, which have been prepared in accordance with HKFRSs.

This condensed consolidated financial information has not been audited.

2. ACCOUNTING POLICIES

Except as mentioned below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2012, as described in those annual financial statements.

(a) New and amended standards adopted by the Group

The following amendments to standards and interpretations are mandatory for accounting periods beginning on or after 1 January 2013. The adoption of these amendments to standards and interpretations does not have any significant impact to the results and financial position of the Group.

HKFRS 1 (Amendment)	Government loans
HKFRS 7 (Amendment)	Financial instruments: Disclosures – Offsetting financial assets and financial liabilities
HKFRS 10	Consolidated financial statements
HKFRS 11	Joint arrangements
HKFRS 12	Disclosures of interests in other entities
HKFRS 13	Fair value measurement
HKFRS 10, HKFRS 11 and HKFRS 12 (Amendment)	Consolidated financial statements, Joint arrangements and Disclosure of interests in other Entities: Transition Guidance
HKAS 1 (Amendment)	Presentation of financial statements
HKAS 19 (2011)	Employee benefits
HKAS 27 (2011)	Separate financial statements
HKAS 28 (2011)	Investments in associates and joint ventures
HK(IFRIC) – Int 20	Stripping costs in the production phase of a surface mine
Forth 2011 annual improvement project	

Notes to the Unaudited Interim Financial Information

For the six months ended 30 June 2013

2. ACCOUNTING POLICIES *(CONTINUED)*

(b) New and amended standards have been issued but are not effective for the financial year beginning 1 January 2013 and have not been early adopted

The following new and amended standards have been issued but are not effective for the financial year beginning 1 January 2013 and have not been early adopted by the Group:

HKFRS 7 and HKFRS 9 (Amendment)	Financial instruments: Disclosures – Mandatory effective date of HKFRS 9 and transition disclosures[2]
HKFRS 9	Financial instruments[2]
HKFRS 10, HKFRS 12 and HKAS 27 (2011) (Amendment)	Investment entities[1]
HKAS 32 (Amendment)	Offsetting financial assets and financial liabilities[1]
HKAS 36 (Amendment)	Impairment of assets[1]
HKAS 39 (Amendment)	Novation of derivatives[1]
HK(IFRIC) – Int 21	Levies[1]

[1] Effective for the Group for annual period beginning on 1 January 2014.
[2] Effective for the Group for annual period beginning on 1 January 2015.

The expected impacts from the adoption of the above standards and amendments are still being assessed in details by management but it is expected that the adoption should not have significant impacts to the Group.

Notes to the Unaudited Interim Financial Information

For the six months ended 30 June 2013

2. ACCOUNTING POLICIES *(CONTINUED)*

(c) New accounting policy adopted during the period

Investment properties

Investment properties are held for long-term rental yields or for capital appreciation or both, and that are not occupied by the Group. Investment properties are stated at cost, less accumulated depreciation and accumulated impairment losses, if any. Cost includes related transaction costs directly attributable to the acquisition of the investment properties.

Depreciation on the building portion of the investment properties is provided using the straight-line method to allocate the cost over their estimated useful lives of 20 years. No depreciation is provided on freehold land.

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

The investment properties' carrying amounts are written down immediately to their recoverable amounts if the investment properties' carrying amounts are greater than their estimated recoverable amounts.

3 ESTIMATES

The preparation of interim financial information requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this condensed consolidated interim financial information, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the annual financial statements for the year ended 31 December 2012.

Notes to the Unaudited Interim Financial Information

For the six months ended 30 June 2013

4 FINANCIAL RISK MANAGEMENT

4.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign currency risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The interim condensed consolidated financial information do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2012.

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

4.2 Fair value estimation

The Group's financial assets and liabilities are carried at amounts not materially different from their fair values as at 31 December 2012 and 30 June 2013 because of the immediate or short term maturity of these financial assets and liabilities.

The Group's financial instruments carried at fair value is analysed by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).

- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).

- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

Notes to the Unaudited Interim Financial Information

For the six months ended 30 June 2013

4 FINANCIAL RISK MANAGEMENT *(CONTINUED)*

4.2 Fair value estimation *(Continued)*

The following table presents the Group's assets measured at fair value in the balance sheet in accordance with the fair value hierarchy at 30 June 2013.

	Level 1 *HK$'000*	Level 2 *HK$'000*	Total *HK$'000*
Assets			
Derivatives financial instruments	–	322	322
Financial assets at fair value through profit or loss	2,331	–	2,331
Total assets	2,331	322	2,653

The following table presents the Group's assets and liabilities measured at fair value in the balance sheet in accordance with the fair value hierarchy at 31 December 2012.

	Level 1 *HK$'000*	Level 2 *HK$'000*	Total *HK$'000*
Assets			
Derivatives financial instruments	–	601	601
Financial assets at fair value through profit or loss	3,083	–	3,083
Total assets	3,083	601	3,684
Liabilities			
Derivatives financial instruments	–	135	135
Total liabilities	–	135	135

Level 2 derivative financial instruments comprise forward foreign exchange contracts. These forward foreign exchange contracts have been fair valued using forward exchange rates that are quoted in an active market. The effects of discounting are generally insignificant for Level 2 derivatives.

There were no significant changes in the business or economic circumstances for the period ended 30 June 2013 that affect the fair value of the Group's financial assets and financial liabilities. There were no reclassifications of financial assets for the period ended 30 June 2013.

Notes to the Unaudited Interim Financial Information

For the six months ended 30 June 2013

5. REVENUE

The principal activities of the Group are manufacture, trading and retailing of headwear products, and retailing of licensed products.

6. SEGMENT INFORMATION

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

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

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

(ii) Trading Business: The trading and distribution of headwear and other products business 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 US market.

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

Segment assets exclude financial assets at fair value through profit or loss, other intangible assets, investment properties, deferred income tax assets and income tax recoverable. In addition, corporate assets which are not directly attributable to the business activities of any operating segment are not allocated to a segment, which primarily applies to the Group's headquarters.

Notes to the Unaudited Interim Financial Information

For the six months ended 30 June 2013

6. SEGMENT INFORMATION *(CONTINUED)*

	Manufacturing Six months ended		Trading Six months ended		Retail Six months ended		Total Six months ended	
	2013 HK$'000	2012 HK$'000	**2013 HK$'000**	2012 HK$'000	**2013 HK$'000**	2012 HK$'000	**2013 HK$'000**	2012 HK$'000
Revenue from external customers	**275,488**	255,368	**91,469**	46,667	**61,461**	59,920	**428,418**	361,955
Inter-segment revenue	**29,156**	17,318	**-**	–	**-**	–	**29,156**	17,318
Reportable segment revenue	**304,644**	272,686	**91,469**	46,667	**61,461**	59,920	**457,574**	379,273
Reportable segment (loss)/profit	**(3,737)**	32,171	**2,047**	3,923	**(8,994)**	(11,648)	**(10,684)**	24,446
Gain on disposal of financial assets at fair value through profit or loss							**-**	179
Fair value loss on financial assets at fair value through profit or loss							**(752)**	(156)
Fair value loss on derivative financial instruments							**(144)**	(718)
Gain on settlement of derivative financial instruments							**864**	233
Share-based payment expenses							**(64)**	(1,126)
Unallocated corporate income							**16**	–
Unallocated corporate expenses							**(4,208)**	(3,320)
(Loss)/profit from operations							**(14,972)**	19,538
Finance costs – net							**(757)**	(1,571)
Income tax expense							**(1,607)**	(3,785)
(Loss)/profit for the period							**(17,336)**	14,182

Notes to the Unaudited Interim Financial Information

For the six months ended 30 June 2013

6. SEGMENT INFORMATION *(CONTINUED)*

	Manufacturing		Trading		Retail		Total	
	30 June 2013 (unaudited) *HK$'000*	31 December 2012 (audited) *HK$'000*	**30 June 2013 (unaudited) *HK$'000***	31 December 2012 (audited) *HK$'000*	**30 June 2013 (unaudited) *HK$'000***	31 December 2012 (audited) *HK$'000*	**30 June 2013 (unaudited) *HK$'000***	31 December 2012 (audited) *HK$'000*
Reportable segment assets	**326,602**	333,263	**104,229**	110,963	**66,786**	69,099	**497,617**	513,325
Investment properties							**12,889**	–
Other intangible assets							**33,413**	40,301
Deferred income tax assets							**1,866**	1,416
Income tax recoverable							**262**	262
Financial assets at fair value through profit or loss							**2,331**	3,083
Derivative financial instruments							**322**	601
Other corporate assets							**142,701**	152,923
Total assets							**691,401**	711,911

There has been no material change in total liabilities from the amount disclosed in the last annual financial statements.

Notes to the Unaudited Interim Financial Information

For the six months ended 30 June 2013

7. LOSS BEFORE INCOME TAX

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

		Six months ended 30 June	
		2013	2012
		HK$'000	*HK$'000*
(a)	**Finance costs/(income) – net**		
	Interest on bank loans, overdrafts and other borrowings	**862**	359
	Interest on license fee payables	**853**	1,508
	Interest on amount due to a related company	**13**	13
	Interest income	**(971)**	(309)
	Net finance costs	**757**	1,571
(b)	**Other items**		
	Gain on disposal of financial assets at fair value through profit or loss	**–**	(179)
	Fair value loss on financial assets at fair value through profit or loss	**752**	156
	Fair value loss on derivative financial instruments	**144**	718
	Gain on settlement of derivative financial instruments	**(864)**	(233)
	Depreciation of property, plant and equipment	**12,155**	13,109
	Amortisation of other intangible assets	**7,313**	8,376
	Provision for impairment of trade and other receivables	**357**	440
	Provision for slow moving and obsolete inventories	**15,605**	7,260
	Provision for impairment of property, plant and equipment	**2,902**	–
	Exchange loss, net	**318**	428
	Excess of the share of the fair value of net assets of a subsidiary acquired over acquisition costs	**(109)**	–

Notes to the Unaudited Interim Financial Information

For the six months ended 30 June 2013

8. INCOME TAX EXPENSE

	Six months ended 30 June	
	2013	2012
	HK$'000	*HK$'000*
Hong Kong Profits Tax	**400**	49
Overseas tax	**1,657**	3,651
	2,057	3,700
Deferred income tax	**(450)**	85
	1,607	3,785

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

Hong Kong profits tax has been provided at the rate of 16.5% (2012: 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.

9. (LOSS)/EARNINGS PER SHARE

The calculation of basic loss per share is based on the loss attributable to owners of the Company of HK$16,864,000 (2012: profit of HK$14,707,000) and on the weighted average number of shares of 398,583,284 (2012: 398,583,284) in issue during the period.

Dilutive (loss)/earnings per share is the same as basic (loss)/earnings per share for the periods ended 30 June 2012 and 30 June 2013 as the share options have no dilutive impact for both periods.

Notes to the Unaudited Interim Financial Information

For the six months ended 30 June 2013

10. DIVIDENDS

(a) Dividends attributable to the period

	Six months ended 30 June	
	2013	2012
	HK$'000	*HK$'000*
Interim dividend declared of 1 HK cent (2012: 2 HK cents) per share	**3,986**	7,972

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 period ended 30 June 2013.

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

	Six months ended 30 June	
	2013	2012
	HK$'000	*HK$'000*
Final dividend paid in respect of 2012 of 2 HK cents (2011: 3 HK cents) per share	**7,972**	11,957

Notes to the Unaudited Interim Financial Information

For the six months ended 30 June 2013

11. CAPITAL EXPENDITURE

	Property, plant and equipment HK$'000	Investment properties HK$'000	Other intangible assets HK$'000
Six months ended 30 June 2013			
Opening net book amount as at 1 January 2013	93,802	–	40,301
Acquisition of a subsidiary	29,540	–	–
Exchange differences	3,028	–	(228)
Additions	7,707	12,889	653
Disposals	(119)	–	–
Depreciation and amortisation	(12,155)	–	(7,313)
Impairment	(2,902)	–	–
Closing net book amount as at 30 June 2013	118,901	12,889	33,413
Six months ended 30 June 2012			
Opening net book amount as at 1 January 2012	104,245	–	38,588
Exchange differences	725	–	(141)
Additions	4,666	–	7,226
Write off	–	–	(7,994)
Depreciation and amortisation	(13,109)	–	(8,376)
Closing net book amount as at 30 June 2012	96,527	–	29,303

Notes to the Unaudited Interim Financial Information

For the six months ended 30 June 2013

11. CAPITAL EXPENDITURE *(CONTINUED)*

As at 30 June 2013, other intangible assets represent acquired customer relationship of HK$13,746,000 (31 December 2012: HK$14,500,000), trademark of HK$5,969,000 (31 December 2012: HK$6,495,000) and licensing rights for the use of certain licensed trademark, brands and logos in the Group's products and retail outlets of HK$13,698,000 (31 December 2012: HK$19,306,000).

12. TRADE AND OTHER RECEIVABLES

	30 June 2013	31 December 2012
	HK$'000	*HK$'000*
Trade and bills receivables	**153,954**	154,234
Deposits, prepayments and other receivables	**64,441**	85,859
	218,395	240,093
Less: provision for impairment	**(10,808)**	(10,442)
	207,587	229,651
Less: non-current portion of prepayments and other receivables	**(16,609)**	(25,268)
Current portion	**190,978**	204,383

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

Notes to the Unaudited Interim Financial Information

For the six months ended 30 June 2013

12. TRADE AND OTHER RECEIVABLES *(CONTINUED)*

The ageing analysis of trade and bills receivables at the balance sheet date is as follows:

	30 June 2013 *HK$'000*	31 December 2012 *HK$'000*
0 – 30 days	**68,403**	63,210
31 – 60 days	**50,721**	37,484
61 – 90 days	**15,270**	19,569
Over 90 days	**19,560**	33,971
	153,954	154,234

Notes:

(a) Included in trade receivables is a balance past due over 90 days from a customer of HK$590,000 (31 December 2012: HK$808,000). The balance bears interest at 15% per annum and is repayable in quarterly instalments of US$15,000 until the entire principal balance and interest has been paid. No collateral were held over this balance.

(b) Included in other receivables are two note receivables of HK$20,022,000 due from two customers (31 December 2012: HK$21,012,000).

One note receivable of HK$4,462,000 (31 December 2012: HK$5,452,000) is interest bearing at 7% per annum and is repayable in 26 monthly instalments up to July 2015. The note is secured by a second mortgage over a property. As at 31 December 2012 and 30 June 2013, a provision of HK$3,965,000 was made against the note receivable.

Another note receivable of HK$15,560,000 (31 December 2012: HK$15,560,000) is interest bearing at 5% per annum and is repayable in 12 quarterly instalments from January 2015 to October 2017. The note is secured by all the assets of the customer but the Group's interest in the collaterals is subordinated to the customer's major lender. The customer has also committed to place purchase orders with the Group with a minimum amount no less than US$16 million each year for three years or the duration of the loan, whichever is shorter.

(c) During the year ended 31 December 2012, the Group has entered into a sale and purchase agreement to acquire Unimas Sportswear Ltd. ("Unimas"), a company incorporated in Bangladesh, which the acquisition was completed during the period. As at 31 December 2012, the Group had advanced HK$14,300,000 to Unimas for expansion of production facilities. The advance was unsecured, interest-free, and repayable on demand. The balance has been eliminated upon the acquisition of Unimas (Note 16).

Notes to the Unaudited Interim Financial Information

For the six months ended 30 June 2013

13. SHARE CAPITAL

	Note	**Number of shares of HK$0.10 each**	*HK$'000*
Authorised:			
At 1 January 2012, 31 December 2012 and 30 June 2013		1,000,000,000	100,000
Issued and fully paid:			
At 1 January 2012, 31 December 2012 and 30 June 2013		398,583,284	39,858

14. TRADE AND OTHER PAYABLES

	30 June 2013 *HK$'000*	31 December 2012 *HK$'000*
Trade and bills payables	**80,032**	69,571
Accrued charges and other payables	**88,133**	90,699
	168,165	160,270
Less: other non-current payables	**(3,474)**	(7,847)
Current portion	**164,691**	152,423

Notes to the Unaudited Interim Financial Information

For the six months ended 30 June 2013

14. TRADE AND OTHER PAYABLES *(CONTINUED)*

The ageing analysis of the Group's trade and bills payables at the balance sheet date is as follows:

	30 June 2013	31 December 2012
	HK$'000	*HK$'000*
0 – 30 days	**50,807**	32,814
31 – 60 days	**14,948**	25,013
61 – 90 days	**3,373**	4,916
Over 90 days	**10,904**	6,828
	80,032	69,571

15 BORROWINGS

Movement in borrowings is analysed as follows:

	Six months ended 30 June	
	2013	2012
	HK$'000	*HK$'000*
Opening amount as at 1 January	**40,000**	1,831
Repayment of borrowings	**(6,500)**	(1,482)
Closing amount as at 30 June	**33,500**	349

16. ACQUISITION OF A SUBSIDIARY

On 13 March 2013, the Group acquired 80% equity interest in Unimas Sportswear Ltd. ("Unimas"). Unimas principally operates a factory in Bangladesh for the production of headwear products.

The aggregate consideration for the acquisition amounted to US$1,720,000 which is settled in the following manner: i) US$1,290,000 in form of cash, and ii) US$430,000 by way of issuance and allotment of the Company's ordinary shares at the price of HK$1.03 per share, for a total of 3,247,960 shares.

Notes to the Unaudited Interim Financial Information

For the six months ended 30 June 2013

16. ACQUISITION OF A SUBSIDIARY *(CONTINUED)*

The consideration is subject to certain adjustments based on the finalised net asset value of Unimas. Based on the information available as at the date of the interim financial report, the consideration will be adjusted downwards to US$544,000 of cash and issuance of 1,369,050 ordinary shares.

The following table summarises the estimated consideration paid or payable for Unimas, and the provisional fair value of assets acquired and liabilities assumed at the acquisition date:

	HK$'000
Consideration:	
– Cash	4,232
– Equity instruments (1,369,050 ordinary shares)	1,302
Total consideration	5,534
Provisional fair values of identifiable assets acquired and liabilities assumed	
Property, plant and equipment	29,540
Inventories	5,261
Trade and other receivables	127
Bank balances and cash	23
Trade and other payables	(6,712)
Advances from fellow subsidiary	(21,185)
Total provisional identifiable net assets	7,054
Share of identifiable net assets by the non-controlling interest	(1,411)
Excess of the share of the fair value of net assets of a subsidiary acquired over acquisition costs	(109)
	5,534

The fair value of the 1,369,050 ordinary shares to be issued as part of the consideration payable for Unimas was based on the published share price on 13 March 2013.

Notes to the Unaudited Interim Financial Information

For the six months ended 30 June 2013

16. ACQUISITION OF A SUBSIDIARY *(CONTINUED)*

As at the date of the interim financial report, the valuation assessments have not yet been completed and the Group has not finalised the fair value assessments for all the assets acquired and liabilities assumed. On this basis, the relevant fair values of the net assets acquired are stated above on a provisional basis and the adjustments on the consideration are subject to agreement with the vendor.

The net cash outflow in respect of the acquisition transaction is as follow:

	HK$'000
Consideration paid in cash	(1,556)
Bank balances and cash acquired	23
Net cash outflow	(1,533)

The acquired business contributed revenues of HK$6,689,000 and net loss of HK$1,384,000 to the Group for the period from 13 March 2013 to 30 June 2013. If the acquisition had occurred on 1 January 2013, consolidated revenue and consolidated loss for the six months ended 30 June 2013 would have been HK$429,117,000 and HK$22,279,000, respectively.

17. CAPITAL COMMITMENTS

At 30 June 2013, the Group had capital expenditure commitments as follows:

	30 June 2013 **HK$'000**	31 December 2012 *HK$'000*
Contracted for but not provided for		
– Manufacturing business	**–**	11,794
Authorised but not contracted for		
– Manufacturing business	**24,278**	32,347
– Trading business	**–**	12,448
– Retail business	**3,000**	3,500
	27,278	60,089

Notes to the Unaudited Interim Financial Information

For the six months ended 30 June 2013

18. SIGNIFICANT RELATED PARTY TRANSACTIONS

In addition to the transactions and balances disclosed elsewhere in these condensed consolidated interim financial information, the Group entered into the following significant related party transactions during the period.

(a) Sale and purchase of goods and services

	Six months ended 30 June	
	2013	2012
	HK$'000	*HK$'000*
Sales of goods to affiliated companies of a shareholder	**130,592**	113,683
Rental paid in respect of office premises to a company controlled by a director	**480**	480
Commission income from an affiliate of a non-controlling shareholder of a subsidiary	**–**	276

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

	30 June 2013	31 December 2012
	HK$'000	*HK$'000*
Trade receivables from affiliated companies of a shareholder	**59,183**	72,462

Notes to the Unaudited Interim Financial Information

For the six months ended 30 June 2013

18. SIGNIFICANT RELATED PARTY TRANSACTIONS *(CONTINUED)*

(c) Key management personnel remuneration

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

	Six months ended 30 June	
	2013	2012
	HK$'000	*HK$'000*
Short-term employee benefits	**9,267**	6,469
Share-based payments	**20**	354
Retirement scheme contributions	**69**	67
	9,356	6,890

19. APPROVAL OF INTERIM FINANCIAL INFORMATION

The interim financial information was approved by the Board of Directors on 30 August 2013.

Other Information Provided in Accordance with the Listing Rules

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 30 June 2013, 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	–	217,250,000 *(note 1, 2)*	45,800,000 *(note 3, 4)*	263,050,000	66.00%
Madam Ngan Po Ling, Pauline	33,550,000 *(note 2)*	183,700,000 *(note 1)*	45,800,000 *(note 3, 4)*	263,050,000	66.00%
Mr. James S. Patterson	–	–	2,000,000 *(note 5)*	2,000,000	0.50%
Ms. Maggie Gu	–	–	500,000 *(note 5)*	500,000	0.13%

Other Information Provided in Accordance with the Listing Rules

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES *(CONTINUED)*

Long positions in the shares and underlying shares of the Company *(Continued)*

Notes:

(1) 183,700,000 shares are legally and beneficially owned by Mr. Ngan Hei Keung and Madam Ngan Po Ling, Pauline as to 40% and 60% respectively.

(2) The 33,550,000 shares are beneficially owned by Madam Ngan, Pauline, the spouse of Mr. Ngan.

(3) Pursuant to the contingent purchase deed dated 21 October 2008 between Mr. Ngan, Madam Ngan and New Era Cap Asia Pacific Limited ("NE"), NE 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) Each of Mr. Ngan and Madam Ngan have been granted share options under the Company's share options scheme to subscribe for 3,000,000 shares of the Company.

(5) Mr. Patterson and Ms. Gu have been granted share options under the Company's share option scheme to subscribe for 2,000,000 shares and 500,000 shares of the Company respectively.

Save as disclosed above, none of the Directors or chief executives of the Company had any interests in the shares or underlying shares of the Company or any of its associated corporations as defined in the SFO.

Other Information Provided in Accordance with the Listing Rules

SHARE OPTION SCHEMES

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.

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.

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 interim report, the total number of shares available for issue, save for those granted but yet to be exercised, under the New Scheme was 35,858,328 shares, which represented 9.0% of the issued share capital of the Company.

Other Information Provided in Accordance with the Listing Rules

SHARE OPTION SCHEMES *(CONTINUED)*

At 30 June 2013, the Directors, employees, customers and suppliers of the Group had the following interests in options to subscribe for shares of the Company (market value per share was HK$0.8 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:

	Date of grant	Period during which options exercisable	Exercise price *(HK$)*	Outstanding at 1.1.2013 and 30.6.2013	Market value per share at date of grant
New Scheme					
Director	23.06.2009	23.06.2010 – 22.06.2019	0.946	8,500,000	0.93
Employees	11.06.2008	11.06.2009 – 10.06.2018	1.190	1,000,000	1.16
	23.06.2009	23.06.2010 – 22.06.2019	0.946	6,270,000	0.93
	08.11.2010	08.11.2011 – 07.11.2020	0.920	900,000	0.92
	30.12.2011	30.12.2012 – 29.12.2021	0.80	2,000,000	0.80
				10,170,000	
Customers and suppliers	30.12.2011	30.12.2012 – 29.2.2021	0.80	2,000,000	0.80

Note:

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The estimate of the fair value of the share option granted is measured based on a Black-Scholes pricing mode.

Other Information Provided in Accordance with the Listing Rules

SHARE OPTION SCHEMES *(CONTINUED)*

Under this share option scheme, HK$64,000 of share-based payment expense has been included in the condensed consolidated income statement for the six months ended 30 June 2013 (2012: HK$1,126,000) and the corresponding amount of which has been credited to share based compensation reserve.

Apart from the foregoing, at no time during the year was the Company, its holding company or subsidiaries a party to any arrangements to enable the Company's Directors or chief executives or any of their spouses or children under eighteen years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company, or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

So far as is known to the Directors or chief executives of the Company, as at 30 June 2013, 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
Successful Years International Co., Ltd. *(note 1)*	Beneficial owner	183,700,000	–	–	183,700,000	46.09%
Mr. Christopher Koch *(note 2)*	Interest of a controlled corporation	–	79,601,000	–	79,601,000	19.97%
New Era Cap Hong Kong LLC *(note 2)*	Beneficial owner	79,601,000	–	–	79,601,000	19.97%

Other Information Provided in Accordance with the Listing Rules

SUBSTANTIAL SHAREHOLDERS *(CONTINUED)*

Long positions in the shares and underlying shares *(Continued)*

Notes:

1. Successful Years International Co., Ltd. is owned by Mr. Ngan Hei Keung and Madam Ngan Po Ling, Pauline as to 40% and 60% respectively. The interests of Mr. Ngan Hei Keung and Madam Ngan Po Ling, Pauline in Successful Years International Co., Ltd. are also disclosed in the section headed "Directors' Interests in Shares and Underlying Shares" above.

2. Mr. Christopher Koch owns 75% of the issued share capital of New Era Cap Hong Kong LLC. As such, Mr. Christopher Koch is deemed to be interested in the 79,601,000 shares.

Short positions in the underlying shares

Name	Number of underlying shares	Percentage of interest
Mr. Christopher Koch	39,800,000 *(note)*	9.99%
New Era Cap Hong Kong LLC ("NEHK")	39,800,000 *(note)*	9.99%

Note: Pursuant to the contingent purchase deed dated 22 November 2011 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 New Era Cap Hong Kong LLC, Mr. Koch is also taken to have interest in short position of 39,800,000 underlying shares.

Save as disclosed above, as at 30 June 2013, 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.

Other Information Provided in Accordance with the Listing Rules

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

During the six months ended 30 June 2013, 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 2013.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

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 all independent non-executive directors and 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 financial information for the period.

By Order of the Board
Ngan Hei Keung
Chairman

Hong Kong, 30 August 2013

As at the date hereof, the Board of Directors of the Company comprises eight directors, of which four are Executive Directors, namely Mr. Ngan Hei Keung, Madam Ngan Po Ling, Pauline, Mr. James S. Patterson and Ms. Maggie Gu; one Non-executive Director, Mr. Andrew Ngan; and three are Independent Non-executive Directors, namely Mr. Leung Shu Yin, William, Mr. Lo Hang Fong and Mr. Liu Tieh Ching, Brandon, JP.