MAINLAND HEADWEAR HOLDINGS LIMITED
飛達帽業控股有限公司 *

(Incorporated in Bermuda with limited liability)

(Stock code: 1100)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2016

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 2016 (the "Period") together with comparative figures for the corresponding period in 2015.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS (UNAUDITED)

For the six months ended 30 June 2016

		Six months ended 30 June	
		2016	2015
	Note	***HK$'000***	*HK$'000*
Revenue	*3*	**451,532**	443,280
Cost of sales		**(299,695)**	(311,632)
Gross profit		**151,837**	131,648
Other income		**6,561**	5,869
Other gains – net		**699**	412
Selling and distribution costs		**(44,691)**	(43,459)
Administration expenses		**(67,446)**	(64,948)
Profit from operations	*4(a)*	**46,960**	29,522
Finance income		**406**	743
Finance costs		**(825)**	(716)
Finance (costs)/income – net	*4(b)*	**(419)**	27
Profit before income tax	*4*	**46,541**	29,549
Income tax expense	*5*	**(7,268)**	(2,315)
Profit for the period		**39,273**	27,234

* *For identification purpose only*

		Six months ended 30 June	
		2016	2015
	Note	***HK$'000***	*HK$'000*
Attributable to:			
Owners of the Company		**36,799**	25,821
Non-controlling interests		**2,474**	1,413
		39,273	27,234
Earnings per share attributable to owners of the Company	*6*		
Basic		**9.2 HK cents**	6.5 HK cents
Diluted		**9.1 HK cents**	6.4 HK cents

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

For the six months ended 30 June 2016

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

CONDENSED CONSOLIDATED BALANCE SHEET (UNAUDITED)

At 30 June 2016

	Note	30 June 2016 (Unaudited) HK$'000	31 December 2015 (Audited) HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment	*8*	**167,885**	171,359
Investment properties	*8*	**75,447**	38,522
Goodwill		**33,798**	33,798
Other intangible assets	*8*	**13,975**	16,834
Deferred income tax assets		**2,134**	2,323
Other non-current receivables	*9*	**1,159**	6,550
		294,398	269,386
Current assets			
Inventories		**154,493**	166,830
Trade and other receivables	*9*	**193,357**	163,625
Financial assets at fair value through profit or loss		**1,250**	1,314
Short-term bank deposits		**3,184**	3,175
Cash and cash equivalents		**184,800**	174,510
		537,084	509,454
Total assets		**831,482**	778,840
EQUITY			
Equity attributable to owners of the Company			
Share capital		**39,858**	39,858
Other reserves		**251,002**	228,069
Retained earnings		**317,031**	288,204
		607,891	556,131
Non-controlling interests		**(3,166)**	(5,421)
Total equity		**604,725**	550,710

	Note	30 June 2016 (Unaudited) HK$'000	31 December 2015 (Audited) HK$'000
LIABILITIES			
Non-current liabilities			
Other non-current payables	*10*	**706**	1,075
Long service payment payable		**457**	457
Deferred tax liabilities		**12,284**	3,059
		13,447	4,591
Current liabilities			
Trade and other payables	*10*	**117,041**	132,779
Amounts due to related companies		**1,032**	1,003
Current income tax liabilities		**28,841**	22,161
Borrowings		**66,396**	67,596
		213,310	223,539
Total liabilities		**226,757**	228,130
Total equity and liabilities		**831,482**	778,840
Net current assets		**323,774**	285,915
Total assets less current liabilities		**618,172**	555,301

Notes

1. BASIS OF PREPARATION

This condensed consolidated interim financial information for the six months ended 30 June 2016 has been prepared in accordance with Hong Kong Accounting Standards ("HKAS") 34, 'Interim financial reporting'. The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2015, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

This condensed consolidated financial information has not been audited.

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 2015, as described in those annual financial statements.

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

(a) New and amended standards adopted by the Group

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

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

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

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

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

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

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

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

3. SEGMENT INFORMATION

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

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

(i) Manufacturing Business: The Group manufactures headwear products for sale to its Trading Business and Retail Business as well as to external customers. The principal manufacturing facilities are located in Shenzhen, the People's Republic of China ("PRC"), and Bangladesh. Customers are mainly located in the United States of America ("USA") and Europe.

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

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

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

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

	Manufacturing		Trading		Retail		Total	
	30 June 2016 (unaudited) ***HK$'000***	31 December 2015 (audited) *HK$'000*	**30 June 2016 (unaudited)** ***HK$'000***	31 December 2015 (audited) *HK$'000*	**30 June 2016 (unaudited)** ***HK$'000***	31 December 2015 (audited) *HK$'000*	**30 June 2016 (unaudited)** ***HK$'000***	31 December 2015 (audited) *HK$'000*
Reportable segment assets	**324,836**	317,910	**186,164**	185,859	**53,667**	55,227	**564,667**	558,996
Investment properties							**75,447**	38,522
Deferred income tax assets							**2,134**	2,323
Financial assets at fair value through profit or loss							**1,250**	1,314
Short-term bank deposits							**3,184**	3,175
Cash and cash equivalents							**184,800**	174,510
Total assets							**831,482**	778,840

4. PROFIT BEFORE INCOME TAX

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

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

Note:

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

5. INCOME TAX EXPENSE

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

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

Hong Kong profits tax has been provided at the rate of 16.5% (2015: 16.5%) on the estimated assessable profits for the period. Taxation on overseas profits has been calculated on the estimated assessable profits for the period at the rates of taxation prevailing in the countries in which the Group operates.

6. EARNINGS PER SHARE

(a) Basic

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

	2016	2015
Profit attributable to owners of the Company *(HK$'000)*	**36,799**	25,821
Weighted average number of ordinary shares in issue	**398,583,284**	398,583,284

(b) Diluted

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

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

7. DIVIDENDS

(a) Dividends attributable to the period

	Six months ended 30 June	
	2016	2015
	HK$'000	*HK$'000*
Interim dividend declared of 2 HK cents (2015: 1 HK cent) per share	**7,972**	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 2016.

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

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

8. CAPITAL EXPENDITURE

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

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

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

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

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

9. TRADE AND OTHER RECEIVABLES

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

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

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

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

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

	30 June 2016	31 December 2015
	HK$'000	*HK$'000*
Falling within 90 days	**–**	1,597
	–	1,597

Note:

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

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

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

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

10. TRADE AND OTHER PAYABLES

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

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

FINANCIAL REVIEW

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

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

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

BUSINESS REVIEW

Manufacturing Business

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

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

Trading Business

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

Retail Business

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

Sanrio

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

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

Headwear Sales

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

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

Prospects

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

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

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

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

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

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

LIQUIDITY AND FINANCIAL RESOURCES

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

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

CAPITAL EXPENDITURE

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

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

EXCHANGE RISK

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

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2016, the Group employed a total of 1,688 (2015 Interim: 1,731) workers and employees in the PRC, 2,920 (2015 Interim: 2,827) workers and employees in Bangladesh, 104 (2015 Interim: 110) employees in Hong Kong and Macau, and 45 (2015 Interim: 45) employees in the USA and the UK. The expenditures for the employees during the Period were approximately HK$119.7 million (2015 Interim: HK$113.3 million). The Group ensures that the pay levels of its employees are competitive and employees are remunerated based on their position and performance. Key employees of the Group, including Directors, are also granted share options under the share option schemes operated by the Company.

INTERIM DIVIDEND

The Board has declared an interim dividend of 2 HK cents (2015 Interim: 1 HK cent) per share, payable on or after 6 October 2016.

CLOSURE OF REGISTER OF MEMBERS

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

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

During the six months ended 30 June 2016, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

CODE ON CORPORATE GOVERNANCE PRACTICES

In the opinion of the Board, the Company has complied with the code provisions in the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Listing Rules during the six months ended 30 June 2016.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules. All Directors have confirmed, following enquiry by the Company, that they have complied with the required standard set out in Model Code throughout the period ended 30 June 2016.

AUDIT COMMITTEE

The Company has complied with Rule 3.21 of the Listing Rules in relation to the establishment of an audit committee. The audit committee members comprise all independent non-executive directors and non-executive directors. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control procedures of the Group. The audit committee has reviewed the interim financial information for the period ended 30 June 2016.

By Order of the Board
Ngan Hei Keung
Chairman

Hong Kong, 25 August 2016

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