Mainland Headwear Holdings Limited

(Stock code: 1100)

Interim Report 2014

Contents

Management Discussion and Analysis

The Board of Directors (the "Directors") of Mainland Headwear Holdings Limited (the "Company") hereby announces the unaudited interim results of the Company and its subsidiaries (collectively, the "Group") for the six months ended 30 June 2014 (the "Period") together with comparative figures for the corresponding period in 2013.

FINANCIAL REVIEW

For the six months ended 30 June 2014, as the Manufacturing Business remained the Group's growth driver, together with the Group's concerted efforts to expand the Trading Business and strategically consolidate the Retail Business, the overall performance of the Group was substantially improved as compared to that of the corresponding period in 2013.

During the period under review, the Group's turnover increased 5.2% from the same period last year to HK$450,540,000 (2013 Interim: HK$428,418,000). The higher turnover was mainly attributable to greater contributions from the Trading Business in Europe and the US coupled with a vigorous market demand for the Group's headwear products.

On the other hand, through the implementation of various cost reduction measures by the Group in order to control the cost strictly, gross profit surged 24.0% to HK$127,440,000 (2013 interim: HK$102,768,000) and gross profit margin rose 4.3 percentage points to 28.3% (2013 interim: 24.0%). Driven by the strong performance of both turnover and gross profit, the Group has achieved a turnaround to register profit. It recorded a profit attributable to shareholders of HK$17,285,000 (2013 interim: a loss attributable to shareholders of HK$16,864,000) and a net profit margin of 3.8% during the period under review.

BUSINESS REVIEW

Manufacturing Business

During the period under review, the Manufacturing Business, which accounted for 66.9% of the Group's total turnover, remained as the Group's principal revenue generator. As the domestic labour costs continued to rise and the added production capacity of its Bangladesh manufacturing plant could not fully address the production needs of the Group, the development of this segment has been constrained. Nevertheless, as strong market demand for the Group's products continued and the orders, which were produced at the end of last year while not delivered at that time, were subsequently booked during the Period, turnover rose 7.1% to HK$326,139,000 (2013 interim: HK$304,644,000).

Management Discussion and Analysis

During the Period, the Group has adopted a series of measures to improve operating efficiency and lower costs. Consequently, the Manufacturing Business recorded a gross profit margin of 18.9%, a jump of 8.1 percentage points as compared to 10.8% in the corresponding period last year. This segment achieved encouraging performance as it returned to profitability, with an operating profit reaching HK$23,012,000 (2013 interim: operating loss of HK$3,737,000) during the period under review.

In view of surging costs in the PRC, the Group began stringent implementation of cost reduction measures at the end of last year, including scaling down the size of its Shenzhen factory. The number of staff was reduced from 2,400 in the same period of 2013 to about 2,000 as at 30 June 2014. In the future, its factory in Shenzhen will continue to focus on design and development of products and the production of high value-added products. Meanwhile, the Group terminated the operation of its Panyu factory last year and leased out the factory starting from March this year to generate additional rental income. Facing challenges such as rising labour costs in the PRC and its insufficient overall capacity, the Group has actively expanded the scale of its factory in Bangladesh during the Period. The factory has hired 1,750 staff and started producing headwear products for its customers with simpler specifications requiring less complex production processes. This factory is expected to enable the Group to alleviate the capacity problem.

Trading Business

The Trading Business focused on development of diverse high-end markets. This segment performed well during the Period with turnover rising 14.5% to HK$104,732,000 (2013 interim: HK$91,469,000). The increase was partly attributable to stable development of the San Diego Hat Company ("SDHC") and DPI in the US and European markets. SDHC represented an important step for the Group towards establishment and operation of its own-brand business. During the Period, the Group's product mix has been enriched to include accessories such as handbags and scarves which have been well-received by the market. However, the brand was still at the investment stage and has yet to fully realise its potential, and certain management and sales expenses have also been incurred at the initial establishment stage. As a result, operating profit of the Trading Business declined to HK$692,000 (2013 interim: HK$2,047,000).

Management Discussion and Analysis

On the other hand, the Group has made significant progress in the development of its children's collection. During the period, DPI has secured headwear distribution rights of a number of very popular cartoons, including all comic characters owned by Marvel Entertainment ("Marvel"), a wholly-owned subsidiary of The Walt Disney Company ("Disney"). Some of them are well-known cartoon personalities. The craze for all the above cartoon characters is expected to continue to spread across the world riding on the coattails of Disney marketing. Securing these distribution rights will not only significantly enhance brand recognition, but also enlarge the Group's mass market share in Europe.

Retail Business

The Group has strategically adjusted the development direction of its Retail Business during the Period. The uncertainty in the PRC economic growth has caused the demand of retail market there to slow down. During the period under review, turnover of the Retail Business slightly decreased to HK$56,767,000 (2013 interim: HK$61,461,000). Despite the surge in staff costs and rentals in the PRC and Hong Kong, the Group was able to narrow the operating loss of the Retail Business to HK$1,264,000 (2013 interim: operating loss of HK$8,971,000), thanks to its efforts to strictly monitor the sales performance of all retail stores and flexibly adjust operational strategies while closing those stores with an unsatisfactory performance.

Sanrio

To counter the intense competition in the PRC's retail market, the Group has enriched its product mix of Sanrio, and in particular, increased the direct import of high-end products from Japan in order to stimulate sales. On the other hand, the Group has implemented cost reduction measures and closed stores with unsatisfactory performances. Despite the slowdown in the PRC's retail market which caused the turnover of this segment to drop 13.1% to HK$40,666,000, this segment actually achieved a turnaround with an operating profit reaching HK$228,000 (2013 interim: operating loss of HK$3,709,000).

Headwear Sales

Mainland Headwear began opening "NOP" retail stores in 2010. Owing to the popularity of its products among discerning customers, the Group has changed all "LIDS" retail stores to "NOP" retail stores during the Period. In view of the strong market demand for limited edition high-end headwear together with the popularity of Marvel's cartoon characters fueled by the Disney movies launched during the year, the Group has held several marketing events in its New Era stores and sold limited edition headwear featuring those characters. The response to this marketing initiative was overwhelming. Driven by the above factors, turnover of Headwear Sales Business grew 9.8% to HK$16,100,000 and the operating loss of this segment was also substantially reduced from HK$5,262,000 during the same period last year to HK$1,492,000 during the Period.

Management Discussion and Analysis

As at 30 June 2014, the Group operated a total of 30 Sanrio self-owned stores and 104 franchise stores. It also had 12 “NOP” self-owned stores and 20 franchise stores. The Group also operates 1 “New Era” retail store.

Prospects

Thanks to the sound development strategies appropriately executed in the past across all segments, the Group’s three business segments recorded encouraging results. Therefore, the Group plans to continue to execute and consolidate its business development approach in a bid to boost its performance to drive sustained growth.

As for the Manufacturing Business, the development of its Bangladesh factory is one of its core strategies. Due to rising staff costs incurred in the PRC during the past few years and the related labour shortage which constrained the Group’s expansion pace, its factory in Bangladesh represents an effective solution for alleviating cost pressures while meeting the need to expand capacity and to satisfy increasing orders from customers. Therefore, the Group will divert more resources to the construction of its Bangladesh factory. Currently, the factory has hired 1,750 staff. It is expected that the number of staff will reach the target of 2,500 and the production capacity will increase to 1 million pieces of headwear each month at the end of the year. To date, customers have been satisfied with the quality of products manufactured by the Bangladesh factory. In view of this, the Group intends to consign more orders to the factory for production.

Although the Group has allocated resources to develop its factory in Bangladesh, its factory in the PRC continued to play a major role in the Group’s overall strategy. The skill set of the staff in the PRC is more advanced and its design team there provides the strong experience essential to the Group. Thus, the Group will utilise its PRC factory as the bridgehead of product development and improve its supply chain management so as to complement its factory in Bangladesh and create greater synergies. To encounter the challenge of staff costs in the PRC over the short term, the Group will reduce the number of workers in its PRC factory to lower operating costs and boost its business performance.

Management Discussion and Analysis

For the Trading Business, on top of distributing the headwear of English Premier League ("EPL") football clubs in Europe, DPI has also strived to diversify its revenue stream. An example can be seen in securing distribution rights of the products of more renowned Marvel's cartoon characters in Europe to enrich its product mix during the period. Besides, the craze for those cartoon characters should continue as Disney has planned to release two movies for Marvel characters every year. This not only would help the Group enhance brand recognition, but should also expand the product mix to target customers in different age groups. In the future, the Group plans to target the mass market as the development focus of the products featuring Marvel's cartoon characters. On the other hand, SDHC will also continue to promote its own brand products. As its newly launched accessory collection featuring attractive handbags and scarves has been well received by the market during the Period, the Group will continue to broaden its product mix and seek to promote products to other markets to pursue further business growth.

Regarding the Retail Business, the Group has successfully boosted the performance of this segment by adopting a business strategy of focusing on franchise operations during the Period. Thus it intends to follow this strategy and further develop the franchisees which demonstrate potential. As for the Sanrio Business, the Group is continuing to increase the proportion of products imported directly from Japan as it believes that the niche of high quality products will attract customers. In the Headwear Sales Business, on top of consolidating the number of stores, the Group is also enhancing its marketing effectiveness. Given the craze of the market for limited edition products with high quality and driven by campaigns promoting Marvel's movies, the Group is arranging various promotional activities in the second half of the year and plans to launch the sales of limited edition headwear aligned with the debut of the movies. This should raise the awareness of the Group's products and, more importantly, should boost customer traffic of its stores, thus driving turnover growth.

With specific measures formulated for different business segments in place, the Group believes that it has laid a solid foundation for all of its businesses. Looking ahead, the management will continue to strive for the best returns for shareholders through executing its business development strategies. Thus we are confident about the future prospects of Mainland Headwear.

Management Discussion and Analysis

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2014, the Group had cash and bank balances and a portfolio of liquid investments totaling HK$145.8 million (31 December 2013: HK$148.9 million). About 42% and 37% of these liquid funds were denominated in Renminbi and US dollars respectively. As at 30 June 2014, the Group had banking facilities of HK$225.5 million (31 December 2013: HK$241.1 million), of which HK$184.9 million (31 December 2013: HK$210.3 million) was not utilised.

The gearing ratio (being the Group's net borrowings over total equity) of the Group is at 5.1% (31 December 2013: 5.5%). In view of the strong financial and liquidity position, the Group will have sufficient financial resources to meet its commitments and working capital requirements.

CAPITAL EXPENDITURE

During the Period, the Group spent approximately HK$16.6 million (2013: HK$4.5 million) on additions to equipment to further upgrade and expand its manufacturing capabilities mainly in Bangladesh, and HK$2.0 million (2013: HK$3.2 million) for the opening of retail stores and for trading business.

As at 30 June 2014, the Group had authorised capital commitment of HK$20.0 million in respect of manufacturing plants and equipment. In addition, the Group also had authorised capital commitment of HK$2.0 million for the opening of new retail outlets.

EXCHANGE RISK

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

EMPLOYEES AND REMUNERATION POLICIES

At 30 June 2014, the Group employed a total of 2,211 (2013: 2,956) workers and employees in the PRC, 1,750 (2013: 573) workers and employees in Bangladesh, 124 (2013: 112) employees in Hong Kong and Macau, and 45 (2013: 44) employees in the USA and the UK. The expenditures for the employees during the Period were approximately HK$113.5 million (2013: HK$118.0 million). The Group ensures that the pay levels of its employees are competitive and employees are remunerated based on their position and performance. Key employees of the Group, including Directors, are also granted share options under the share option schemes operated by the Company.

Interim Dividend and Closure of Register of Members

INTERIM DIVIDEND

The Board has declared an interim dividend of 1 HK cent (2013: 1 HK cent) per share, payable on or after 10 October 2014.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 16 September 2014 to 19 September 2014 (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 15 September 2014.

Independent Review Report

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

INTRODUCTION

We have reviewed the interim financial information set out on pages 11 to 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 2014 and the related interim condensed consolidated statements of income, comprehensive income, changes in equity and cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Independent Review Report

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Per formed 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, 22 August 2014

Condensed Consolidated Income Statement (Unaudited)

For the six months ended 30 June 2014

		Six months ended 30 June	
	Note	**2014** ***HK$'000***	2013 *HK$'000*
Revenue	5 & 6	**450,540**	428,418
Cost of sales		**(323,100)**	(325,650)
Gross profit		**127,440**	102,768
Other income		**4,696**	1,453
Other losses – net		**(218)**	(350)
Selling and distribution costs		**(53,571)**	(54,977)
Administration expenses		**(60,508)**	(63,866)
Profit/(loss) from operations		**17,839**	(14,972)
Finance income		**903**	971
Finance costs		**(651)**	(1,728)
Finance income/(costs) – net	7(a)	**252**	(757)
Profit/(loss) before income tax	7	**18,091**	(15,729)
Income tax expense	8	**(2,812)**	(1,607)
Profit/(loss) for the period		**15,279**	(17,336)
Attributable to:			
Owners of the Company		**17,285**	(16,864)
Non-controlling interests		**(2,006)**	(472)
		15,279	(17,336)
Earnings/(loss) per share attributable to owners of the Company	9		
Basic		**4.3 HK cents**	(4.2 HK cents)
Diluted		**4.3 HK cents**	(4.2 HK cents)

The notes on pages 18 to 35 form an integral part of these condensed consolidated interim financial information.

		HK$'000	*HK$'000*
Dividends	10	**3,986**	3,986

Condensed Consolidated Statement of Comprehensive Income (Unaudited)

For the six months ended 30 June 2014

	Six months ended 30 June	
	2014	2013
	HK$'000	*HK$'000*
Profit/(loss) for the period	**15,279**	(17,336)
Other comprehensive income		
Item that may be reclassified to profit or loss:		
Exchange differences on translation of financial statements of foreign operations	**(3,875)**	1,341
Items that will not be reclassified to profit and loss:		
Revaluation surplus upon transfer of land and buildings to investment properties	**10,723**	–
Deferred tax arising from revaluation surplus upon transfer of land and buildings to investment properties *(Note 8)*	**(2,681)**	–
Total comprehensive income for the period, net of tax	**19,446**	(15,995)
Attributable to:		
Owners of the Company	**21,452**	(15,555)
Non-controlling interests	**(2,006)**	(440)
Total comprehensive income for the period	**19,446**	(15,995)

The notes on pages 18 to 35 form an integral part of these condensed consolidated interim financial information.

Condensed Consolidated Balance Sheet (Unaudited)

At 30 June 2014

	Note	30 June 2014 (Unaudited) *HK$'000*	31 December 2013 (Audited) *HK$'000*
ASSETS			
Non-current assets			
Property, plant and equipment	11	**115,203**	126,040
Investment properties	11	**38,764**	12,889
Land use rights		**–**	402
Goodwill		**33,798**	33,798
Other intangible assets	11	**25,797**	28,775
Available-for-sale financial assets		**219**	222
Deferred income tax assets		**3,105**	3,023
Other non-current receivables	12	**16,901**	21,157
Pledged bank deposits		**1,750**	1,750
		235,537	228,056
Current assets			
Inventories		**171,547**	163,711
Trade and other receivables	12	**171,000**	179,591
Financial assets at fair value through profit or loss		**2,479**	2,657
Derivative financial instruments		**–**	42
Cash and cash equivalents		**143,280**	146,209
		488,306	492,210
Total assets		**723,843**	720,266

Condensed Consolidated Balance Sheet (Unaudited)

At 30 June 2014

	Note	**30 June 2014 (Unaudited)** ***HK$'000***	31 December 2013 (Audited) *HK$'000*
EQUITY			
Equity attributable to owners of the Company			
Share capital	13	**39,858**	39,858
Other reserves		**232,473**	228,297
Retained earnings			
– Declared dividends		**3,986**	3,986
– Others		**231,851**	218,552
		508,168	490,693
Non-controlling interests		**(2,740)**	(734)
Total equity		**505,428**	489,959
LIABILITIES			
Non-current liabilities			
Other non-current payables	14	**3,203**	4,695
Long service payment payable		**440**	440
Deferred tax liabilities		**2,681**	–
		6,324	5,135
Current liabilities			
Trade and other payables	14	**158,286**	171,019
Amount due to related companies		**932**	1,885
Current income tax liabilities		**26,927**	25,268
Borrowings	15	**25,946**	27,000
		212,091	225,172
Total liabilities		**218,415**	230,307
Total equity and liabilities		**723,843**	720,266
Net current assets		**276,215**	267,038
Total assets less current liabilities		**511,752**	495,094

The notes on pages 18 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 2014

	Attributable to owners of the Company									
	Share capital HK$'000	Share premium HK$'000	Contributed surplus HK$'000	Share based compensation reserve HK$'000	Revaluation reserve HK$'000	Exchange reserve HK$'000	Retained earnings HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2014	39,858	160,230	25,878	6,486	–	35,703	222,538	490,693	(734)	489,959
Profit for the period	–	–	–	–	–	–	17,285	17,285	(2,006)	15,279
Other comprehensive income:										
– Exchange differences on translation of financial statements of foreign operations	–	–	–	–	–	(3,875)	–	(3,875)	–	(3,875)
– Revaluation surplus upon transfer of land and buildings to investment properties	–	–	–	–	8,042	–	–	8,042	–	8,042
Total comprehensive income for the period net of tax	–	–	–	–	8,042	(3,875)	17,285	21,452	(2,006)	19,446
2013 final dividend paid	–	–	–	–	–	–	(3,986)	(3,986)	–	(3,986)
Equity settled share-based transactions	–	–	–	9	–	–	–	9	–	9
Total contributions by and distribution to owners of the Company	–	–	–	9	–	–	(3,986)	(3,977)	–	(3,977)
At 30 June 2014	39,858	160,230	25,878	6,495	8,042	31,828	235,837	508,168	(2,740)	505,428
Representing:										
2014 declared interim dividend							3,986			
Other retained earnings							231,851			
							235,837			

Condensed Consolidated Statement of Changes in Equity (Unaudited)

For the six months ended 30 June 2014

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

The notes on pages 18 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 2014

	Six months ended 30 June	
	2014	2013
	HK$'000	*HK$'000*
Cash flows from operating activities		
Cash generated from operations	**23,809**	24,101
Income tax paid	**(1,238)**	(1,136)
Interest paid	**(355)**	(862)
Net cash generated from operating activities	**22,216**	22,103
Cash flows from investing activities		
Interest received	**903**	971
Purchase of investment properties	**–**	(12,889)
Purchase of property, plant and equipment	**(18,558)**	(7,707)
Net cash used in investing activities	**(17,655)**	(19,625)
Cash flows from financing activities		
Dividends paid	**(3,986)**	(7,972)
Repayment of bank borrowings	**(6,500)**	(6,500)
Proceeds from bank borrowings	**5,446**	–
Net cash used in financing activities	**(5,040)**	(14,472)
Net decrease in cash and cash equivalents	**(479)**	(11,994)
Cash and cash equivalents at beginning of year	**146,209**	146,382
Effect of foreign exchange rate changes	**(2,450)**	1,772
Cash and cash equivalents at end of the period	**143,280**	136,160

The notes on pages 18 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 2014

1. BASIS OF PREPARATION

This condensed consolidated interim financial information for the six months ended 30 June 2014 has been prepared in accordance with HKAS 34, 'Interim financial reporting'. The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2013, which have been prepared in accordance with HKFRSs.

This condensed consolidated financial information has not been audited.

2. ACCOUNTING POLICIES

Except as mentioned below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2013, as described in those annual financial statements.

(a) New and amended standards adopted by the Group

The following amendments to standards and interpretations are mandatory for accounting periods beginning on or after 1 January 2014. The adoption of these amendments to standards and interpretations does not have any significant impact to the results and financial position of the Group.

HKFRS 10, HKFRS 12 and HKAS 27 (2011) (Amendment)	Investment entities
HKAS 32 (Amendment)	Offsetting financial assets and financial liabilities
HKAS 36 (Amendment)	Impairment of assets
HKAS 39 (Amendment)	Novation of derivatives
HK(IFRIC) – Int 21	Levies

Notes to the Unaudited Interim Financial Information

For the six months ended 30 June 2014

2. ACCOUNTING POLICIES *(CONTINUED)*

(b) New and amended standards have been issued but are not effective for the financial year beginning 1 January 2014 and have not been early adopted

The following new and amended standards have been issued but are not effective for the financial year beginning 1 January 2014 and have not been early adopted by the Group:

HKFRS 9	Financial instruments[4]
HKFRS 11 (Amendment)	Accounting for acquisitions of interests in joint operations[2]
HKFRS 14	Regular deferral accounts[2]
HKFRS 15	Revenue from contracts with customers[3]
HKAS 16 and HKAS 38 (Amendment)	Classification of acceptable methods of depreciation and amortisation[2]
HKAS 19 (2011) (Amendment)	Defined benefit plans: employee contributions[1]
Annual improvements project	Annual improvements 2010-2012 cycle[1]
Annual improvements project	Annual improvements 2011-2013 cycle[1]

[1] Effective for the Group for annual period beginning on 1 July 2014.
[2] Effective for the Group for annual period beginning on 1 January 2016.
[3] Effective for the Group for annual period beginning on 1 January 2017.
[4] Effective date to be determined.

The expected impacts from the adoption of the above standards and amendments 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.

3. ESTIMATES

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

In preparing this condensed consolidated interim financial information, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2013.

Notes to the Unaudited Interim Financial Information

For the six months ended 30 June 2014

4. FINANCIAL RISK MANAGEMENT

4.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign currency risk, 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 2013.

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

4.2 Fair value estimation

The Group's financial assets and liabilities are carried at amounts not materially different from their fair values as at 31 December 2013 and 30 June 2014 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 2014

4. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

4.2 Fair value estimation *(Continued)*

The following table presents the Group's assets measured at fair value in the balance sheet in accordance with the fair value hierarchy at 30 June 2014.

	Level 1 *HK$'000*	Level 2 *HK$'000*	Level 3 *HK$'000*	Total *HK$'000*
Assets				
Financial assets at fair value through profit or loss	2,479	–	–	2,479
Total financial assets	**2,479**	**–**	**–**	**2,479**

The following table presents the Group's assets measured at fair value in the balance sheet in accordance with the fair value hierarchy at 31 December 2013.

	Level 1 *HK$'000*	Level 2 *HK$'000*	Level 3 *HK$'000*	Total *HK$'000*
Assets				
Derivatives financial instruments	–	42	–	42
Financial assets at fair value through profit or loss	2,657	–	–	2,657
Total financial assets	2,657	42	–	2,699

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.

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

Notes to the Unaudited Interim Financial Information

For the six months ended 30 June 2014

4. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

4.2 Fair value estimation *(Continued)*

There were no significant changes in the business or economic circumstances for the period ended 30 June 2014 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 2014.

5. REVENUE

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

6. SEGMENT INFORMATION

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

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

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

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

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

Segment assets exclude investment properties, available-for-sale financial assets, deferred income tax assets, financial assets at fair value through profit or loss, derivative financial instruments 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.

Notes to the Unaudited Interim Financial Information

For the six months ended 30 June 2014

6. SEGMENT INFORMATION *(CONTINUED)*

	Manufacturing Six months ended		Trading Six months ended		Retail Six months ended		Total Six months ended	
	2014	2013	**2014**	2013	**2014**	2013	**2014**	2013
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Revenue from external customers	**289,041**	275,488	**104,732**	91,469	**56,767**	61,461	**450,540**	428,418
Inter-segment revenue	**37,098**	29,156	**-**	–	**-**	–	**37,098**	29,156
Reportable segment revenue	**326,139**	304,644	**104,732**	91,469	**56,767**	61,461	**487,638**	457,574
Reportable segment profit/(loss)	**23,012**	(3,737)	**692**	2,047	**(1,264)**	(8,971)	**22,440**	(10,661)
Fair value loss on financial assets at fair value through profit or loss							**(178)**	(752)
Fair value loss on derivative financial instruments							**(42)**	(144)
Gain on settlement of derivative financial instruments							**42**	864
Share-based payment expenses							**(9)**	(64)
Unallocated corporate income							**17**	16
Unallocated corporate expenses							**(4,431)**	(4,231)
Profit/(loss) from operations							**17,839**	(14,972)
Finance income/(costs) – net							**252**	(757)
Income tax expense							**(2,812)**	(1,607)
Profit/(loss) for the period							**15,279**	(17,336)

Notes to the Unaudited Interim Financial Information

For the six months ended 30 June 2014

6. SEGMENT INFORMATION *(CONTINUED)*

	Manufacturing		Trading		Retail		Total	
	30 June 2014 (unaudited) *HK$'000*	31 December 2013 (audited) *HK$'000*	**30 June 2014 (unaudited) *HK$'000***	31 December 2013 (audited) *HK$'000*	**30 June 2014 (unaudited) *HK$'000***	31 December 2013 (audited) *HK$'000*	**30 June 2014 (unaudited) *HK$'000***	31 December 2013 (audited) *HK$'000*
Reportable segment assets	**328,776**	349,933	**140,970**	137,726	**66,250**	63,480	**535,996**	551,139
Investment properties							**38,764**	12,889
Available-for-sale financial assets							**219**	222
Deferred income tax assets							**3,105**	3,023
Financial assets at fair value through profit or loss							**2,479**	2,657
Derivative financial instruments							**-**	42
Cash and cash equivalents							**143,280**	146,209
Other corporate assets							**-**	4,085
Total assets							**723,843**	720,266

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

Notes to the Unaudited Interim Financial Information

For the six months ended 30 June 2014

7. PROFIT/(LOSS) BEFORE INCOME TAX

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

	Six months ended 30 June	
	2014	2013
	HK$'000	*HK$'000*
(a) Finance income/(costs) – net		
Interest on bank loans, overdrafts and other borrowings	**(355)**	(862)
Interest on license fee payables	**(283)**	(853)
Interest on amount due to a related company	**(13)**	(13)
Interest income	**903**	971
Net finance income/(costs)	**252**	(757)
(b) Other items		
Fair value loss on financial assets at fair value through profit or loss	**178**	752
Fair value loss on derivative financial instruments	**42**	144
Gain on settlement of derivative financial instruments	**(42)**	(864)
Depreciation of property, plant and equipment	**13,127**	12,155
Amortisation of other intangible assets	**4,231**	7,313
Provision for impairment of trade and other receivables	**–**	357
Provision for slow moving and obsolete inventories	**1,611**	15,605
Provision for impairment of property, plant and equipment	**–**	2,902
Exchange loss, net	**40**	318
Excess of the share of the fair value of net assets of a subsidiary acquired over acquisition costs	**–**	(109)

Notes to the Unaudited Interim Financial Information

For the six months ended 30 June 2014

8. INCOME TAX EXPENSE

	Six months ended 30 June	
	2014	2013
	HK$'000	*HK$'000*
Hong Kong Profits Tax	**900**	400
Overseas tax	**1,997**	1,657
	2,897	2,057
Deferred income tax	**(85)**	(450)
	2,812	1,607

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

Hong Kong profits tax has been provided at the rate of 16.5% (2013: 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.

Deferred income tax liability arising from the revaluation surplus upon transfer of land and buildings to investment properties amounting to HK$2,681,000 (2013: nil) has been charged to other comprehensive income on the date of change in use.

9. EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings/(loss) per share is based on the profit attributable to owners of the Company of HK$17,285,000 (2013: loss of HK$16,864,000) and on the weighted average number of shares of 398,583,284 (2013: 398,583,284) in issue during the period.

Dilutive earnings/(loss) per share is the same as basic earnings/(loss) per share for the periods ended 30 June 2013 and 30 June 2014 as the share options have no dilutive impact for both periods.

Notes to the Unaudited Interim Financial Information

For the six months ended 30 June 2014

10. DIVIDENDS

(a) Dividends attributable to the period

	Six months ended 30 June	
	2014	2013
	HK$'000	*HK$'000*
Interim dividend declared of 1 HK cent (2013: 1 HK cent) per share	**3,986**	3,986

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 2014.

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

	Six months ended 30 June	
	2014	2013
	HK$'000	*HK$'000*
Final dividend paid in respect of 2013 of 1 HK cent (2012: 2 HK cents) per share	**3,986**	7,972

Notes to the Unaudited Interim Financial Information

For the six months ended 30 June 2014

11. CAPITAL EXPENDITURE

	Property, plant and equipment *HK$'000*	**Investment properties** *HK$'000*	**Other intangible assets** *HK$'000*
Six months ended 30 June 2014			
Opening net book amount as at 1 January 2014	126,040	12,889	28,775
Transfer of land and building as investment properties	(15,120)	15,435	–
Revaluation surplus upon transfer of land and buildings to investment properties	–	10,723	–
Exchange differences	(1,049)	(283)	–
Additions	18,558	–	1,253
Disposals	(99)	–	–
Depreciation and amortisation	(13,127)	–	(4,231)
Closing net book amount as at 30 June 2014	**115,203**	**38,764**	**25,797**
Six months ended 30 June 2013			
Opening net book amount as at 1 January 2013	93,802	–	40,301
Acquisition of a subsidiary	29,540	–	–
Exchange differences	3,028	–	(228)
Additions	7,707	12,889	653
Disposals	(119)	–	–
Depreciation and amortisation	(12,155)	–	(7,313)
Impairment	(2,902)	–	–
Closing net book amount as at 30 June 2013	118,901	12,889	33,413

As at 30 June 2014, other intangible assets represent acquired customer relationship of HK$12,295,000 (31 December 2013: HK$13,049,000), trademark of HK$4,886,000 (31 December 2013: HK$5,412,000) and licensing rights for the use of certain licensed trademark, brands and logos in the Group's products and retail outlets of HK$8,616,000 (31 December 2013: HK$10,314,000).

Notes to the Unaudited Interim Financial Information

For the six months ended 30 June 2014

11. CAPITAL EXPENDITURE *(CONTINUED)*

The valuations of the investment properties have referenced to 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 investment properties of residential units in USA and PRC and the production facilities in the PRC are classified as Level 3 fair value measurements as at 31 December 2013 and as at 30 June 2014 which included significant unobservable inputs in the fair value measurement.

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 Level 1, Level 2 and 3 during the period.

For all investment properties, their current use equates to the highest and best use.

The Group's finance department reviews the valuations performed by the independent valuers for financial reporting purposes. This team reports directly to the chief financial officer and group senior management for discussions in relation to the valuation processes and the reasonableness of the valuation results.

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.

Key unobservable inputs used in the level 3 valuation of the investment properties is the prevailing market rent. Prevailing market rents are based on lettings of the properties within the subject properties and other comparable properties. The lower the rents, the lower the fair value.

Notes to the Unaudited Interim Financial Information

For the six months ended 30 June 2014

12. TRADE AND OTHER RECEIVABLES

	30 June 2014	31 December 2013
	HK$'000	*HK$'000*
Trade and bills receivables	**133,439**	142,214
Deposits, prepayments and other receivables	**63,860**	68,302
	197,299	210,516
Less: provision for impairment	**(7,105)**	(7,475)
Less: provision for sales return	**(2,293)**	(2,293)
	187,901	200,748
Less: non-current portion of prepayments and other receivables	**(16,901)**	(21,157)
Current portion	**171,000**	179,591

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

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

	30 June 2014	31 December 2013
	HK$'000	*HK$'000*
0 – 30 days	**73,571**	86,431
31 – 60 days	**34,592**	31,545
61 – 90 days	**11,803**	8,259
Over 90 days	**13,473**	15,979
	133,439	142,214

Notes to the Unaudited Interim Financial Information

For the six months ended 30 June 2014

12. TRADE AND OTHER RECEIVABLES *(CONTINUED)*

Notes:

(a) Included in trade receivables is a balance past due over 90 days from a customer of HK$167,000 (31 December 2013: HK$434,000). The balance bears interest at 15% per annum and is repayable in quarterly instalments of US$15,000 until the entire principal balance and interest has been paid. No collateral were held over this balance.

(b) Included in other receivables are two note receivables of HK$17,934,000 due from two customers (31 December 2013: HK$18,996,000).

One note receivable of HK$2,374,000 (31 December 2013: HK$3,436,000) is interest bearing at 7% per annum and is repayable in 26 monthly instalments up to July 2015. The note is secured by a second mortgage over a property. As at 30 June 2014, a provision was made against the note receivable to the extent of HK$2,374,000 (31 December 2013: HK$3,436,000).

Another note receivable of HK$15,560,000 (31 December 2013: HK$15,560,000) is interest bearing at 5% per annum and is repayable in 12 quarterly instalments from January 2015 to October 2017. The note is secured by all the assets of the customer but the Group's interest in the collaterals is subordinated to the customer's major lender. The customer has also committed to place purchase orders with the Group with a minimum amount no less than US$16 million each year for three years or over the duration of the loan, whichever is shorter.

13. SHARE CAPITAL

	Number of shares of HK$0.10 each	*HK$'000*
Authorised:		
At 1 January 2013, 31 December 2013 and 30 June 2014	1,000,000,000	100,000
Issued and fully paid:		
At 1 January 2013, 31 December 2013 and 30 June 2014	398,583,284	39,858

Notes to the Unaudited Interim Financial Information

For the six months ended 30 June 2014

14. TRADE AND OTHER PAYABLES

	30 June 2014 *HK$'000*	31 December 2013 *HK$'000*
Trade and bills payables	**71,422**	79,171
Accrued charges and other payables	**90,067**	96,543
	161,489	175,714
Less: other non-current payables	**(3,203)**	(4,695)
Current portion	**158,286**	171,019

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

	30 June 2014 *HK$'000*	31 December 2013 *HK$'000*
0 – 30 days	**41,913**	41,587
31 – 60 days	**18,829**	27,057
61 – 90 days	**3,151**	4,656
Over 90 days	**7,529**	5,871
	71,422	79,171

Notes to the Unaudited Interim Financial Information

For the six months ended 30 June 2014

15. BORROWINGS

Movement in borrowings is analysed as follows:

	30 June 2014 *HK$'000*	31 December 2013 *HK$'000*
Opening amount as at 1 January	**27,000**	33,500
Drawdown of borrowings	**5,446**	–
Repayment of borrowings	**(6,500)**	(6,500)
Closing amount as at 30 June/31 December	**25,946**	27,000

16. CAPITAL COMMITMENTS

At 30 June 2014, the Group had capital expenditure commitments as follows:

	30 June 2014 *HK$'000*	31 December 2013 *HK$'000*
Authorised but not contracted for		
– Manufacturing business	**20,000**	23,340
– Trading business	**1,000**	1,000
– Retail business	**1,000**	2,000
	22,000	26,340

Notes to the Unaudited Interim Financial Information

For the six months ended 30 June 2014

17. SIGNIFICANT RELATED PARTY TRANSACTIONS

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

(a) Sale and purchase of goods and services

	Six months ended 30 June	
	2014	2013
	HK$'000	*HK$'000*
Sales of goods to affiliated companies of a shareholder	**133,896**	130,592
Rental paid in respect of office premises to directors and a company controlled by a director	**636**	480
License fee paid to an affiliated company of a shareholder	**570**	350
Claim charges paid to affiliated companies of a shareholder	**4,824**	586

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

	30 June	31 December
	2014	2013
	HK$'000	*HK$'000*
Trade receivables from affiliated companies of a shareholder	**42,010**	51,546

Notes to the Unaudited Interim Financial Information

For the six months ended 30 June 2014

17. SIGNIFICANT RELATED PARTY TRANSACTIONS *(CONTINUED)*

(c) Key management personnel remuneration

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

	Six months ended 30 June	
	2014	2013
	HK$'000	*HK$'000*
Short-term employee benefits	**10,348**	9,267
Share-based payments	**–**	20
Retirement scheme contributions	**77**	69
	10,425	9,356

18. APPROVAL OF INTERIM FINANCIAL INFORMATION

The interim financial information was approved by the Board of Directors on 22 August 2014.

Other Information Provided in Accordance with the Listing Rules

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 30 June 2014, the interests of the Directors in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), which had been notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

Long positions in the shares and underlying shares of the Company

	Number of shares				
	Personal interest	**Other direct interest**	**Underlying shares**	**Total**	**Percentage of interest**
Mr. Ngan Hei Keung	–	217,250,000 *(note 1, 2)*	45,800,000 *(note 3, 4)*	263,050,000	66.00%
Madam Ngan Po Ling, Pauline	33,550,000 *(note 2)*	183,700,000 *(note 1)*	45,800,000 *(note 3, 4)*	263,050,000	66.00%
Mr. James S. Patterson	–	–	2,000,000 *(note 5)*	2,000,000	0.50%
Ms. Maggie Gu	–	–	500,000 *(note 5)*	500,000	0.13%

Other Information Provided in Accordance with the Listing Rules

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

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

Notes:

(1) 183,700,000 shares are legally and beneficially owned by 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 dated 22 November 2011 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.

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 interested entity, and any customers of the Group or any invested entity to subscribe for shares in the Company.

The total number of shares which may be issued upon exercise of all options to be granted under the New Scheme and any other share option schemes of the Group may not in aggregate exceed 39,858,328, being 10% of the shares in issue of the Company as at 29 December 2011, the date of adoption of the New Scheme.

The exercise price of the options is the highest of the nominal value of the shares, the closing price of the shares on the Stock Exchange on the date of offer of the options and the average closing price of the shares on the Stock Exchange for the five trading days immediately preceding the date of offer of the options.

The Old and New Schemes will remain in force for a period of 10 years from the date of its adoption. The purpose of the New Scheme is to enable the Group to grant options to selected participants as incentive or rewards for their contributions to the Group.

Unless approved by shareholders in general meeting, the total number of shares issued and which may fall to be issued upon exercise of the options of the New Scheme and the options granted under any other schemes of the Group (including both exercised or outstanding options) to each grantee in any 12-month period shall not exceed 1% of the issued share capital of the Company at the relevant time.

An option may be exercised in accordance with the terms of the New Scheme at any time during the period (which may not expire later than 10 years from the date of offer of that option) to be determined and notified by the Directors to the grantee and in the absence of such determination, from the date of acceptance of the offer of such option to the earlier of the date on which such option lapses in accordance with the terms of the New Scheme and 10 years from the date of offer of that option. A consideration of HK$1 will be payable upon acceptance of the offer.

As at the date of interim report, the total number of shares available for issue, save for those granted but yet to be exercised, under the New Scheme was 35,858,328 shares, which represented 9% of the issued share capital of the Company.

Other Information Provided in Accordance with the Listing Rules

SHARE OPTION SCHEMES *(CONTINUED)*

At 30 June 2014, the Directors, employees, customers and suppliers of the Group had the following interests in options to subscribe for shares of the Company (market value per share was HK$0.7 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 1.1.2014 and 30.6.2014	Market value per share at date of grant
New Scheme					
Director	23.06.2009	23.06.2010 – 22.06.2019	0.946	8,500,000	0.93
Employees	11.06.2008	11.06.2009 – 10.06.2018	1.19	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
				12,170,000	

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$9,000 of share-based payment expense has been included in the condensed consolidated income statement for the six months ended 30 June 2014 (2013: HK$64,000) 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 2014, shareholders (other than Directors or chief executives of the Company) who had interests or short positions in the shares or underlying shares of the Company which were required to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Long positions in the shares and underlying shares

		Number of shares				
Name	**Capacity**	**Personal interest**	**Other interest**	**Underlying shares**	**Total**	**Percentage of interest**
Successful Years International Co., Ltd. *(note 1)*	Beneficial owner	183,700,000	–	–	183,700,000	46.09%
Mr. Christopher Koch *(note 2)*	Interest of a controlled corporation	–	79,601,000	–	79,601,000	19.97%
NEHK *(note 2)*	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 dated 22 November 2011 between Mr. Ngan, Madam Ngan and NEHK, NEHK is entitled to sell up to 39,800,000 shares to Mr. Ngan and Madam Ngan on the terms and conditions of the said deed. In view of Mr. Koch's 75% shareholding interest in 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 2014, 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 2014, 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 2014.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

AUDIT COMMITTEE

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

By Order of the Board
Ngan Hei Keung
Chairman

Hong Kong, 22 August 2014

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