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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 2013

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.

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 | 3 | 428,418 | 361,955 |
| Cost of sales | | <u>(325,650)</u> | <u>(255,301)</u> |
| 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 | 4(a) | <u>(757)</u> | <u>(1,571)</u> |
| (Loss)/profit before income tax | 4 | (15,729) | 17,967 |
| Income tax expense | 5 | (1,607) | (3,785) |
| (Loss)/profit for the period | | <u>(17,336)</u> | <u>14,182</u> |

* For identification purpose only

| | | Six months ended 30 June | |
|--|-------------|---------------------------------|---------------------|
| | | 2013 | 2012 |
| | <i>Note</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Attributable to: | | | |
| Owners of the Company | | (16,864) | 14,707 |
| Non-controlling interests | | (472) | (525) |
| | | <u>(17,336)</u> | <u>14,182</u> |
| | | | |
| (Loss)/earnings per share attributable to | | | |
| owners of the Company | | | |
| | <i>6</i> | | |
| Basic | | (4.2 HK cents) | 3.7 HK cents |
| Diluted | | (4.2 HK cents) | 3.7 HK cents |
| | | <u>(4.2 HK cents)</u> | <u>3.7 HK cents</u> |
| | | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Dividends | <i>7</i> | <u>3,986</u> | <u>7,972</u> |

**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE
INCOME (UNAUDITED)**

For the six months ended 30 June 2013

| | Six months ended 30 June | |
|---|---------------------------------|-----------------|
| | 2013 | 2012 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| (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 | <u>1,341</u> | <u>3,822</u> |
| Total comprehensive income for the period, net of tax | <u>(15,995)</u> | <u>18,004</u> |
| Attributable to: | | |
| Owners of the Company | (15,555) | 18,501 |
| Non-controlling interests | <u>(440)</u> | <u>(497)</u> |
| | <u>(15,995)</u> | <u>18,004</u> |

CONDENSED CONSOLIDATED BALANCE SHEET (UNAUDITED)

At 30 June 2013

| | | 30 June 2013 (Unaudited) <i>HK\$'000</i> | 31 December 2012 (Audited) <i>HK\$'000</i> |
|--|-------------|---|---|
| | <i>Note</i> | | |
| ASSETS | | | |
| Non-current assets | | | |
| Property, plant and equipment | | 118,901 | 93,802 |
| Land use rights | | 479 | 545 |
| Investment properties | | 12,889 | – |
| Goodwill | | 31,342 | 31,342 |
| Other intangible assets | | 33,413 | 40,301 |
| Deferred income tax assets | | 1,866 | 1,416 |
| Other non-current receivables | 8 | 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 | 8 | 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 |

| | | 30 June 2013 (Unaudited) HK\$'000 | 31 December 2012 (Audited) HK\$'000 |
|--|-------------|--|--|
| | <i>Note</i> | | |
| EQUITY | | | |
| Equity attributable to owners of the Company | | | |
| Share capital | | 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 | 9 | 3,474 | 7,847 |
| Long service payment payable | | 407 | 367 |
| | | 3,881 | 8,214 |
| Current liabilities | | | |
| Trade and other payables | 9 | 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 | | 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 |

Notes

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 | |

(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.

(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. 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.

| | Manufacturing | | Trading | | Retail | | Total | |
|---|------------------|----------|------------------|----------|------------------|----------|------------------|---------------|
| | Six months ended | | Six months ended | | Six months ended | | Six months ended | |
| | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | 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 |

| | Manufacturing | | Trading | | Retail | | Total | |
|---|---------------|-------------|-------------|-------------|-------------|-------------|----------------|----------------|
| | 30 June | 31 December | 30 June | 31 December | 30 June | 31 December | 30 June | 31 December |
| | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 |
| | (unaudited) | (audited) | (unaudited) | (audited) | (unaudited) | (audited) | (unaudited) | (audited) |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | 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.

4. 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) |
| | <u>757</u> | <u>1,571</u> |
| Net finance costs | <u>757</u> | <u>1,571</u> |
| (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) | – |
| | <u>(109)</u> | <u>–</u> |

5. INCOME TAX EXPENSE

| | Six months ended 30 June | |
|-----------------------|--------------------------|-------------------------|
| | 2013 <i>HK\$'000</i> | 2012 <i>HK\$'000</i> |
| Hong Kong Profits Tax | 400 | 49 |
| Overseas tax | <u>1,657</u> | <u>3,651</u> |
| | 2,057 | 3,700 |
| Deferred income tax | <u>(450)</u> | <u>85</u> |
| | <u><u>1,607</u></u> | <u><u>3,785</u></u> |

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.

6. (LOSS)/EARNINGS PER SHARE

The calculation of basic (loss)/earnings 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.

7. DIVIDENDS

(a) Dividends attributable to the period

| | Six months ended 30 June | |
|--|--------------------------|-----------------|
| | 2013 | 2012 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Interim dividend declared of 1 HK cent (2012: 2 HK cents) per share | <u>3,986</u> | <u>7,972</u> |

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 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Final dividend paid in respect of 2012 of 2 HK cents (2011: 3 HK cents) per share | <u>7,972</u> | <u>11,957</u> |

8. TRADE AND OTHER RECEIVABLES

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

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

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 |
| | <u>153,954</u> | <u>154,234</u> |

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.

9. TRADE AND OTHER PAYABLES

| | 30 June 2013 <i>HK\$'000</i> | 31 December 2012 <i>HK\$'000</i> |
|------------------------------------|---|--|
| 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 |

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

| | 30 June 2013 <i>HK\$'000</i> | 31 December 2012 <i>HK\$'000</i> |
|--------------|---|--|
| 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 |

MANAGEMENT DISCUSSION AND ANALYSIS

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).

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 a 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.

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 HK\$2,047,000 (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.

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.

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.

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.

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 of this announcement, the Board 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.