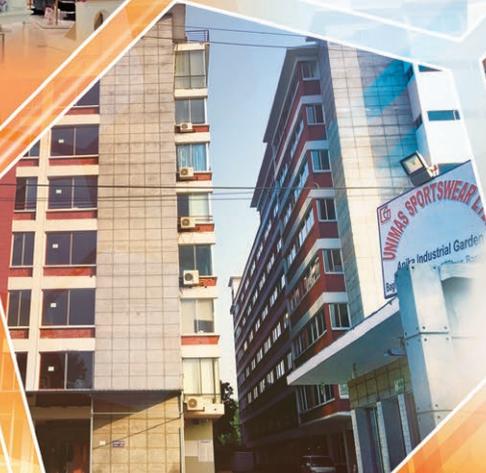




Mainland Headwear Holdings Limited

(Stock code: 1100)



Interim Report
2016

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Management Discussion and Analysis

The Board of Directors (the “Directors”) of Mainland Headwear Holdings Limited (the “Company”) is pleased to announce the unaudited interim results of the Company and its subsidiaries (collectively, the “Group”) for the six months ended 30 June 2016 (the “Period”) together with comparative figures from the corresponding period of 2015.

FINANCIAL REVIEW

For the six months ended 30 June 2016, the Group’s results reached new heights, recording a substantial increase in overall profitability, thanks to the satisfactory performance of its Manufacturing Business. The Manufacturing Business segment remained as the Group’s principal revenue generator and driver of profitability growth, offsetting the performance of Retail Business adversely affected by the market environment. As for the Group’s Trading Business, it achieved generally steady development.

During the Period, the Group’s long-standing stable business relations with existing clients and the strong overall market demand for its headwear products helped push turnover up to HK\$451,532,000, 2% more against the same period last year (2015 Interim: HK\$443,280,000).

In addition, the Group implemented strict cost control measures, cutting material costs and labour costs, which helped drive overall gross profit up by 15% to HK\$151,837,000 (2015 Interim: HK\$131,648,000) and gross profit margin increased by 3.9 ppt. to 33.6% (2015 Interim: 29.7%). With the production efficiency of the Bangladesh factory continuing to notably improve, the Group was able to reduce overall production costs. Profit attributable to shareholders of the Group thus soared a very encouraging 43% to HK\$36,799,000 (2015 Interim: HK\$25,821,000).

Management Discussion and Analysis

BUSINESS REVIEW

Manufacturing Business

During the Period, at the Group's appropriate strategic planning in factory deployment, the Bangladesh factory set up in 2013 contributed significantly to the Group's profitability. Turnover from the Manufacturing Business segment increased by 12% to HK\$301,804,000 (2015 Interim: HK\$269,541,000), which accounted for 66.8% of the Group's total turnover, and the segment remained as the Group's main revenue contributor. In the review period, market demand for the Group's headwear products continued to grow, which was met by the rapid increase in production capacity of the Bangladesh factory. The factory, which has kept improving in production efficiency and product quality, has become a new driver of profitability growth of the Group's Manufacturing Business, raising the gross profit of the segment by 43% to HK\$88,805,000 (2015 Interim: HK\$61,921,000). The operating profits of Manufacturing Business rocketed 103% to HK\$52,233,000 (2015 Interim: HK\$25,783,000) at the success of the Group in boosting operational efficiency and the effectiveness of its cost control measures.

The Group is committed to transferring labour-intensive production processes to the factory in Bangladesh and continuously expanding the factory's capacity. In the six months ended 30 June 2016, the factory had approximately 3000 workers and the capacity to produce 1.8 million pieces of headwear a month versus 1.5 million pieces in the same period last year. The factory, which is consistently improving production capabilities, is now able to process orders for mid-range-to-high-end headwear products. As for the factory in Shenzhen, it fulfills the strategic purposes of procuring raw materials for the Group's Manufacturing Business, producing high-end headwear products and handling orders requiring relatively short lead times. The factory continued to develop steadily during the Period and remained as the segment's main revenue source. Focusing on product development and design, the factory has 1500 staff and workers. At the Group's careful planning, synergies are achieved between the Shenzhen factory and Bangladesh factory, enabling the Group to maintain the growth momentum and sustainable development of the Manufacturing Business.

Management Discussion and Analysis

Trading Business

Trading Business focuses on the development of diverse markets. During the Period, overall turnover from the segment dropped 13% to HK\$102,794,000 (2015 Interim: HK\$118,038,000). This is mainly due to unfavourable external factors such as the Brexit, market competition and the negative impact of Drew Pearson International (Europe) Ltd. (“DPI”) caused by losing licenses to trade headwear for some football teams. During the Period, the Group continued to actively expand the business of San Diego Hat Company (“SDHC”). In addition to the purchase of a property in San Diego, U.S., last year to serve as the headquarters of SDHC, the Group continued to optimise its trading strategies and accelerate product development to put SDHC’s business on track. Gross profit of SDHC rose to HK\$21,168,000, a 6% increase against the same period last year (2015 Interim: HK\$19,925,000). And its operating profits rocketed 137% to HK\$4,201,000 (2015 Interim: HK\$1,769,000), which helped offset the unsatisfactory business performance of H3 and DPI. In the coming year, the Group will continue to focus on developing the SDHC business in the hope of raising its revenue contributions.

Retail Business

The uncertain global economic environment continued to hit the retail market hard in China. Although the Group had flexibly adjusted its business strategies, including expanding its self-managed store network in second- and third-tier cities in China as well as pushing sales via online channels, consumer sentiment had been prevalingly weak, inevitably affecting the Group’s operation and profitability. Turnover from the segment declined to HK\$46,934,000, a decrease of 16% when compared with the same period last year (2015 Interim: HK\$55,701,000) and operating loss was HK\$4,262,000 (2015 Interim: operating loss of HK\$1,040,000).

Sanrio

Affected by the weak retail market in China during the Period, the number of Sanrio franchise stores decreased. The Group adopted flexible adjustment strategies accordingly and set up new self-owned stores in second- and third-tier cities in China to strengthen brand building and boost market penetration. Sales promotions were also mounted to increase turnover from the business. Concurrently, the Group actively developed the Sanrio online sales platform, adding a new sales channel for the brand. The turnover of Sanrio business declined by 24% to HK\$34,129,000 (2015 Interim: HK\$44,696,000).

As at 30 June 2016, the Group operated a total of 36 self-owned Sanrio stores and 101 franchise stores (2015 Interim: 32 self-owned stores and 125 franchise stores).

Management Discussion and Analysis

Headwear Sales

The Hong Kong retail market has been continuously weak, but with the Group maintaining focus on developing franchise store business, turnover from headwear sales for the Period increased by 16% to HK\$12,805,000 (2015 Interim: HK\$11,005,000). However, with operating costs rising, the Group's headwear sales business incurred an operating loss of HK\$884,000 (2015 Interim: operating loss of HK\$768,000).

Currently, the Group's headwear sales segment entails self-owned "NOP" and "New Era" stores in Hong Kong, as well as "NOP" franchise stores in the PRC. As at 30 June 2016, the Group had 7 "NOP" self-owned stores and 13 franchise stores, and 1 "New Era" retail store in operation (2015 Interim: 9 "NOP" self-owned stores and 13 franchise stores, and 1 "New Era" retail store).

Prospects

Building on its solid business foundation and pragmatic business development strategy, the Group achieved satisfactory results for the Period. This performance is proof of the wisdom of the Group's overall strategic direction – fortifying its roots in the PRC, while proactively pushing to "Going Out". Looking ahead, the Group will stay abreast of market situations and continue to adjust and optimise its development strategies. The Group expects its existing businesses to expand benefitting from the "One Belt, One Road" strategy of China.

As for its Manufacturing Business, to meet the robust market demand for its products, the Group intends to continue to expand the scale of the sample room in the Bangladesh factory and also send expert personnel from the Shenzhen factory to the Bangladesh factory to aid the transfer of production techniques and enhance the skills of workers there. Such efforts will facilitate the delivery of comprehensive one-stop services to customers, enabling the Group to raise its overall competitiveness. In addition, the Group will continue to strengthen production capabilities by adding new production lines at the Bangladesh factory. The initiatives will enhance the production capacity of the factory for meeting demand. The factory's production capacity is expected to increase by 25% to 2.25 million pieces of headwear a month by the end of 2016. As for the factory in Shenzhen, its present operation and scale will be maintained, and the Group will also enhance internal management and cost control at the factory that it may continue to bring a stable income.

Management Discussion and Analysis

With the growing popularity of overseas sports events broadcasted online in the mainland, more and more young people in China have become interested in watching sports events or taking part in sports activities. Heeding this trend, the Group is determined to implement a strategy that integrates its manufacturing business with the Internet, to help it capture the enormous business opportunities the Internet brings as it develops. By exploring cooperative opportunities with world renowned sports brands, the Group aims to produce potential popular products for the market, hence open a new revenue source for itself.

Additionally, thanks to the strategic planning of factory deployment, the Bangladesh factory has achieved satisfactory progress which facilitates the upgrade and transformation of Manufacturing Business. In conclusion, at the support of the Group's long-term relationship with important clients and the increasing production efficiency and capacity of its factories, the Group remains confident of the prospects of its manufacturing business in the second half of the year.

Regarding the Trading Business, SDHC is expected to remain as the segment's crucial pillar and source of growth momentum with the Group continuing to enrich its product mix to meet changing market needs and enhance competitiveness. As for Retail Business, the Group will continue the development strategy of focusing on expanding its franchise store network. It will also increase sales via various channels, and Sanrio will continue to optimise its online sales platform so as to improve its performance.

In the future, the management will strive to drive the Group's steady business growth and maximise returns to shareholders.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2016, the Group had cash and bank balances and a portfolio of liquid investments totaling HK\$189.2 million (31 December 2015: HK\$179.0 million). About 76% and 9% of these liquid funds were denominated in US dollars and Renminbi respectively. As at 30 June 2016, the Group had banking facilities of HK\$347.6 million (31 December 2015: HK\$340.8 million), of which HK\$275.8 million (31 December 2015: HK\$265.0 million) was not utilised.

The gearing ratio (being the Group's net borrowings over total equity) of the Group is at 11.0% (31 December 2015: 12.3%). In view of the strong financial and liquidity position, the Group has sufficient financial resources to meet its commitments and working capital requirements.

Management Discussion and Analysis

CAPITAL EXPENDITURE

During the Period, the Group spent approximately HK\$2.1 million (2015 Interim: HK\$5.3 million) on additions to equipment to further upgrade and expand its manufacturing capabilities, HK\$0.4 million (2015 Interim: HK\$1.6 million) for the opening of retail stores, and HK\$6.4 million (2015 Interim: 0.1 million) for additions to equipment and renovation of the newly acquired office and warehouse under Trading Business.

As at 30 June 2016, the Group had authorised a capital commitment of HK\$28.3 million in respect of manufacturing plants and equipment. The Group had also authorised a capital commitment of HK\$10.5 million in respect of an office in the United Kingdom. In addition, the Group had authorised a capital commitment of HK\$3.0 million for the opening of new retail outlets and equipment upgrade.

EXCHANGE RISK

Most assets and liabilities of the Group are denominated either in HK dollars, US dollars, Renminbi or Bangladesh Taka. The Group estimates that any 1% appreciation of the Renminbi is expected to reduce the gross margin of the Manufacturing Business by about 0.4%. However, Renminbi has depreciated in 2016 and is expected to reduce the manufacturing costs. The Group estimated that any 1% appreciation of the Bangladesh Taka is not expected to have material impact on the gross margin.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2016, the Group employed a total of 1,688 (2015 Interim: 1,731) workers and employees in the PRC, 2,920 (2015 Interim: 2,827) workers and employees in Bangladesh, 104 (2015 Interim: 110) employees in Hong Kong and Macau, and 45 (2015 Interim: 45) employees in the USA and the UK. The expenditures for the employees during the Period were approximately HK\$119.7 million (2015 Interim: HK\$113.3 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 2 HK cents (2015: 1 HK cent) per share, payable on or after 6 October 2016.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 12 September 2016 to 14 September 2016 (both dates inclusive). In order to qualify for the interim dividend, all transfers, accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong Branch Share Registrar, Tricor Tengis Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on 9 September 2016.

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 10 to 35, 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 2016 and the related interim condensed consolidated statements of profit or loss, 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.

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, 25 August 2016

Condensed Consolidated Statement of Profit or Loss (Unaudited)

For the six months ended 30 June 2016

		Six months ended 30 June	
		2016	2015
Note		HK\$'000	HK\$'000
Revenue	6 & 7	451,532	443,280
Cost of sales		(299,695)	(311,632)
Gross profit		151,837	131,648
Other income		6,561	5,869
Other gains – net		699	412
Selling and distribution costs		(44,691)	(43,459)
Administration expenses		(67,446)	(64,948)
Profit from operations	8(a)	46,960	29,522
Finance income		406	743
Finance costs		(825)	(716)
Finance (costs)/income – net	8(b)	(419)	27
Profit before income tax	8	46,541	29,549
Income tax expense	9	(7,268)	(2,315)
Profit for the period		39,273	27,234
Attributable to:			
Owners of the Company		36,799	25,821
Non-controlling interests		2,474	1,413
		39,273	27,234
Earnings per share attributable to owners of the Company	10		
Basic		9.2 HK cents	6.5 HK cents
Diluted		9.1 HK cents	6.4 HK cents

The notes on pages 17 to 35 form an integral part of these condensed consolidated interim financial information.

Condensed Consolidated Statement of Comprehensive Income (Unaudited)

For the six months ended 30 June 2016

	Six months ended 30 June	
	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Profit for the period	39,273	27,234
Other comprehensive income		
Items that have been or may be subsequently reclassified to profit or loss:		
Release of reserve upon deregistration of a subsidiary	(2,435)	–
Exchange differences on translation of financial statements of foreign operations	(3,002)	751
Items that will not be reclassified to profit and loss:		
Revaluation surplus upon transfer to property, plant and equipment to investment properties	37,442	–
Deferred tax arising from revaluation surplus upon transfer of property, plant and equipment to investment properties	(9,360)	–
Total comprehensive income for the period, net of tax	<u>61,918</u>	<u>27,985</u>
Attributable to:		
Owners of the Company	59,491	26,602
Non-controlling interests	2,427	1,383
Total comprehensive income for the period	<u>61,918</u>	<u>27,985</u>

The notes on pages 17 to 35 form an integral part of these condensed consolidated interim financial information.

Condensed Consolidated Balance Sheet (Unaudited)

At 30 June 2016

	<i>Note</i>	30 June 2016 (Unaudited) HK\$'000	31 December 2015 (Audited) HK\$'000
ASSETS			
Non-current assets			
Property, plant and equipment	12	167,885	171,359
Investment properties	12	75,447	38,522
Goodwill		33,798	33,798
Other intangible assets	12	13,975	16,834
Deferred income tax assets		2,134	2,323
Other non-current receivables	13	1,159	6,550
		294,398	269,386
Current assets			
Inventories		154,493	166,830
Trade and other receivables	13	193,357	163,625
Financial assets at fair value through profit or loss		1,250	1,314
Short-term bank deposits		3,184	3,175
Cash and cash equivalents		184,800	174,510
		537,084	509,454
Total assets		831,482	778,840

Condensed Consolidated Balance Sheet (Unaudited)

At 30 June 2016

	Note	30 June 2016 (Unaudited) HK\$'000	31 December 2015 (Audited) HK\$'000
EQUITY			
Equity attributable to owners of the Company			
Share capital	14	39,858	39,858
Other reserves		251,002	228,069
Retained earnings		317,031	288,204
		607,891	556,131
Non-controlling interests		(3,166)	(5,421)
Total equity		604,725	550,710
LIABILITIES			
Non-current liabilities			
Other non-current payables	15	706	1,075
Long service payment payable		457	457
Deferred tax liabilities		12,284	3,059
		13,447	4,591
Current liabilities			
Trade and other payables	15	117,041	132,779
Amounts due to related companies		1,032	1,003
Current income tax liabilities		28,841	22,161
Borrowings	16	66,396	67,596
		213,310	223,539
Total liabilities		226,757	228,130
Total equity and liabilities		831,482	778,840
Net current assets		323,774	285,915
Total assets less current liabilities		618,172	555,301

The notes on pages 17 to 35 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 2016

	Attributable to owners of the Company								Non-controlling interests	Total equity
	Share capital	Share premium	Share based				Retained earnings	Total		
			Contributed surplus	compensation reserve	Revaluation reserve	Exchange reserve				
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
At 1 January 2016	39,858	160,230	25,878	6,691	8,042	27,228	288,204	556,131	(5,421)	550,710
Profit for the period	-	-	-	-	-	-	36,799	36,799	2,474	39,273
Other comprehensive income:										
- Release of reserve upon deregistration of a subsidiary	-	-	-	-	-	(2,435)	-	(2,435)	-	(2,435)
- Exchange differences on translation of financial statements of foreign operations	-	-	-	-	-	(2,955)	-	(2,955)	(47)	(3,002)
- Revaluation surplus upon transfer to property, plant and equipment to investment properties	-	-	-	-	37,442	-	-	37,442	-	37,442
- Deferred tax arising from revaluation surplus upon transfer of property, plant and equipment to investment properties	-	-	-	-	(9,360)	-	-	(9,360)	-	(9,360)
Total comprehensive income for the period net of tax	-	-	-	-	28,082	(5,390)	36,799	59,491	2,427	61,918
Dividend paid by a subsidiary	-	-	-	-	-	-	-	-	(172)	(172)
2015 final dividends paid	-	-	-	-	-	-	(7,972)	(7,972)	-	(7,972)
Equity settled share-based transactions	-	-	-	241	-	-	-	241	-	241
Total contributions by and distribution to owners of the Company	-	-	-	241	-	-	(7,972)	(7,731)	(172)	(7,903)
At 30 June 2016	39,858	160,230	25,878	6,932	36,124	21,838	317,031	607,891	(3,166)	604,725
Representing:										
2016 declared interim dividend							7,972			
Other retained earnings							309,059			
							317,031			

Condensed Consolidated Statement of Changes in Equity (Unaudited)

For the six months ended 30 June 2016

	Attributable to owners of the Company								Non-controlling interests	Total equity
	Share capital	Share premium	Contributed surplus	Share based		Exchange reserve	Retained earnings	Total		
				compensation reserve	Revaluation reserve					
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
At 1 January 2015	39,858	160,230	25,878	6,522	8,042	29,786	247,608	517,924	(4,003)	513,921
Profit for the period	-	-	-	-	-	-	25,821	25,821	1,413	27,234
Other comprehensive income:										
- Exchange differences on translation of financial statements of foreign operations	-	-	-	-	-	781	-	781	(30)	751
Total comprehensive income for the period net of tax	-	-	-	-	-	781	25,821	26,602	1,383	27,985
2014 final dividends paid	-	-	-	-	-	-	(7,972)	(7,972)	-	(7,972)
Equity settled share-based transactions	-	-	-	14	-	-	-	14	-	14
Total contributions by and distribution to owners of the Company	-	-	-	14	-	-	(7,972)	(7,958)	-	(7,958)
At 30 June 2015	39,858	160,230	25,878	6,536	8,042	30,567	265,457	536,568	(2,620)	533,948
Representing:										
2015 declared interim dividend							3,986			
Other retained earnings							261,471			
							265,457			

The notes on pages 17 to 35 form an integral part of these condensed consolidated interim financial information.

Condensed Consolidated Cash Flow Statement (Unaudited)

For the six months ended 30 June 2016

	Six months ended 30 June	
	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Cash flows from operating activities		
Cash generated from operations	30,561	51,100
Income tax paid	(489)	(2,266)
Interest paid	(812)	(703)
Net cash generated from operating activities	29,260	48,131
Cash flows from investing activities		
Interest received	406	743
Proceeds from disposal of subsidiaries	–	150
Purchase of property, plant and equipment	(8,856)	(7,000)
Net cash used in investing activities	(8,450)	(6,107)
Cash flows from financing activities		
Dividends paid	(7,972)	(7,972)
Dividends paid to non-controlling interests	(172)	–
Proceeds from bank borrowings	3,889	12,334
Repayment of bank borrowings	(5,089)	(6,500)
(Increase)/decrease in pledged bank deposits	(9)	1,750
Net cash used in financing activities	(9,353)	(338)
Net increase in cash and cash equivalents	11,457	41,636
Cash and cash equivalents at beginning of the period	174,510	123,862
Effect of foreign exchange rate changes	(1,167)	755
Cash and cash equivalents at end of the period	184,800	166,253

The notes on pages 17 to 35 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 2016

1. GENERAL INFORMATION

Mainland Headwear Holdings Limited (“The Company”) is a public limited liability company incorporated in Bermuda and its shares are listed on The Stock Exchange of Hong Kong Limited (“Stock Exchange”). The address of its registered office is Clarendon House, 2 Church Street, Hamilton HM11, Bermuda.

The principal activity of the Company is investment holding. The principal activities of the subsidiaries are engaged in manufacturing and sales of headwear products, trading and distribution of headwear and other products, and operating of retail stores.

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

2. BASIS OF PREPARATION

This condensed consolidated interim financial information for the six months ended 30 June 2016 has been prepared in accordance with Hong Kong Accounting Standards (“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 2015, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”).

This condensed consolidated financial information has not been audited.

3. 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 2015, as described in those annual financial statements.

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

Notes to the Unaudited Interim Financial Information

For the six months ended 30 June 2016

3. ACCOUNTING POLICIES (CONTINUED)

(a) New and amended standards adopted by the Group

The following new standards and amendments to standards are mandatory for accounting periods beginning on or after 1 January 2016. The adoption of these amended standards does not have any significant impact to the results and financial position of the Group.

HKAS 1 (Amendment)	Disclosure initiative
HKAS 16 and HKAS 38 (Amendments)	Clarification of acceptable methods of depreciation and amortisation
HKAS 16 and HKAS 41 (Amendments)	Agriculture: bearer plants
HKAS 27 (Amendment)	Equity method in separate financial statements
HKFRS 10, HKFRS 12 and HKAS 28 (Amendments)	Investment entities: applying the consolidation exemption
HKFRS 11 (Amendment)	Accounting for acquisitions of interests in joint operations
HKFRS 14	Regulatory deferral accounts
Annual improvements project	Annual improvements 2012 – 2014 cycle

(b) New and amended standards have been issued but are not effective for the financial year beginning 1 January 2016 and have not been early adopted

The following new standards and amendments to standards have been issued but are not effective for the financial year beginning 1 January 2016 and have not been early adopted by the Group:

HKFRS 9	Financial instruments ¹
HKFRS 15	Revenue from contracts with customers ¹
HKFRS 16	Leases ²

⁽¹⁾ Effective for annual periods beginning on or after 1 January 2018

⁽²⁾ Effective for annual periods beginning on or after 1 January 2019

The expected impacts from the adoption of the above new and amended standards are still being assessed in details by management and is not yet in a position to state whether they would have a significant impact on the Group's results of operations and financial position.

Notes to the Unaudited Interim Financial Information

For the six months ended 30 June 2016

4. 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 consolidated financial statements for the year ended 31 December 2015.

5. FINANCIAL RISK MANAGEMENT

5.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign currency risk, 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 2015.

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

5.2 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 2015 and 30 June 2016 because of the immediate or short term maturity of these financial assets and liabilities.

The table below analyses financial instruments carried at fair value, 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 2016

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.2 Fair value estimation (Continued)

The following table presents the Group's assets measured at fair values in the balance sheet in accordance with the fair value hierarchy at 30 June 2016.

	Level 1 <i>HK\$'000</i>	Level 2 <i>HK\$'000</i>	Level 3 <i>HK\$'000</i>	Total <i>HK\$'000</i>
Assets				
Financial assets at fair value through profit or loss	1,250	-	-	1,250
Total financial assets	1,250	-	-	1,250

The following table presents the Group's assets measured at fair values in the balance sheet in accordance with the fair value hierarchy at 31 December 2015.

	Level 1 <i>HK\$'000</i>	Level 2 <i>HK\$'000</i>	Level 3 <i>HK\$'000</i>	Total <i>HK\$'000</i>
Assets				
Financial assets at fair value through profit or loss	1,314	-	-	1,314
Total financial assets	1,314	-	-	1,314

There were no transfers between levels 1 and 2 or into or out of level 3 during the period.

There were no other changes in valuation techniques during the period.

There were no significant changes in the business or economic circumstances for the period ended 30 June 2016 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 2016.

Notes to the Unaudited Interim Financial Information

For the six months ended 30 June 2016

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.3 Fair value of financial assets and liabilities measured at amortised cost

The fair values of the following financial assets and liabilities approximate their carrying values:

- Trade and other receivables
- Short-term bank deposits
- Cash and cash equivalents
- Trade and other payables
- Amounts due to related companies
- Borrowings

6. REVENUE

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

7. 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, the People's Republic of China ("PRC"), and Bangladesh. Customers are mainly located in the United States of America ("USA") and Europe.
- (ii) **Trading Business:** The trading and distribution business of headwear and other products of the Group is operating through Drew Pearson International (Europe) Ltd., ("DPI") which focuses on the Europe market, and H3 Sportgear LLC, ("H3") and San Diego Hat Company ("SDHC") which focus on the United States ("US") market.
- (iii) **Retail Business:** The Group operates headwear stores in Hong Kong, and SANRIO stores in the PRC.

Notes to the Unaudited Interim Financial Information

For the six months ended 30 June 2016

7. SEGMENT INFORMATION (CONTINUED)

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

	Manufacturing Six months ended		Trading Six months ended		Retail Six months ended		Total Six months ended	
	2016 HK\$'000	2015 HK\$'000	2016 HK\$'000	2015 HK\$'000	2016 HK\$'000	2015 HK\$'000	2016 HK\$'000	2015 HK\$'000
Revenue from external customers	301,804	269,541	102,794	118,038	46,934	55,701	451,532	443,280
Inter-segment revenue	35,099	38,253	26	-	-	-	35,125	38,253
Reportable segment revenue	<u>336,903</u>	<u>307,794</u>	<u>102,820</u>	<u>118,038</u>	<u>46,934</u>	<u>55,701</u>	<u>486,657</u>	<u>481,533</u>
Reportable segment profit/(loss)	52,233	25,783	3,849	7,603	(4,262)	(1,040)	51,820	32,346
Fair value loss on financial assets at fair value through profit or loss							(64)	(381)
Gain on sales of financial assets at fair values through profit or loss							-	210
Share-based payment expenses							(241)	(14)
Unallocated corporate income							3,460	3,703
Unallocated corporate expenses							(8,015)	(6,342)
Profit from operations							46,960	29,522
Finance (costs)/income – net							(419)	27
Income tax expense							(7,268)	(2,315)
Profit for the period							<u>39,273</u>	<u>27,234</u>

	Manufacturing		Trading		Retail		Total	
	30 June 2016 (unaudited) HK\$'000	31 December 2015 (audited) HK\$'000						
Reportable segment assets	324,836	317,910	186,164	185,859	53,667	55,272	564,667	558,996
Investment properties							75,447	38,522
Deferred income tax assets							2,134	2,323
Financial assets at fair value through profit or loss							1,250	1,314
Short-term bank deposits							3,184	3,175
Cash and cash equivalents							184,800	174,510
Total assets							<u>831,482</u>	<u>778,840</u>

Notes to the Unaudited Interim Financial Information

For the six months ended 30 June 2016

8. PROFIT BEFORE INCOME TAX

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

	Six months ended 30 June	
	2016 HK\$'000	2015 <i>HK\$'000</i>
(a) Operating profit		
Fair value loss on financial assets at fair value through profit or loss	64	381
Gain on sales of financial assets at fair value through profit or loss	-	(210)
Net exchange loss/(gain)	1,673	(504)
Gain on deregistration of a subsidiary (<i>Note</i>)	(2,435)	-
Loss on disposal of a subsidiary	-	1
Depreciation of property, plant and equipment	11,509	11,550
Amortisation of other intangible assets	2,646	3,820
Net (reversal of provision for)/provision for impairment of trade and other receivables	(1,396)	821
Net provision for slow moving and obsolete inventories	2,802	4,086
	<hr/> 2,802 <hr/>	<hr/> 4,086 <hr/>
(b) Finance (costs)/income – net		
Interest on bank loans, overdrafts and other borrowings	(750)	(533)
Interest on license fee payables	(62)	(170)
Interest on amount due to a related company	(13)	(13)
Interest income	406	743
	<hr/> 406 <hr/>	<hr/> 743 <hr/>
Finance (costs)/income – net	(419)	27
	<hr/> (419) <hr/>	<hr/> 27 <hr/>

Note:

During the period ended 30 June 2016, the Group deregistered a subsidiary, Dongguan Mainland Headwear Company Limited. A gain in connection with the deregistration of HK\$2,435,000 was recognised in the condensed consolidated statement of profit or loss, which mainly arise from release of exchange reserve of the same amount credited to the condensed consolidated statement of profit or loss.

Notes to the Unaudited Interim Financial Information

For the six months ended 30 June 2016

9. INCOME TAX EXPENSE

	Six months ended 30 June	
	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Hong Kong Profits Tax		
– Current period	2,605	700
– Over-provision in prior years	(522)	(239)
	2,083	461
Overseas tax		
– Current period	7,515	4,260
– Over-provision in prior years	(2,429)	(2,678)
	5,086	1,582
Deferred income tax	99	272
	7,268	2,315

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

Hong Kong profits tax has been provided at the rate of 16.5% (2015: 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.

Notes to the Unaudited Interim Financial Information

For the six months ended 30 June 2016

10. EARNINGS PER SHARE

(a) Basic

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

	Six months ended 30 June	
	2016	2015
Profit attributable to owners of the Company (HK\$'000)	<u>36,799</u>	<u>25,821</u>
Weighted average number of ordinary shares in issue	<u>398,583,284</u>	<u>398,583,284</u>

(b) Diluted

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

	Six months ended 30 June	
	2016	2015
Profit attributable to owners of the Company (HK\$'000)	<u>36,799</u>	<u>25,821</u>
Weighted average number of ordinary shares in issue	<u>398,583,284</u>	398,583,284
Adjustment for share options	<u>7,755,294</u>	<u>4,767,221</u>
Weighted average number of ordinary shares for diluted earnings per share	<u>406,338,578</u>	<u>403,350,505</u>
Diluted earnings per share (HK cent)	<u>9.1</u>	<u>6.4</u>

Notes to the Unaudited Interim Financial Information

For the six months ended 30 June 2016

11. DIVIDENDS

(a) Dividends attributable to the period

	Six months ended 30 June	
	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Interim dividend declared of 2 HK cents (2015: 1 HK cent) per share	<u>7,972</u>	<u>3,986</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 2016.

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

	Six months ended 30 June	
	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Final dividend paid in respect of 2015 of 2 HK cents (2014: 2 HK cents) per share	<u>7,972</u>	<u>7,972</u>

Notes to the Unaudited Interim Financial Information

For the six months ended 30 June 2016

12. CAPITAL EXPENDITURE

	Property, plant and equipment <i>HK\$'000</i>	Investment properties <i>HK\$'000</i>	Other intangible assets <i>HK\$'000</i>
Six months ended 30 June 2016			
Opening net book amount as at 1 January 2016	171,359	38,522	16,834
Revaluation surplus upon transfer of property, plant and equipment to investment properties	–	37,442	–
Exchange differences	(765)	(517)	(299)
Additions	8,856	–	86
Disposals	(56)	–	–
Depreciation and amortisation	<u>(11,509)</u>	<u>–</u>	<u>(2,646)</u>
Closing net book amount as at 30 June 2016	<u>167,885</u>	<u>75,447</u>	<u>13,975</u>
Six months ended 30 June 2015			
Opening net book amount as at 1 January 2015	129,785	38,764	21,593
Exchange differences	(4)	–	(234)
Additions	7,000	–	1,667
Disposals	(27)	–	–
Disposal of subsidiaries	(5)	–	–
Depreciation and amortisation	<u>(11,550)</u>	<u>–</u>	<u>(3,820)</u>
Closing net book amount as at 30 June 2015	<u>125,199</u>	<u>38,764</u>	<u>19,206</u>

As at 30 June 2016, other intangible assets represent acquired customer relationship of HK\$9,211,000 (31 December 2015: HK\$9,975,000), trademark of HK\$2,617,000 (31 December 2015: HK\$3,157,000) and licensing rights for the use of certain licensed trademark, brands and logos in the Group's products of HK\$2,147,000 (31 December 2015: HK\$3,702,000).

Notes to the Unaudited Interim Financial Information

For the six months ended 30 June 2016

12. CAPITAL EXPENDITURE (CONTINUED)

As at 30 June 2016, the directors of the Company considered that the carrying amount of the investment properties, which are carried at revalued amounts, do not differ significantly from their fair values as at the balance sheet date.

As at 31 December 2015, the valuations of the investment properties are based on the valuation results carried out by independent professionally qualified valuer, Stirling Appraisals Limited, who hold a recognised relevant professional qualification and have recent experience in the locations and segments of the investment properties valued.

The Group's policy is to recognise transfers into and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer. There were no transfers among levels 1, 2 and 3 during the period (2015: same).

Description	Fair value measurements at 30 June 2016 using			Total HK\$'000
	Quoted prices in active markets for identical assets (Level 1) HK\$'000	Significant other observable inputs (Level 2) HK\$'000	Significant unobservable inputs (Level 3) HK\$'000	
Investment properties:				
Production facilities in the PRC	-	-	17,907	17,907
Production facilities and staff quarters in the PRC	-	-	37,442	37,442
Residential building units in the PRC	-	3,838	-	3,838
Residential building units in the USA	-	16,260	-	16,260
	-	20,098	55,349	75,447

Notes to the Unaudited Interim Financial Information

For the six months ended 30 June 2016

12. CAPITAL EXPENDITURE (CONTINUED)

Description	Fair value measurements at 31 December 2015 using			Total HK\$'000
	Quoted prices in active markets for identical assets (Level 1) HK\$'000	Significant other observable inputs (Level 2) HK\$'000	Significant unobservable inputs (Level 3) HK\$'000	
Investment properties:				
Production facilities in the PRC	-	-	18,334	18,334
Residential building units in the PRC	-	3,928	-	3,928
Residential building units in the USA	-	16,260	-	16,260
	<u>-</u>	<u>20,188</u>	<u>18,334</u>	<u>38,522</u>

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

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

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

Notes to the Unaudited Interim Financial Information

For the six months ended 30 June 2016

12. CAPITAL EXPENDITURE (CONTINUED)

During the period ended 30 June 2016, a property was reclassified from property, plant and equipment to investment properties as a result of change in usage. On the date of change, a fair value surplus of HK\$37,442,000 is credited to revaluation reserve within equity. The fair value of the property was estimated by an independent professional qualification valuer, Stirling Appraisals Limited. The significant unobservable inputs on the date of transfer include:

Description	Fair value at 11-Mar-16 (HK\$'000)	Valuation technique	Unobservable inputs	Range of unobservable inputs (probability-weighted average)	Relationship of unobservable inputs to fair value
Production facilities and staff quarters in the PRC	37,442	Income approach	Term rent	RMB16.6-RMB18.2 per month per square metre	The higher the rent, the higher the fair value
			Market rent	RMB17.0 per month per square metre	The higher the rent, the higher the fair value
			Term yield	7%	The higher the yield, the lower the fair value
			Market yield	9%	The higher the yield, the lower the fair value

Notes to the Unaudited Interim Financial Information

For the six months ended 30 June 2016

13. TRADE AND OTHER RECEIVABLES

	30 June 2016 HK\$'000	31 December 2015 HK\$'000
Trade receivables	155,977	133,790
Bills receivables	–	1,597
Less: provision for impairment	(5,320)	(6,006)
	150,657	129,381
Deposits, prepayments and other receivables	44,440	42,099
Less: provision for impairment	(581)	(1,305)
	43,859	40,794
	194,516	170,175
Less: non-current portion of other receivables	(1,159)	(6,550)
Current portion	193,357	163,625

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

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

	30 June 2016 HK\$'000	31 December 2015 HK\$'000
0 – 30 days	71,191	51,820
31 – 60 days	58,242	49,042
61 – 90 days	14,646	14,493
91-120 days	1,345	8,691
Over 121 days	10,553	9,744
	155,977	133,790

Notes to the Unaudited Interim Financial Information

For the six months ended 30 June 2016

13. TRADE AND OTHER RECEIVABLES (CONTINUED)

The bills receivables represents bank acceptance notes and the maturity period is as follow:

	30 June 2016 HK\$'000	31 December 2015 HK\$'000
Falling within 90 days	—	1,597
	<u>—</u>	<u>1,597</u>

Note:

Included in other receivables as at 30 June 2016 are notes receivable from two (31 December 2015: two) customers totalling HK\$9,522,000 (31 December 2015: HK\$11,339,000).

As at 30 June 2016, one note receivable of HK\$8,071,000 (31 December 2015: HK\$10,630,000) is interest bearing at 5% per annum and is repayable by 12 quarterly instalments from January 2015 to October 2017. The note is secured by all assets of the customer but the Group's interest in the collaterals is subordinated to the customer's major lender. The balance was fully repaid in July 2016.

The other note receivable of HK\$709,000 outstanding as at 31 December 2015 is interest bearing at 7% per annum and is repayable by monthly instalments up to July 2016. The balance was fully repaid during the period ended 30 June 2016.

As at 30 June 2016, another note receivable of HK\$1,451,000 (31 December 2015: Nil) is interest bearing at 3% per annum and is repayable by 35 monthly instalments from April 2016 to February 2019. The note is secured by personal guaranty of the owner of the customer.

14. SHARE CAPITAL

	Number of shares of HK\$0.10 each	HK\$'000
Authorised:		
At 1 January 2015, 31 December 2015, 1 January 2016 and 30 June 2016	<u>1,000,000,000</u>	<u>100,000</u>
Issued and fully paid:		
At 1 January 2015, 31 December 2015, 1 January 2016 and 30 June 2016	<u>398,583,284</u>	<u>39,858</u>

Notes to the Unaudited Interim Financial Information

For the six months ended 30 June 2016

15. TRADE AND OTHER PAYABLES

	30 June 2016 HK\$'000	31 December 2015 HK\$'000
Trade payables	45,300	54,594
Accrued charges and other payables	72,447	79,260
	117,747	133,854
Less: other non-current payables	(706)	(1,075)
Current portion	117,041	132,779

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

	30 June 2016 HK\$'000	31 December 2015 HK\$'000
0 – 30 days	32,656	24,378
31 – 60 days	6,000	20,067
61 – 90 days	1,391	2,775
Over 90 days	5,253	7,374
	45,300	54,594

Notes to the Unaudited Interim Financial Information

For the six months ended 30 June 2016

16. BORROWINGS

Movement in borrowings is analysed as follows:

Six months ended 30 June 2016

Opening amount as at 1 January 2016

Repayment of bank borrowings

Proceeds from bank borrowings

HK\$'000

67,596

(5,089)

3,889

Closing amount as at 30 June 2016

66,396

Six months ended 30 June 2015

Opening amount as at 1 January 2015

Repayment of bank borrowings

Proceeds from bank borrowings

32,890

(6,500)

12,334

Closing amount as at 30 June 2015

38,724

17. CAPITAL COMMITMENTS

There is no capital expenditure contracted for but not yet incurred as at the balance sheet date. (2015: Nil)

18. SIGNIFICANT RELATED PARTY TRANSACTIONS

In addition to those 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	
	2016 HK\$'000	2015 HK\$'000
Sales of goods to affiliated companies of a shareholder	177,805	135,717
Rental paid in respect of office premises to directors and a company controlled by a director	827	792
License fee paid to an affiliated company of a shareholder	37	221
Claim charges paid to affiliated companies of a shareholder	454	2,747
Royalty income from a related party	402	450

Notes to the Unaudited Interim Financial Information

For the six months ended 30 June 2016

18. SIGNIFICANT RELATED PARTY TRANSACTIONS (CONTINUED)

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

	30 June 2016 HK\$'000	31 December 2015 HK\$'000
Trade receivables from affiliated companies of a shareholder	86,965	63,530

Trade receivables from affiliated companies of a shareholder arise mainly from sale transactions and are due 60 days after the date of sales. The receivables are unsecured in nature and bear no interest. No provisions are held against such receivables.

(c) Key management personnel remuneration

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

	Six months ended 30 June	
	2016 HK\$'000	2015 HK\$'000
Short-term employee benefits	10,579	10,498
Retirement scheme contributions	85	79
	10,664	10,577

19. APPROVAL OF INTERIM FINANCIAL INFORMATION

The interim financial information was approved by the Board of Directors on 25 August 2016.

Other Information Provided in Accordance with the Listing Rules

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 30 June 2016, 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			Total	Percentage of interest
	Personal interest	Other direct interest	Underlying shares		
Mr. Ngan Hei Keung	–	217,250,000 <i>(note 1, 2)</i>	45,800,000 <i>(note 3, 4)</i>	263,050,000	66.00%
Madam Ngan Po Ling, Pauline, <i>BBS, JP</i>	33,550,000 <i>(note 2)</i>	183,700,000 <i>(note 1)</i>	45,800,000 <i>(note 3, 4)</i>	263,050,000	66.00%
Mr. James S. Patterson	–	–	2,000,000 <i>(note 5)</i>	2,000,000	0.50%
Ms. Maggie Gu	–	–	2,000,000 <i>(note 5, 6)</i>	2,000,000	0.50%
Mr. Ngan Siu Hon, Alexander	–	–	1,000,000 <i>(note 6)</i>	1,000,000	0.25%

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 Successful Years International Co., Ltd., a company ultimately 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 renewed on 30 September 2014 between Mr. Ngan, Madam Ngan and New Era Cap Hong Kong LLC ("NEHK"), NEHK is entitled to require Mr. Ngan and Madam Ngan to purchase up to 39,800,000 shares on the terms and conditions of the said deed.
- (4) 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 on 23 June 2009.
- (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 on 23 June 2009 respectively.
- (6) Ms. Gu and Mr. Ngan have been granted share options under the Company's share option scheme to subscribe for 1,500,000 and 1,000,000 shares of the Company on 15 July 2015 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.

SHARE OPTION SCHEMES

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

The total number of shares which may be issued upon exercise of all options to be granted under the Old Scheme and any other share option schemes of the Group may not in aggregate exceed 30,536,058, being 10% of the shares in issue of the Company as at 23 May 2002, the date of adoption of the New Scheme adjusted for the issue of bonus shares on 22 May 2007. The scheme mandate limit was refreshed on 28 November 2008. Upon refreshing of the scheme mandate limit, the Company may grant options up to a maximum of 31,840,228 shares, representing 10% of the shares in issue of the Company as at 28 November 2008.

Other Information Provided in Accordance with the Listing Rules

SHARE OPTION SCHEMES (CONTINUED)

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 invested 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 23,958,328 shares, which represented 6% of the issued share capital of the Company.

Other Information Provided in Accordance with the Listing Rules

SHARE OPTION SCHEMES (CONTINUED)

At 30 June 2016, 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\$1.33 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 1.1.2016 and 30.6.2016	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
	15.07.2015	15.07.2016 – 14.07.2025	1.12	2,500,000	1.12
				11,000,000	
Employees	11.06.2008	11.06.2009 – 10.06.2018	1.19	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	0.92	900,000	0.92
	30.12.2011	30.12.2012 – 29.12.2021	0.80	4,000,000	0.80
	15.07.2015	15.07.2016 – 14.07.2025	1.12	9,400,000	1.12
				21,570,000	

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\$241,000 of share-based payment expense has been included in the condensed consolidated statement of profit or loss for the six months ended 30 June 2016 (2015: HK\$14,000) and the corresponding amount of which has been credited to share based compensation reserve.

Apart from the foregoing, at no time during the period 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 2016, 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

Name	Capacity	Number of shares			Total	Percentage of interest
		Personal interest	Other interest	Underlying shares		
Successful Years International Co., Ltd. <i>(note 1)</i>	Beneficial owner	183,700,000	-	-	183,700,000	46.09%
Mr. Christopher Koch <i>(note 2)</i>	Interest of a controlled corporation	-	79,601,000	-	79,601,000	19.97%
NEHK <i>(note 2)</i>	Interest of a controlled corporation	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 NEHK. 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%
NEHK	39,800,000 (Note)	9.99%

Note: Pursuant to the contingent purchase deed renewed on 30 September 2014 between Mr. Ngan, Madam Ngan and NEHK, NEHK is entitled to sell up to 39,800,000 shares to Mr. Ngan and Madam Ngan on the terms and conditions of the said deed. In view of Mr. Koch's 75% shareholding interest in NEHK, Mr. Koch is also taken to have interest in short position of 39,800,000 underlying shares.

Save as disclosed above, as at 30 June 2016, 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 2016, 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 2016.

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 ended 30 June 2016.

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 ended 30 June 2016.

By Order of the Board

Ngan Hei Keung

Chairman

Hong Kong, 25 August 2016

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