Interim Report 2007

Mainland Headwear Holdings Limited

(Stock Code : 1100)

CONTENTS

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 2007 (the "Period") together with comparative figures for the corresponding period in 2006.

FINANCIAL REVIEW

For the six months ended 30 June 2007, the Group recorded a turnover of HK$255,095,000, representing a drop of 20% when compared with the same period last year. The decrease in turnover was mainly attributable to the Group's disposal of its subsidiary, Drew Pearson Marketing Inc. ("DPM"), in December 2006. Excluding the disposal of DPM, the turnover of the Group from continuing operation increased by about 17%.

The gross profit margin of the Group was down to 33% from 36%, primarily due to the drop in gross profit margin of the Manufacturing Business. Decreased production level of the Shenzhen plant in the first quarter of the year and under-utilisation of capacity of the Panyu Factory acquired in June 2006 were the main reasons for the drop in gross profit margin of the Manufacturing Business. However, the reduced gross profit margin of the Manufacturing Business was partly patched up by the improved gross margins of the Group's Trading and Retail Businesses for the Period.

Selling and distribution costs increased by 34% to HK$26,999,000 for the Period, mainly driven by the expansion of the Group's Retail Business. With the disposal of DPM, the Group's administration expenses decreased by 46% to HK$32,780,000 as compared with the first half of 2006. However, administration expenses for the continuing operation increased following the acquisition of the Panyu Factory in June 2006.

Profit attributable to shareholders decreased by 29% to HK$27,553,000 when compared with the first half of 2006 mainly due to the lower gross profit margin of the Manufacturing Business and the adjustment to gain on disposal of assets and liabilities of DPM in the amount of HK$3,120,000 of the discontinued operation recorded for the Period as explained in note 4 to the unaudited interim financial report. Retail Business, however, reported satisfactory expansion during the Period under review. Although it was still in investment stage and had not brought in positive contribution, its performance improved significantly and the operating loss was narrowed from HK$6,773,000 for the same period last year to HK$3,355,000.

BUSINESS REVIEW

Manufacturing Business

Manufacturing Business remained the Group's major revenue contributor with turnover at HK$193,618,000 for the Period. When compared with the first half of 2006, the segment's turnover decreased by about 8%, attributable mainly to the slowdown of the US market and the cancellation of first quarter buy by Walmart which accounted for about 30% of the segment's turnover in 2006.

Although raw material costs were stable and average selling price increased slightly during the Period, affected by the lower production level of the Group's Shenzhen plant in the first quarter, rise in labour cost, continued appreciation of the Renminbi and under-utilisation of the Panyu Factory, the segment's gross profit margin dropped by 5% to 26% when compared with the same period last year.

The Panyu Factory recorded a turnover of HK$20,168,000 during the Period. Kangol products remained the major part of its sales as efforts to expand the factory's customer base was adversely affected by the slowdown of the US market.

To improve the profit contribution and cost efficiency of the Panyu Factory, the Group has implemented various measures including better control of material wastage and a piece rate wage system for workers. The gross profit margin of the factory is expected to improve in the second half of 2007 as a result. In addition, during the Period the Group was able to reduce administration expenses of the factory by about 30% as compared with the second half of 2006. As a result, the operating loss of the factory for the Period narrowed to HK$5,317,000 from HK$7,391,000 in the second half of 2006.

The operating loss of the Panyu Factory for the 12 months ended 30 June 2007, being the first year after it was acquired, totaled HK$12,708,000, of which HK$9,360,000 (equivalent of US$1,200,000) will be deducted from the balance of the unpaid consideration as prescribed in the acquisition agreement.

As a leading headwear manufacturing and distribution licensee for the Beijing 2008 Olympic Games, the Group is poised to fully capitalize the influence of the event to achieve a notable sales turnover within the next 12 months. In addition, in March 2007, the Group obtained the worldwide exclusive manufacturing rights and also exclusive distribution rights in Greater China and Japan for The Fédération Internationale de Football Association ("FIFA") branded headwear from Global Brands Group, the worldwide Master Licensee and store operator for FIFA. The exclusive rights secured applicable between 2007 and 2014 not only testify to the Group's good reputation in the global headwear market, but will also strengthen the Group's manufacturing and distribution business. The Group expects orders to climb rapidly in 2010 and 2014 when the next two Men's World Cups will be held.

Retail Business

The Group continued to make strides with its Retail Business. Turnover of the segment has increased by 44% to HK$46,328,000 for the Period, mainly driven by the satisfactory performance of the Sanrio operation. The segment's turnover accounted for about 18% of the Group's total turnover, as compared to about 10% in the first half of 2006. The segment's gross profit margin has improved from 52% to 58%, and the operating loss has narrowed by about 50% to HK$3,355,000.

The Sanrio operation reported encouraging performance with turnover surging 88% to HK$30,821,000 and same-store sales growth at 57%. The operating loss of this business narrowed to HK$1,427,000. This included an interest charge of HK$639,000 on group borrowings, payable from 1 April 2007 according to the joint venture agreement. Supported by an established product development and sourcing team and a stable supply chain, the Group has expanded its own design product range, which warrants higher margins, to 37% of the total sales mix as compared to 13% in the same period last year. Gross profit margin of the Sanrio operation had improved by 4%. In addition, with better control of samples and packing charges, the administration expenses were down by about 13% as compared with the same period last year.

During the Period, the Group opened 2 new self-owned Sanrio stores, bringing the total number of self-owned stores to 43 as of 30 June 2007; 3 new franchise-stores were also added during the Period, taking the total to 33 as at 30 June 2007.

On 25 April 2007, the Group entered into a subscription agreement to increase its shareholdings in Futureview Investment Limited, a non wholly-owned subsidiary of the Group operating the Sanrio business, from 51% to 75% at a cash consideration of HK$5,000,000. The subscription would enable the Group to capture the potential growth of the Sanrio business.

As for the LIDS operation, turnover remained stable against the same period last year. Despite the higher operating cost in the Hong Kong market, operating loss was kept at the same level as last year due to the improved gross profit margin as the percentage of own design products with higher margins increased to about 26% of the sales mix during the Period.

Facing continuous challenge from high shop rentals, the Group will continue to run its Hong Kong operation with prudence. In the PRC, however, performance of shops has improved. The Group will further expand LIDS' operation in the PRC through franchise.

As at 30 June 2007, the Group had a total of 33 self-owned LIDS stores, of which 25 were in the PRC and 8 were in Hong Kong. In addition, the Group had 16 franchise-stores for LIDS in the PRC, of which 7 were opened during the Period.

Trading Business

The turnover of the Group's Trading Business in Europe decreased by 14% to HK$24,535,000, as sales were affected by undesirable weather conditions. Nevertheless, when compared to the same period last year, the segment's operating profit improved by 15% to HK$4,100,000 and gross profit margin improved from 26% to 28% with better cost control.

MANAGEMENT DISCUSSION AND ANALYSIS

PROSPECTS

Looking to the second half of 2007, uncertainty in the US economy and cost pressures continue to be the challenges to the Group's Manufacturing Business and its gross profit margin. The Group will strive to enhance cost efficiency and maintain the segment's gross profit margin. In addition, the Group will continue to expand its customer base and explore high value product markets for the Panyu Factory with the aim of improving the factory's utilization rate.

As part of agreement to the disposal of DPM, Concept One, the buyer, has committed under a 7 year manufacturing agreement to an annual minimum purchase of US$20 million to US$35 million (or 65% of Concept One's total annual purchases if that is lower) from the Group for seven years commencing 1 May 2007. To prepare for the additional orders from Concept One, the Group is constructing a new factory building adjacent to the existing Shenzhen factory. The new factory building will be completed by the end of 2007 and, when in full operation, will increase the Group's overall production capacity by up to 40%.

To expand its Trading Business in Europe, the Group will focus on capturing more opportunities of private label and brands business for large scale retailers on the continent.

On the Retail Business front, the Group expects its investments in this business segment to bear fruits in 2008.

For the Sanrio operation, the Group targets to open more franchise-stores and expand its distribution network in the PRC to accelerate growth of the business. Supported by a dedicated product development team, the Group will continue to increase the proportion of its own design products to 50% of the sales mix in the second half 2007 with a view to improving the business' gross profit margin. This will also facilitate the expansion into the 2nd and 3rd tier cities.

At its efforts to expand the distribution channels of the Sanrio operation, the Group has reached an agreement with a leading personal care chain store in the PRC to ride on the chain store's extensive network to distribute Sanrio products. In addition to the specialty stores with full product range, the Group has also opened two Sanrio jewelry accessories and watches specialty shops under the name "K Star" in Shanghai in July and August 2007. This higher margin business commands smaller store space and less carrying costs. The Group expects that this business will expand rapidly through the franchising network in year 2008.

For the LIDS operation, the Group will introduce more own brand products to further boost profit margin. It will also expand the product offerings by increasing other fashion accessory items such as bags, to satisfy the customers' need and boost sales. The Group will also continue to expand its franchise business in the PRC.

The Group is confident of a robust growth of its Retail Business, in particular the Sanrio operation, in the second half year. It also expects the Retail Business to bring in more significant contribution in the future.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2007, the Group had cash and bank balances of approximately HK$105.1 million (31 December 2006: HK$139.2 million). About 56.7%, 27.8% and 14.6% of these liquid funds were denominated in US dollars, Renminbi and HK dollars respectively. In addition, the Group also had some liquid investments totaling HK$82.1 million (31 December 2006: nil) at the end of the Period.

Major inflow of liquid funds during the Period related to the receipts of consideration in the amount of HK$62.2 million for the disposal of the business and related assets and liabilities of DPM completed late last year and the settlement of the outstanding trade receivables of about HK$68.1 million from DPM.

As of 30 June 2007, the turnover of the trade receivables for Manufacturing Business was 75 days as compared to 62 days as of 31 December 2006. The Group had extended the credit terms to selected long term customers during the Period in view of the sudden slow down in the US market in the first quarter. As the market condition has improved from the second quarter, this is expected that the credit days will be back to a normal level of around 60 days in second half 2007.

As at 30 June 2007, the Group had banking facilities of HK$67.0 million (31 December 2006: HK$73.0 million), of which HK$61.3 million (31 December 2006: HK$60.4 million) was not utilized. The HK$6 million short term bank loan as at 31 December 2006 has been fully repaid in June 2007.

The Group continued to maintain its gearing ratio at zero. In view of the strong financial and liquidity position, the Group will have sufficient financial resources to meet its commitments and working capital requirements.

ACQUISITION OF ADDITIONAL 24% INTERESTS IN A NON WHOLLY-OWNED SUBSIDIARY

In April 2007, the Group entered into a subscription agreement to increase its shareholdings in Futureview Investment Limited ("Futureview"), a non wholly-owned subsidiary of the Group operating the Sanrio business, from 51% to 75% at a cash consideration of HK$5,000,000. The subscription would enable the Group to capture the potential growth of the Sanrio business.

Goodwill arising from the acquisition of the additional 24% interests in Futureview amounted to HK$1,414,000.

CAPITAL EXPENDITURE

During the Period, the Group spent approximately HK$12.1 million (2006: HK$4.9 million) on additions to equipment to further upgrade its manufacturing capabilities, HK$1.0 million on the construction of a new factory building and HK$1.7 million (2006: HK$2.3 million) for the opening of retail stores.

As at 30 June 2007, the Group had authorized capital commitment of HK$21.1 million in respect of manufacturing equipment and construction of the new factory building. In addition, the Group also had authorized capital commitment of HK$0.7 million for the opening of new retail outlets.

CONTINGENT LIABILITIES

As disclosed in the Company's 2006 annual report, DPM has been subject to a tax investigation by the tax bureau of the United States since 2005. As at the date of this report, there has been no development of the case. Under the agreement for the disposal of DPM, the Group has agreed to indemnify the buyer in respect of any unrecorded tax liabilities prior to the disposal.

EXCHANGE RISK

Most assets and liabilities of the Group are denominated either in HK dollars, US dollars or Renminbi. The Group estimates that any 2% appreciation of the Renminbi is expected to reduce the gross margin of the Manufacturing Business by about 1%. However, as the businesses in the PRC market grow, the expected positive contribution will provide a hedge against the adverse effect of any appreciation of Renminbi to the manufacturing costs.

EMPLOYEES AND REMUNERATION POLICIES

At 30 June 2007, the Group employed a total of 6 (2006: 102) employees in the UK and the USA, 113 (2006: 110) employees in Hong Kong and Macau, and 3,384 (2006: 3,708) workers and employees in the PRC. The expenditures for the employees during the Period were approximately HK$64 million (2006: HK$70 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 3 HK cents (2006: 3 HK cents) per share, payable on or after 16 October 2007.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 28 September 2007 to 4 October 2007 (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 27 September 2007.

INDEPENDENT REVIEW REPORT

Grant Thornton
均富會計師行

Certified Public Accountants
Member of Grant Thornton International

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 13 to 30 which comprises the condensed consolidated balance sheet of Mainland Headwear Holdings Limited as of 30 June 2007 and the related condensed consolidated income statement, condensed consolidated statement of changes in equity and condensed consolidated cash flow statement for the six-month period then ended and other explanatory notes. The Main Board Listing 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 are responsible for the preparation and presentation of this interim financial information in accordance with Hong Kong Accounting Standard 34.

Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

INDEPENDENT REVIEW REPORT

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagement 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.

Grant Thornton
Certified Public Accountants
13th Floor, Gloucester Tower
The Landmark
15 Queen's Road Central
Hong Kong

12 September 2007

CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)

For the six months ended 30 June 2007

	Note	2007 HK$'000	2006 HK$'000
		Six months ended 30 June	
Turnover	3		
Continuing operation		**255,095**	218,367
Discontinued operation	4	**–**	101,127
		255,095	319,494
Cost of sales		**(170,348)**	(203,311)
Gross profit		**84,747**	116,183
Other income		**8,708**	5,749
Selling and distribution costs		**(26,999)**	(20,113)
Administration expenses		**(32,780)**	(60,399)
Profit from operations		**33,676**	41,420
Adjustment to gain on disposal of assets and liabilities of a subsidiary	4	**(3,120)**	–
Finance costs	6(a)	**(218)**	(21)
Profit/(loss) before taxation	6(b)		
Continuing operation		**33,458**	46,856
Discontinued operation		**(3,120)**	(5,457)
		30,338	41,399
Taxation	7		
Continuing operation		**(3,161)**	(4,799)
Discontinued operation		**–**	200
		(3,161)	(4,599)
Profit/(loss) for the period	4		
Continuing operation		**30,297**	42,057
Discontinued operation		**(3,120)**	(5,257)
		27,177	36,800

CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)

For the six months ended 30 June 2007

	Note	Six months ended 30 June 2007 HK$'000	2006 HK$'000
Attributable to:			
Equity shareholders of the Company			
Continuing operation		**30,673**	44,140
Discontinued operation		**(3,120)**	(5,257)
		27,553	38,883
Minority interests		**(376)**	(2,083)
Profit for the period		**27,177**	36,800
Dividends	*8*		
Paid		**46,312**	31,487
Bonus shares issued		**2,894**	–
Interim dividend declared		**9,552**	8,587
Earnings/(loss) per share	*9*		(restated)
Basic			
Continuing operation		**9.7 HK cents**	14.0 HK cents
Discontinued operation		**(1.0 HK cents)**	(1.7 HK cents)
		8.7 HK cents	12.3 HK cents
Diluted			
Continuing operation		**9.5 HK cents**	13.9 HK cents
Discontinued operation		**(1.0 HK cents)**	(1.7 HK cents)
		8.5 HK cents	12.2 HK cents

The notes on pages 19 to 30 form part of the interim financial report.

CONDENSED CONSOLIDATED BALANCE SHEET (UNAUDITED)

At 30 June 2007

	Note	30 June 2007 (Unaudited) HK$'000	31 December 2006 (Audited) HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		**138,846**	136,356
Prepaid premium on leasehold land held for own use under an operating lease		**1,164**	1,198
Goodwill		**8,121**	6,707
Intangible assets		**10,325**	10,033
Deferred tax assets		**118**	193
		158,574	154,487
Current assets			
Inventories		**99,536**	93,126
Trade and other receivables	*10*	**144,093**	229,711
Amount due from a related company		**821**	768
Short term investments		**82,095**	–
Tax recoverable		**608**	603
Bank balances and cash		**105,089**	139,247
		432,242	463,455
Current liabilities			
Trade and other payables	*11*	**64,283**	72,605
Amounts due to related companies		**1,089**	1,038
Secured short term bank loan		**–**	6,000
Taxation		**8,647**	8,768
		74,019	88,411
Net current assets		**358,223**	375,044
Total assets less current liabilities		**516,797**	529,531
Non-current liabilities			
Long term payables		**8,349**	8,114
Post-employment benefits		**172**	172
Deferred tax liabilities		**4,965**	4,965
		13,486	13,251
NET ASSETS		**503,311**	516,280

CONDENSED CONSOLIDATED BALANCE SHEET (UNAUDITED)

At 30 June 2007

	Note	30 June 2007 (Unaudited) HK$'000	31 December 2006 (Audited) HK$'000
CAPITAL AND RESERVES			
Share capital	*12*	**31,839**	28,625
Reserves		**469,126**	486,520
Total equity attributable to equity shareholders of the Company		**500,965**	515,145
Minority interests		**2,346**	1,135
TOTAL EQUITY		**503,311**	516,280

The notes on pages 19 to 30 form part of the interim financial report.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)

For the six months ended 30 June 2007

	Six months ended 30 June	
	2007	2006
	HK$'000	HK$'000
Net cash from operating activities	**100,349**	45,983
Net cash (used in)/from investing activities	**(89,232)**	12,477
Net cash used in financing activities	**(45,275)**	(31,465)
(Decrease)/increase in cash and cash equivalents	**(34,158)**	26,995
Cash and cash equivalents at the beginning of the period	**139,247**	77,666
Cash and cash equivalents at the end of the period, represented by bank balances and cash	**105,089**	104,661

The notes on pages 19 to 30 form part of the interim financial report.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the six months ended 30 June 2007

	Attributable to equity shareholders of the Company								
	Share Capital HK$'000	Share Premium HK$'000	Contributed Surplus HK$'000	Capital Reserve HK$'000	Accumulated Profits HK$'000	Exchange Reserve HK$'000	Total HK$'000	Minority Interests HK$'000	Total Equity HK$'000
At 1 January 2006	28,625	94,820	25,878	6,394	306,375	(353)	461,739	4,233	465,972
Exchange differences	–	–	–	–	–	(2,209)	(2,209)	16	(2,193)
Equity settled share-based transactions	–	–	–	200	–	–	200	–	200
Net income/(expense)) in equity	–	–	–	200	–	(2,209)	(2,009)	16	(1,993)
	28,625	94,820	25,878	6,594	306,375	(2,562)	459,730	4,249	463,979
Profit for the period	–	–	–	–	38,883	–	38,883	(2,083)	36,800
Dividend paid	–	–	–	–	(31,487)	–	(31,487)	–	(31,487)
At 30 June 2006	28,625	94,820	25,878	6,594	313,771	(2,562)	467,126	2,166	469,292
Representing:									
2006 interim dividend declared		–	–	–	8,587	–	8,587		
Reserves		94,820	25,878	6,594	305,184	(2,562)	429,914		
		94,820	25,878	6,594	313,771	(2,562)	438,501		
At 1 January 2007	28,625	94,820	25,878	6,594	353,271	5,957	515,145	1,135	516,280
Exchange differences	–	–	–	–	–	(2,676)	(2,676)	173	(2,503)
Further acquisition of a subsidiary	–	–	–	–	–	–	–	1,414	1,414
Share options lapsed	–	–	–	(246)	246	–	–	–	–
Exercise of share options	320	8,250	–	(1,315)	–	–	7,255	–	7,255
Issue of bonus shares	2,894	(2,894)	–	–	–	–	–	–	–
Net income/(expense) in equity	3,214	5,356	–	(1,561)	246	(2,676)	4,579	1,587	6,166
	31,839	100,176	25,878	5,033	353,517	3,281	519,724	2,722	522,446
Profit for the period	–	–	–	–	27,553	–	27,553	(376)	27,177
Dividend paid	–	–	–	–	(46,312)	–	(46,312)	–	(46,312)
At 30 June 2007	31,839	100,176	25,878	5,033	334,758	3,281	500,965	2,346	503,311
Representing:									
2007 interim dividend declared		–	–	–	9,552	–	9,552		
Reserves		100,176	25,878	5,033	325,206	3,281	459,574		
		100,176	25,878	5,033	334,758	3,281	469,126		

The notes on pages 19 to 30 form part of the interim financial report.

1. BASIS OF PRESENTATION

The interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"), and Hong Kong Accounting Standard ("HKAS") 34 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The interim financial report is unaudited, but has been reviewed by the Company's Audit Committee and the Company's auditor, Grant Thornton 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 HKICPA. Grant Thornton's unmodified independent review report to the Board of Directors is included on page 11.

The financial information relating to the financial year ended 31 December 2006 that is included in the interim financial report as being previously reported information does not constitute the Company's statutory financial statements for that financial year but is derived from those financial statements.

2. ACCOUNTING POLICIES

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2006 annual financial statements.

The Group has adopted the following new/revised Hong Kong Financial Reporting Standards ("HKFRSs"), which also included HKASs and Interpretations, that are effective for accounting periods commencing on or after 1 January 2007:

HKAS 1 (Amendment)	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK (IFRIC) – Int 8	Scope of HKFRS 2
HK (IFRIC) – Int 10	Interim Financial Reporting and Impairment

The adoption of these new/revised HKFRSs had no material effect on the preparation and presentation of the results and financial position of the Group for the current or prior accounting periods.

2. ACCOUNTING POLICIES *(CONTINUED)*

The Group has not applied any new standards or interpretations that are not yet effective for the current accounting period. The Group has already commenced an assessment of the impact of these new standards and interpretations and considers that they would not significantly impact on its results of operations and financial position.

3. TURNOVER

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

Turnover represents sales of goods at invoiced value to customers net of returns and discounts.

4. DISCONTINUED OPERATION/ADJUSTMENT TO GAIN ON DISPOSAL OF ASSETS AND LIABILITIES OF A SUBSIDIARY

On 31 December 2006, the Group disposed of the business and related assets and liabilities of Drew Pearson Marketing Inc. ("DPM"), a subsidiary of the Group. The cash consideration of US$8,000,000 is subject to downward adjustment for any shortfall (the "NAV Shortfall") between the value of net assets disposed of, excluding any tax provision on the profit on disposal, and US$6,700,000. As of the date of this report, the value of net assets subject to the disposal has not been agreed between the Group and the buyer. The buyer has proposed a downward adjustment to the consideration of about US$700,000 relating to additional provisions for prepaid royalties, trade receivables reserves and inventory markdowns. The management has assessed the NAV Shortfall and considers that a provision of HK$3,120,000 (equivalent to US$400,000) for the downward adjustment will be adequate. Such provision has been included as adjustment to gain on disposal of assets and liabilities of a subsidiary in the Consolidated Income Statement for the Period. A gain of HK$8,047,000 on the disposal of DPM had been recorded for the year ended 31 December 2006.

4. DISCONTINUED OPERATION/ADJUSTMENT TO GAIN ON DISPOSAL OF ASSETS AND LIABILITIES OF A SUBSIDIARY *(CONTINUED)*

The management considered the operation of DPM as a separate major line of business distinguished from the rest of the Group. Accordingly, the results of DPM for the six months ended 30 June 2006 and the provision for NAV Shortfall for the Period have been classified as discontinued operation.

The results for the six months ended 30 June from continuing operation and discontinued operation are as follows:

	Six months ended 30 June			
	2007		2006	
	Continuing operation HK$'000	**Discontinued operation HK$'000**	Continuing operation HK$'000	Discontinued operation HK$'000
Turnover	**255,095**	**–**	218,367	101,127
Cost of sales	**(170,348)**	**–**	(127,720)	(75,591)
Gross profit	**84,747**	**–**	90,647	25,536
Other income	**8,708**	**–**	5,592	157
Selling and distribution costs	**(26,999)**	**–**	(20,113)	–
Administration expenses	**(32,780)**	**–**	(29,258)	(31,141)
Profit from operations	**33,676**	**–**	46,868	(5,448)
Adjustment to gain on disposal of assets and liabilities of a subsidiary	**–**	**(3,120)**	–	–
Finance costs	**(218)**	**–**	(12)	(9)
Profit/(loss) before taxation	**33,458**	**(3,120)**	46,856	(5,457)
Taxation	**(3,161)**	**–**	(4,799)	200
Profit/(loss) for the period	**30,297**	**(3,120)**	42,057	(5,257)

5. SEGMENTAL INFORMATION

(a) Business segments

The analysis of the Group's turnover and profit from operations by business segment for the six months ended 30 June is as follows:

	Manufacturing		Trading (Continuing operation)		Trading (Discontinued operation)		Retail		Inter-segment elimination		Consolidation	
	2007 HK$'000	2006 HK$'000	**2007 HK$'000**	2006 HK$'000	**2007 HK$'000**	2006 HK$'000	**2007 HK$'000**	2006 HK$'000	**2007 HK$'000**	2006 HK$'000	**2007 HK$'000**	2006 HK$'000
Turnover from external customers	**184,232**	157,817	**24,535**	28,470	**-**	101,127	**46,328**	32,080	**-**	-	**255,095**	319,494
Inter-segment turnover	**9,386**	51,896	**-**	-	**-**	-	**-**	-	**(9,386)**	(51,896)	**-**	-
	193,618	209,713	**24,535**	28,470	**-**	101,127	**46,328**	32,080	**(9,386)**	(51,896)	**255,095**	319,494
Other revenue	**8,728**	5,288	**173**	10	**-**	157	**446**	294	**(639)**	-	**8,708**	5,749
Total	**202,346**	215,001	**24,708**	28,480	**-**	101,284	**46,774**	32,374	**(10,025)**	(51,896)	**263,803**	325,243
Segment result and contribution from operations	**33,368**	49,636	**4,100**	3,579	**-**	(5,448)	**(3,355)**	(6,773)	**(437)**	626	**33,676**	41,620
Unallocated operating expenses											**-**	(200)
Profit from operations											**33,676**	41,420

5. SEGMENTAL INFORMATION *(CONTINUED)*

(b) Geographical segment revenue

The analysis of the Group's revenue by geographical location is as follows:

	Six months ended 30 June	
	2007	2006
	HK$'000	HK$'000
USA	**155,846**	239,867
HK and the PRC	**62,945**	37,621
Europe	**38,832**	41,080
Others	**6,180**	6,675
Total	**263,803**	325,243

6. PROFIT/(LOSS) BEFORE TAXATION

Profit/(loss) before taxation is stated after charging/(crediting):

	Six months ended 30 June	
	2007	2006
	HK$'000	HK$'000
(a) Finance costs		
Interest on bank loans, overdrafts and other borrowings wholly repayable within five years	**218**	21
(b) Other items		
Net income from short term investments	**(4,030)**	(4,614)
Depreciation	**13,850**	11,947

7. TAXATION

	Six months ended 30 June	
	2007	2006
	HK$'000	HK$'000
Continuing operation:		
Hong Kong Profits Tax	**2,011**	2,941
PRC Enterprise Income Tax	**125**	83
Overseas tax	**953**	1,055
Deferred taxation	**72**	720
	3,161	4,799
Discontinued operation:		
Deferred taxation	**–**	(200)
	3,161	4,599

Hong Kong Profits Tax has been provided at the rate of 17.5% (2006: 17.5%) on the estimated assessable profits arising in Hong Kong for the Period. Provisions for taxation of profits of subsidiaries operating overseas have been calculated at the rates applicable in the respective jurisdictions and based on prevailing legislation, interpretations, and practices in respect thereof.

8. DIVIDENDS

	Six months ended 30 June	
	2007	2006
	HK$'000	HK$'000
Final dividend paid in respect of 2006 of 11 HK cents (2005: 11 HK cents) per share	**31,839**	31,487
Special dividend paid in respect of 2006 of 5 HK cents (2005: nil) per share	**14,473**	–
Bonus shares issued	**2,894**	–
Interim dividend declared of 3 HK cents (2006: 3 HK cents) per share	**9,552**	8,587

Bonus shares were issued on the basis of one share of HK$0.1 each credited as fully paid for every ten existing shares on 22 May 2007.

The interim dividend declared after the balance sheet date has not been recognized as a liability at the balance sheet date.

9. EARNINGS/(LOSS) PER SHARE

	Six months ended 30 June	
	2007	2006
	HK$'000	HK$'000
Profit for the period from continuing operation	**30,673**	44,140
Loss for the period from discontinued operation	**(3,120)**	(5,257)
Profit for the period attributable to equity shareholders of the Company	**27,553**	38,883

The basic earnings/(loss) per share is based on the weighted average number of shares of 315,976,284 (2006: 314,870,084) for the Period. The diluted earnings/(loss) per share is based on 321,382,610 (2006: 316,598,218) shares which is the weighted average number of shares during the Period adjusted for the number of dilutive potential shares under the share option schemes.

The numbers of shares for the purpose of calculating earnings/(loss) per share for the periods ended 30 June 2007 and 2006 have been adjusted for the bonus shares issued in May 2007.

10. TRADE AND OTHER RECEIVABLES

	30 June 2007 HK$'000	31 December 2006 HK$'000
Trade and bills receivables	**107,731**	144,593
Deposits, prepayments and other debtors	**36,362**	85,118
	144,093	229,711

Included in the trade and bills receivables as at 31 December 2006 were receivables of HK$68,105,000 due from DPM, which were settled during the Period.

The ageing analysis of trade and bills receivables (net of specific provisions for bad and doubtful debts) is as follows:

	30 June 2007 HK$'000	31 December 2006 HK$'000
0 – 30 days	**43,386**	49,400
31 – 60 days	**36,601**	28,614
61 – 90 days	**13,972**	13,602
Over 90 days	**13,772**	52,977
	107,731	144,593

Trade receivables are due within 30 to 90 days from the date of billing depending on the trading relationship. Credit evaluations of customers are performed by the Group from time to time to minimize any credit risk associated with receivables. In addition, customers with balances that are more than 3 months overdue are requested to settle all outstanding balances before any further credit is granted.

The balance of deposits, prepayments and other debtors as at 31 December 2006 included the consideration for the disposal of DPM in the amount of HK$62,240,000.

11. TRADE AND OTHER PAYABLES

	30 June 2007 HK$'000	31 December 2006 HK$'000
Trade and bills payables	**35,351**	36,607
Accrued charges and other creditors	**28,932**	35,998
	64,283	72,605

The ageing analysis of trade and bills payables is as follows:

	30 June 2007 HK$'000	31 December 2006 HK$'000
0 – 30 days	**20,357**	16,436
31 – 60 days	**9,790**	14,227
61 – 90 days	**4,299**	2,925
Over 90 days	**905**	3,019
	35,351	36,607

12. SHARE CAPITAL

	Number of shares ('000)	HK$'000
Issued and fully paid:		
At 1 January 2007	286,246	28,625
Shares issued pursuant to share option schemes before issue of bonus shares	3,202	320
	289,448	28,945
Bonus shares issued *(note)*	28,944	2,894
At 30 June 2007	318,392	31,839

Note: Pursuant to a resolution approving the allotment and issue of one bonus share for every ten existing shares held passed by the shareholders of the Company at the annual general meeting of the Company held on 22 May 2007, a total of 28,944,753 shares of HK$0.1 each were issued and allotted, credited as fully paid by way of capitalization of reserves. These shares rank pari passu with the existing shares in all respects.

13. CAPITAL COMMITMENTS

At 30 June 2007, the Group had capital expenditure commitments as follows:

	30 June 2007 HK$'000	31 December 2006 HK$'000
Contracted but not provided for		
– Manufacturing business	**12,891**	5,648
Authorised but not contracted for		
– Manufacturing business	**8,235**	20,632
– Retail business	**650**	1,562
	21,776	27,842

14. CONTINGENT LIABILITIES

As disclosed in the Company's 2006 annual report, DPM has been subject to a tax investigation by the tax bureau of the United States since 2005. As at the date of this report, there has been no development of the case. Under the agreement for the disposal of DPM, the Group has agreed to indemnify the buyer in respect of any unrecorded tax liabilities prior to the disposal.

15. APPROVAL OF INTERIM FINANCIAL REPORT

The interim financial report was approved by the Board of Directors on 12 September 2007.

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 30 June 2007, the interests of the Directors in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), which had been notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

Long positions in the shares and underlying shares of the Company

	Number of shares				
	Personal interest	Other direct interest	Underlying shares	Total	Percentage of interest
Mr. Ngan Hei Keung	–	183,700,000 *(note)*	–	183,700,000	57.70%
Madam Ngan Po Ling, Pauline	–	183,700,000 *(note)*	–	183,700,000	57.70%

Notes: 183,700,000 shares are legally and beneficially owned by Successful Years International Co., Ltd., a company ultimately and beneficially owned by NHK Trust and NPL Trust as to 40% and 60% respectively. These two trusts are discretionary family trusts settled by Mr. Ngan Hei Keung and the discretionary beneficiaries include Mr. Ngan Hei Keung, Madam Ngan Po Ling, Pauline, and their family members.

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

Prior to 23 May 2002, the Company operated an option scheme whereby the Board of Directors could, at their absolute discretion, grant options to employees and Executive Directors of the Company and any of its subsidiaries to subscribe for shares in the Company (the "Old Scheme"). On 23 May 2002, 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 and non-executive 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.

For options granted before 1 September 2001, the exercise price of options was determined by the Board and was the higher of the nominal value of the shares and 80% of the average closing prices of the shares of the Company on the Stock Exchange for the five trading days immediately preceding the date of offer of the options. For options granted after 1 September 2001, 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 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 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 New Scheme 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.

SHARE OPTION SCHEMES *(CONTINUED)*

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 of 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, save for those granted but yet to be exercised, the total number of shares available for issue under the New Scheme was 5,933,458 shares, which represented 1.9% of the issued share capital of the Company as at 31 August 2007.

At 30 June 2007, 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$2.98 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:

SHARE OPTION SCHEMES *(CONTINUED)*

	Date of grant	Period during which options exercisable	Exercise price (note 1) (HK$)	Outstanding at 1.1.2007	Exercised during the period (note 2)	Adjustment for issue of bonus shares (note 1)	Lapsed during the period	Outstanding at 30.6.2007	Market value per share at date of grant (note 1) (HK$)
Old Scheme									
Employees	11.06.2001	11.06.2002 – 10.06.2009	1.116	404,000	(130,000)	27,400	–	301,400	1.40
New Scheme									
Employees	03.07.2002	03.07.2003 – 02.07.2010	2.455	10,750,000	(75,000)	1,067,500	(3,245,000)	8,497,500	2.45
	12.02.2003	12.02.2004 – 11.02.2011	2.005	1,120,000	–	112,000	–	1,232,000	2.00
	03.06.2003	03.06.2004 – 02.06.2013	2.091	10,006,000	(2,397,000)	760,900	(446,600)	7,923,300	2.09
				21,876,000	(2,472,000)	1,940,400	(3,691,600)	17,652,800	
Customers and suppliers	03.07.2002	03.07.2003 – 02.07.2010	2.455	1,950,000	–	195,000	–	2,145,000	2.45
	03.06.2003	03.06.2004 – 02.06.2013	2.091	600,000	(600,000)	–	–	–	2.09
				2,550,000	(600,000)	195,000	–	2,145,000	

Note 1: The number of share options outstanding, exercise prices and market value per share at date of grant have been adjusted for the bonus shares issued in May 2007.

Note 2: Closing prices of shares immediately before the dates on which options were exercised ranged from HK$2.61 to HK$3.30.

SHARE OPTION SCHEMES *(CONTINUED)*

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 services received is measured based on a Black-Scholes pricing mode. The inputs into the model were as follows:

Weighted average share price	HK$2.44
Weighted average exercise price	HK$2.08
Expected volatility	25.2%
Expected life	4 years
Risk free rate	3.52%
Expected dividend yield	4%

Weighted average share price and weighted average exercise price have been adjusted for the bonus shares issued in May 2007.

The expected volatility is based on the historic volatility of share prices of the Company. Expected dividends are based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

Share options were granted under a service condition. This condition has not been taken into account in the grant date fair value measurement of the services rendered. There were no market conditions associated with the share option grants.

Apart from the foregoing, at no time during the period was the Company, its holding company or any of its subsidiaries a party to any arrangements to enable the Company's Directors or chief executive 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 2007, the following declarations of interests by shareholders (other than Directors) holding 5% or more of the issued share capital of the Company were recorded in the register required to be kept by the Company under Section 336 of the SFO:

	Capacity	**Number of shares**	**Percentage of shareholding**
Successful Years International Co., Ltd. *(note 1)*	Beneficial owner	183,700,000	57.70%
Amex International Trust (Cayman) Ltd. *(note 1)*	Trustee	183,700,000	57.70%
Value Partners Limited *(note 2)*	Investment manager	17,245,800	5.42%
Mr. Cheah Cheng Hye *(note 2)*	Interest of controlled corporation	17,245,800	5.42%

Note 1: Successful Years International Co., Ltd. is owned by NHK Trust and NPL Trust as to 40% and 60% respectively. These two trusts are discretionary family trusts settled by Mr. Ngan Hei Keung and the discretionary beneficiaries include Mr. Ngan Hei Keung, Madam Ngan Po Ling, Pauline, and their family members. Amex International Trust (Cayman) Ltd. is the trustee of the two trusts. 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.

Note 2: Value Partners Limited is controlled by Mr. Cheah Cheng Hye.

Save as disclosed above, as at 30 June 2007, 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.

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

During the six months ended 30 June 2007, 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 2007 except for the deviations from Code Provisions A.4.1 and A.4.2 as detailed in the Corporate Governance Report included in the 2006 Annual Report that independent non-executive directors have not been appointed for a specific term; and that the Chairman and the Managing Director (who are also the founders of the Company), are not subject to retirement by rotation.

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.

OTHER INFORMATION PROVIDED IN ACCORDANCE WITH THE LISTING RULES

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. 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 results for 2007.

By Order of the Board
Ngan Hei Keung
Chairman

Hong Kong, 12 September 2007

As at the date hereof, the Board of Directors of the Company comprises seven directors, of which three are Executive Directors, namely Mr. Ngan Hei Keung, Madam Ngan Po Ling, Pauline and Mr. Ho Hung Chu, Peter; and four are Independent Non-executive Directors, namely Mr. Leung Shu Yin, William, Mr. Tse Kam Fow, Mr. Lo Hang Fong and Mr. Brandon Liu Tieh Ching, JP.

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