



# Mainland Headwear Holdings Limited

(Stock code: 1100)

## 2019

### INTERIM REPORT



# Contents

	<i>pages</i>
Management Discussion and Analysis	<b>2</b>
Interim Dividend and Closure of Register of Members	<b>9</b>
Interim Condensed Consolidated Statement of Profit or Loss (Unaudited)	<b>10</b>
Interim Condensed Consolidated Statement of Comprehensive Income (Unaudited)	<b>12</b>
Interim Condensed Consolidated Balance Sheet (Unaudited)	<b>13</b>
Interim Condensed Consolidated Statement of Changes in Equity (Unaudited)	<b>15</b>
Interim Condensed Consolidated Cash Flow Statement (Unaudited)	<b>17</b>
Notes to the Unaudited Interim Condensed Consolidated Financial Information	<b>18</b>
Other Information Provided in Accordance with the Listing Rules	<b>54</b>

## 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, “Mainland Headwear” or the “Group”) for the six months ended 30 June 2019 (the “Period”).

### FINANCIAL REVIEW

In the first half of 2019, the ongoing China-US trade tensions added to the uncertainty surrounding the global economy. Nevertheless, Mainland Headwear had expanded its production base into Bangladesh as early as 2013, leveraging China’s Belt and Road initiative. With the trade war escalating, the Group’s Bangladesh factory has become one of its major competitive advantages and satisfied the keen demand from its US customers for orders from production bases outside China, driving the business growth of the Group. Against similar headwinds, compounded by the lackluster trading and retail environment around the globe, its Trading and Retail businesses are facing unprecedented challenges. In view of the highly volatile retail markets in Mainland China and Hong Kong in these years, the management elected to pave the way for termination of the Retail Business.

During the Period, the Group continued to receive a stable revenue stream from its primary income source, the Manufacturing Business, and continuing operations achieved a turnover of HK\$521,181,000 (2018 Interim: HK\$435,838,000), a marked increase of 19.6% when compared with that of last year. Gross profit for continuing operations was up 12.5% to HK\$150,386,000 (2018 interim: HK\$133,699,000). However, due to rising material costs and labour cost faced by the Manufacturing Business, and more promotions offered by its Trading Business, gross profit margin for continuing operations decreased by 1.8 percentage points to 28.9% (2018 Interim: 30.7%). Owing to the less-than-stellar performance of the Trading Business profit from continuing operations fell by 6.3% to HK\$39,946,000 (2018 Interim: HK\$42,650,000). As for the discontinued operations, the loss was narrowed to HK\$4,632,000 (2018 Interim: loss of HK\$5,748,000). Profit attributable to shareholders fell by 4.1% to HK\$34,578,000 (2018 Interim: HK\$36,067,000).

## Management Discussion and Analysis

### BUSINESS REVIEW

#### Manufacturing Business

Based on the unique advantages of the Bangladesh factory, the Group has been receiving strong orders from customers. During the Period, the Manufacturing Business achieved segment revenue of HK\$403,581,000 (2018 Interim: HK\$356,155,000), while revenue from external customers surged by 11.0% to HK\$355,053,000 (2018 Interim: HK\$319,937,000) accounting for approximately 68.1% of the Group's total revenue for continuing operations.

Operating profit of the Manufacturing Business grew by 7.7% to HK\$55,853,000 (2018 Interim: HK\$51,836,000), mainly attributable to the increasing proportion of production from the Bangladesh factory, with the factory's production contributing around 85% of the Group's total capacity. This was achieved in the face of rising material costs and labour cost, the latter of which was due to the increase in minimum wage in the Bangladesh garments industry since December 2018 subsequent to the authority's review conducted every five years. To mitigate the rising labour cost, the Group introduced automation and information technology-enabled production equipment, which can in turn reduce its reliance on manpower and improve production efficiency.

Output increased by approximately 16.7% from about 3 million pieces of headwear products per month in the same period last year to about 3.5 million pieces per month, which was a result of maturing production techniques and a growing workforce. As at 30 June 2019, the Bangladesh factory had approximately 5,400 employees (31 December 2018: about 5,000 employees).

As for the factory in Shenzhen with a workforce of around 860, it mainly serves as the Group's product R&D and design centre, while also supporting the implementation of automation at its Bangladesh counterpart and providing high value-added services. It also focuses on producing products that are sold in Australia, Japan and the China domestic market.

## Management Discussion and Analysis

### Trading Business

Despite being impacted by such uncertainties as the lackluster US and UK retail markets shadowed by the China-US trade war and Brexit, the Group's Trading Business still recorded a solid 43.3% top-line growth, mainly attributable to (i) H3 Sportgear LLC ("H3") seeing double-digit growth in orders from a multinational retail enterprise customer, clear evidence of the success of its business consolidation strategy, especially under such an uneasy environment; and (ii) consolidation of the financial results of Aquarius Ltd. ("Aquarius") from 1 June 2019 subsequent to the Group's acquisition. Revenue of the segment was HK\$166,128,000 (2018 Interim: HK\$115,901,000), accounting for 31.9% of the Group's total revenue for continuing operations. However, as the procurement sentiment has become more cautious, the Group offered more promotions to drive sales. Consequently, operating loss of the business for the Period amounted to HK\$9,164,000 (2018 Interim profit: HK\$490,000).

To diversify the income stream and broaden its product offerings, the Group has completed the acquisition of Aquarius, a leading accessories supplier in the USA, on 30 May 2019. The acquisition marked a step forward in strengthening and expanding the Group's existing business segment by widening the spectrum from headwear to the accessories segment. Subsequent to completion, Subsequent to completion, Aquarius has become a wholly-owned subsidiary of the Group.

Established in St. Louis, Missouri, the USA for nearly 50 years, Aquarius is an established company in designing and marketing accessories and one of the country's largest suppliers of accessories for men, women and children. It also sells licensed, private label and custom headwear, small leather goods, bags, and accessories to many retailers in the USA. After completion of the acquisition, the Group now offers a full series of accessories ranging from headwear products, scarves, belts, wallet, backpacks and gloves to a wide spectrum of customers through different channels in the off-price market, mass market as well as high-end market segments.

The Group expects to benefit from the synergy in sales and cost savings as their customer base, product mix and license portfolio are complementary to each other. At the same time, the Group and Aquarius can share talent and resources in design, warehousing and back office facilities.

## Management Discussion and Analysis

### Discontinued Operations

As discussed above, the Group was proceeding on track terminating the Retail Business. Consequently, revenue of the segment amounted to HK\$22,157,000 (2018 Interim: HK\$31,140,000), and operating loss was narrowed to HK\$4,643,000 (2018 Interim: loss of HK\$5,762,000).

As for the sales of headwear products, the Group had only one NOP brand self-operated store in Hong Kong left during the Period. Since the lease expired in June 2019, the Group has officially retreated from the Hong Kong retail market.

The Group and Sanrio have been discussing the details of transferring the entire Retail Business in the Greater China Region to Sanrio, including operations, staff, stores, inventories, etc.

The management believes that by concluding retail operations on both sides of the border, it will be able to focus resources on advancing the core Manufacturing Business and Trading Business in the best interest of the Company and its shareholders.

### PROSPECTS

The management expects the business environment for the coming year to remain challenging in the face of uncertainty surrounding political and economic developments around the world. The protracted China-US trade dispute has been the root cause of such uncertainty, and will likely worsen following the decision by the US Government to impose a tariff on the remaining US\$300 billion worth of goods and products from China starting on 1 September 2019, with the possibility of further increasing the tariff. A mitigating factor is that the imposition of tariffs on some goods will be delayed until 15 December or excluded altogether.

However, the presence of Mainland Headwear in Bangladesh has gradually been strengthened following years of hard work, laying a solid foundation for its long-term development. Phase II of the factory is expected to start production by the end of this year. The number of workers will increase to around 8,000, and the monthly capacity will achieve five million pieces of headwear products in the future. The management believes that it will bring a greater contribution to the Group next year. When it is fully utilised, full capacity in Bangladesh will rise from around 85% to 90% of the Group's total capacity and the economies of scale would be even more obvious.

## Management Discussion and Analysis

As for product variety, the new factory will be able to manufacture products beyond headwear to cover accessories, such as belts, wallets, gloves, etc, which can support not only its customers, but also the newly acquired Aquarius, enabling the Group to benefit from greater synergies and capture more opportunities. The Group will flexibly allocate resources of its two production bases in Bangladesh and Shenzhen to meet its customers' needs.

Regarding the Trading Business, the newest development of the trade war will add to the challenges already affecting the US retail market and buyers are becoming even more cautious. But benefitting from the acquisition of Aquarius, together with the investments during previous years, the management believes that this business will see greater contributions to the Group in second half year.

In respect of the discontinued Retail Business, the management is confident that a transfer agreement will be inked with Sanrio very soon. The Group will make a timely disclosure of any relevant transaction in accordance with the listing rules.

Given the Group's strengthened presence in Bangladesh and active efforts in diversifying its product portfolio, it possesses the strengths as well as the growth momentum necessary to confidently face the future. The management will also direct its focus and energies to enhancing efficiency across all areas of operation which will ultimately create value for shareholders.

With the best interest of shareholders at heart, the management will continue to reinforce the Group's principal Manufacturing Business and, at that same time, review the profitability of all businesses of the Group, with the aim of optimising resources allocation and in turn maximise profit.

## Management Discussion and Analysis

### LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2019, the Group had cash and bank balances, short-term deposits and a portfolio of liquid investments totaling Hong Kong dollars (“HK\$”) 149.2 million (31 December 2018: HK\$112.2 million). About 34%, 32% and 16% of these liquid funds were denominated in Renminbi, United States dollars and Hong Kong dollars respectively. As at 30 June 2019, the Group had banking facilities of HK\$533.6 million (31 December 2018: HK\$381.3 million), of which HK\$239.0 million (31 December 2018: HK\$219.4 million) were not utilised.

The gearing ratio (being the Group’s net borrowings over total equity) of the Group is at 39.1% (31 December 2018: 21.0%). 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 HK\$18.6 million (2018 Interim: HK\$63.5 million) on the construction of a factory building in Bangladesh. The Group spent approximately HK\$14.5 million (2018 Interim: HK\$4.0 million) on additions to equipment to further upgrade and expand its manufacturing capabilities and also HK\$2.7 million (2018 Interim: HK\$0.9 million) on additions of equipment and systems of Trading and Retail Business.

As at 30 June 2019, the Group had authorised a capital commitment of HK\$38.3 million in respect of construction of a factory building in Bangladesh and manufacturing plants and equipment. The Group had also authorised a capital commitment of HK\$5.0 million in respect of equipment upgrade for Trading business.



## Management Discussion and Analysis

### 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 1% appreciation of the Renminbi and Bangladesh Taka is expected to reduce the gross margin of the Manufacturing Business by about 0.2% and 0.1% respectively.

### EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2019, the Group employed a total of 1,076 (2018 Interim: 1,298) workers and employees in the PRC (include Hong Kong), 5,432 (2018 Interim: 3,990) workers and employees in Bangladesh, and 153 (2018 Interim: 44) employees in the USA and the UK. The expenditures for the employees during the Period were approximately HK\$138.6 million (2018 Interim: HK\$125.0 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 2 HK cents (2018: 2 HK cents) per share, payable on or after 10 October 2019.

### CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 16 September 2019 to 18 September 2019 (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 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on 13 September 2019.

## Interim Condensed Consolidated Statement of Profit or Loss (Unaudited)

For the six months ended 30 June 2019

		<b>Six months ended 30 June</b>	
		<b>2019</b>	2018
		<b>(Unaudited)</b>	(Unaudited)
			(Restated)
Note		<b>HK\$'000</b>	<b>HK\$'000</b>
<b>Continuing operations</b>			
	<b>Revenue</b>		
	Cost of sales		
	Gross profit		
	Other income		
	Other gains — net		
	Selling and distribution costs		
	Administration expenses		
	Net impairment loss on financial assets		
	<b>Profit from operations</b>		
	Finance income		
	Finance costs		
	Finance (costs)/income — net		
	<b>Profit before income tax</b>		
	Income tax expense		
	<b>Profit from continuing operations</b>		
	<b>Discontinued operations</b>		
	Loss from discontinued operations		
	<b>Profit for the period</b>		
<b>Attributable to:</b>			
	Owners of the Company		
	Non-controlling interests		

## Interim Condensed Consolidated Statement of Profit or Loss (Unaudited)

For the six months ended 30 June 2019

		<b>Six months ended 30 June</b>	
	<i>Note</i>	<b>2019</b> <b>(Unaudited)</b>	2018 (Unaudited) (Restated)
<b>Earnings per share attributable to owners of the Company</b>			
From continuing and discontinued operations			
Basic (HK cents per share)	10(a)	<u><b>8.53</b></u>	<u>8.90</u>
Diluted (HK cents per share)	10(b)	<u><b>8.52</b></u>	<u>8.79</u>
From continuing operations			
Basic (HK cents per share)	10(a)	<u><b>9.67</b></u>	<u>10.32</u>
Diluted (HK cents per share)	10(b)	<u><b>9.66</b></u>	<u>10.19</u>
From discontinued operations			
Basic (HK cents per share)	10(a)	<u><b>(1.14)</b></u>	<u>(1.42)</u>
Diluted (HK cents per share)	10(b)	<u><b>(1.14)</b></u>	<u>(1.40)</u>

The notes on pages 18 to 53 form an integral part of these interim condensed consolidated financial information.

## Interim Condensed Consolidated Statement of Comprehensive Income (Unaudited)

For the six months ended 30 June 2019

	<b>Six months ended 30 June</b>	
	<b>2019</b>	2018
	<b>(Unaudited)</b>	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Profit for the period</b>	<b>35,314</b>	36,902
<b>Other comprehensive loss</b>		
<b>Items that may be subsequently reclassified to profit or loss:</b>		
Exchange differences on translation of financial statements of foreign operations	<u>(425)</u>	<u>(5,503)</u>
<b>Total comprehensive income for the period, net of tax</b>	<b><u>34,889</u></b>	<b><u>31,399</u></b>
<b>Attributable to:</b>		
Owners of the Company	<b>34,153</b>	31,010
Non-controlling interests	<u>736</u>	<u>389</u>
<b>Total comprehensive income for the period</b>	<b><u>34,889</u></b>	<b><u>31,399</u></b>
<b>Attributable to:</b>		
Continuing operations	<b>40,313</b>	37,460
Discontinued operations	<u>(5,424)</u>	<u>(6,061)</u>
	<b><u>34,889</u></b>	<b><u>31,399</u></b>

The notes on pages 18 to 53 form an integral part of these interim condensed consolidated financial information.

# Interim Condensed Consolidated Balance Sheet (Unaudited)

As at 30 June 2019

		30 June 2019 (Unaudited) HK\$'000	31 December 2018 (Audited) HK\$'000
	<i>Note</i>		
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	12	<b>396,972</b>	376,838
Right-of-use assets	13	<b>22,049</b>	—
Investment properties	12	<b>41,061</b>	41,061
Goodwill		<b>33,922</b>	33,798
Other intangible assets	12	<b>33,882</b>	11,980
Deferred income tax assets		<b>2,190</b>	2,189
Financial assets at fair value through profit or loss		<b>21,746</b>	21,746
Other financial assets at amortised cost	14	<b>—</b>	81
		<b>551,822</b>	487,693
<b>Current assets</b>			
Inventories		<b>215,209</b>	208,656
Other current assets		<b>21,281</b>	29,174
Other financial assets at amortised cost		<b>8,203</b>	17,662
Trade receivable	14	<b>304,184</b>	215,401
Financial assets at fair value through profit or loss		<b>9,638</b>	11,078
Tax recoverable		<b>2,329</b>	823
Short-term bank deposits		<b>3,277</b>	3,852
Cash and cash equivalents		<b>136,319</b>	97,254
		<b>700,440</b>	583,900
Assets of disposal company classified as held for sale	20	<b>24,090</b>	—
		<b>724,530</b>	583,900
Total assets		<b>1,276,352</b>	1,071,593

## Interim Condensed Consolidated Balance Sheet (Unaudited)

As at 30 June 2019

	Note	30 June 2019 (Unaudited) HK\$'000	31 December 2018 (Audited) HK\$'000
<b>EQUITY</b>			
Equity attributable to owners of the Company			
Share capital	15	40,532	40,532
Other reserves		223,068	226,938
Retained earnings		464,598	437,856
		<u>728,198</u>	<u>705,326</u>
Non-controlling interests		<u>9,904</u>	<u>9,168</u>
<b>Total equity</b>		<u><u>738,102</u></u>	<u><u>714,494</u></u>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Other payables	16	16,827	2,572
Borrowings		—	609
Lease liabilities	13	12,513	—
Deferred tax liabilities		4,290	3,892
		<u>33,630</u>	<u>7,073</u>
<b>Current liabilities</b>			
Trade and other payables	16	169,914	183,787
Amount due to a non-controlling interest		503	713
Current income tax liabilities		19,527	16,114
Lease liabilities	13	9,663	—
Borrowings	17	288,883	149,412
		<u>488,490</u>	<u>350,026</u>
Liabilities of disposal company classified as held for sale	20	16,130	—
		<u>504,620</u>	<u>350,026</u>
<b>Total liabilities</b>		<u><u>538,250</u></u>	<u><u>357,099</u></u>
<b>Total equity and liabilities</b>		<u><u>1,276,352</u></u>	<u><u>1,071,593</u></u>
<b>Net current assets</b>		<u><u>219,910</u></u>	<u><u>233,874</u></u>
<b>Total assets less current liabilities</b>		<u><u>771,732</u></u>	<u><u>721,567</u></u>

The notes on pages 18 to 53 form an integral part of these interim condensed consolidated financial information.

## Interim Condensed Consolidated Statement of Changes in Equity (Unaudited)

For the six months ended 30 June 2019

	(Unaudited)										
	Attributable to owners of the Company									Non-controlling interests	Total equity
	Share capital	Share premium	Contributed surplus	Share based compensation reserve	Other reserve	Exchange reserve	Retained earnings	Total	Total equity		
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000		
At 1 January 2019	40,532	167,016	25,878	11,950	8,042	14,052	437,856	705,326	9,168	714,494	
Profit for the period	–	–	–	–	–	–	34,578	34,578	736	35,314	
Other comprehensive income	–	–	–	–	–	(425)	–	(425)	–	(425)	
Total comprehensive income for the period net of tax	–	–	–	–	–	(425)	34,578	34,153	736	34,889	
2018 final dividends paid	–	–	–	–	–	–	(12,160)	(12,160)	–	(12,160)	
Share option scheme:											
– Value of service provided	–	–	–	879	–	–	–	879	–	879	
– Share options lapsed	–	–	–	(4,324)	–	–	4,324	–	–	–	
Total contributions by and distribution to owners of the Company	–	–	–	(3,445)	–	–	(7,836)	(11,281)	–	(11,281)	
At 30 June 2019	40,532	167,016	25,878	8,505	8,042	13,627	464,598	728,198	9,904	738,102	



## Interim Condensed Consolidated Statement of Changes in Equity (Unaudited)

For the six months ended 30 June 2019

	(Unaudited)									
	Attributable to owners of the Company									
	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Share based compensation reserve <i>HK\$'000</i>	Other reserve <i>HK\$'000</i>	Exchange reserve <i>HK\$'000</i>	Retained earnings <i>HK\$'000</i>	Total <i>HK\$'000</i>	Non-controlling interests <i>HK\$'000</i>	Total equity <i>HK\$'000</i>
At 1 January 2018	40,517	166,836	25,878	9,471	8,042	22,907	395,087	668,738	5,030	673,768
Profit for the period	–	–	–	–	–	–	36,067	36,067	835	36,902
Other comprehensive income	–	–	–	–	–	(5,057)	–	(5,057)	(446)	(5,503)
Total comprehensive income for the period net of tax	–	–	–	–	–	(5,057)	36,067	31,010	389	31,399
2017 final dividends paid	–	–	–	–	–	–	(12,160)	(12,160)	–	(12,160)
Share option scheme:										
– Value of service provided	–	–	–	1,620	–	–	–	1,620	–	1,620
– Share options exercised	15	179	–	(49)	–	–	–	145	–	145
– Share option lapsed	–	–	–	(523)	–	–	523	–	–	–
Total contributions by and distribution to owners of the Company	15	179	–	1,048	–	–	(11,637)	(10,395)	–	(10,395)
At 30 June 2018	40,532	167,015	25,878	10,519	8,042	17,850	419,517	689,353	5,419	694,772

The notes on pages 18 to 53 form an integral part of these interim condensed consolidated financial information.

## Interim Condensed Consolidated Cash Flow Statement (Unaudited)

For the six months ended 30 June 2019

	Six months ended 30 June	
	2019 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000
<b>Cash flows from operating activities</b>		
Cash generated from operations	30,248	26,760
Income tax paid	(2,632)	(736)
Lease interest	(317)	—
Interest paid	(3,887)	(2,036)
<b>Net cash generated from operating activities</b>	<u>23,412</u>	<u>23,988</u>
<b>Cash flows from investing activities</b>		
Interest received	728	1,235
Purchase of property, plant and equipment	(35,823)	(67,101)
Proceed from disposal of a financial asset at fair value through profit or loss	9,121	8,110
Acquisition of a subsidiary, net of cash acquired	(54,279)	—
Short-term bank deposits	575	672
<b>Net cash used in investing activities</b>	<u>(79,678)</u>	<u>(57,084)</u>
<b>Cash flows from financing activities</b>		
Dividends paid	(12,160)	(12,160)
Proceeds from bank borrowings	136,664	45,000
Repayment of bank borrowings	(25,407)	(30,180)
Principal elements of lease payments	(3,529)	—
Proceeds from exercise of share options	—	145
<b>Net cash generated from financing activities</b>	<u>95,568</u>	<u>2,805</u>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>39,302</b>	<b>(30,291)</b>
Cash and cash equivalents at beginning of the period	97,254	182,843
Effect of foreign exchange rate changes	(237)	(788)
<b>Cash and cash equivalents at end of the period</b>	<u><b>136,319</b></u>	<u><b>151,764</b></u>

The notes on pages 18 to 53 form an integral part of these interim condensed consolidated financial information.

## Notes to the Unaudited Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2019

### 1. GENERAL INFORMATION

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

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

This interim condensed consolidated financial information is presented in Hong Kong dollars (“HK\$’000”), unless otherwise stated.

This interim condensed consolidated financial information has not been audited.

### 2. BASIS OF PREPARATION

This interim condensed consolidated financial information for the six months ended 30 June 2019 has been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim financial reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). This interim condensed consolidation financial information does not include all the notes of the type normally included in annual consolidated financial statements. Accordingly, this interim condensed consolidated financial information should be read in conjunction with the annual consolidated financial statements for the year ended 31 December 2018, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”).

Pursuant to an agreement signed between Mainland Aquarius Investments Ltd (“Mainland Aquarius”), a wholly-owned subsidiary of the Company, and the sole shareholder of Aquarius Ltd. (“Aquarius”), Mainland Aquarius acquired the entire issued share capital of Aquarius in the forms of (i) Fixed cash consideration of US dollars (“US\$”) 7,000,000 (equivalent to approximately HK\$54,460,000); and (ii) Contingent consideration of US\$2,000,000 (equivalent to approximately HK\$15,560,000). Upon the completion of the acquisition on 30 May 2019, Aquarius became a subsidiary of Mainland Aquarius.

## Notes to the Unaudited Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2019

### 2. BASIS OF PREPARATION (CONTINUED)

During six months ended 30 June 2019, in light of continuing loss and uncertain market outlook, the Group intends to exit the retail business. The Group has been active in negotiating with a potential buyer to sell its entire stake in Shanghai CFY Company Limited (the “Disposal Company”), a 75%-owned subsidiary of the Company, (the “Potential Disposal”) which engaging in selling Sanrio products. In addition to the Potential Disposal, the Group also closed all the headwear stores in Hong Kong (“Hatworld”) of the current period. Accordingly, the financial results of the the Disposal Company and Hatworld are presented in the interim condensed consolidated statement of profit or loss for the six months ended 30 June 2019 as discontinued operations of the Group in accordance with HKFRS 5 “Non-current Assets Held for Sales and Discontinued Operation” issued by the HKICPA. Comparative figures for the six months ended 30 June 2018 have also been restated.

### 3. ACCOUNTING POLICIES

The accounting policies applied are consistent with those of the annual consolidated financial statements for the year ended 31 December 2018, as described in those annual consolidated financial statements, except for estimation of income tax, the adoption of new and amended standards and the accounting policies related to non-currents assets (or disposal group) held for sale and discontinued operations as set out below.

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

#### (a) New and amended standards adopted by the Group

A number of new or amended standard became applicable for the current reporting period, and the Group had changed its accounting policy and make retrospective adjustments as a result of adopting HKFRS 16 Leases (“HKFRS 16”).

The impact of the adoption of the leasing standard and the new accounting policy are disclosed below. The other standards did not have material impact on the Group’s accounting policies and did not require any adjustments.

The below explains the impact of adoption of HKFRS 16 on the Group’s interim condensed consolidated financial information and also discloses the new accounting policy that has been applied from 1 January 2019.

## Notes to the Unaudited Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2019

### 3. ACCOUNTING POLICIES (CONTINUED)

(a) **New and amended standards adopted by the Group (Continued)**

(i) **Accounting policy applied from 1 January 2019**

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the interim condensed consolidated statement of profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

*HKFRS 16 Leases*

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the fixed lease payments. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be determined, or the Group's incremental borrowing rate.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- prepayment
- any initial direct costs, and
- restoration costs

Payments associated with short-term leases are recognised on a straight-line basis as an expense in interim condensed consolidated income statement. Short-term leases are leases with a lease term of 12 months or less.

## Notes to the Unaudited Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2019

### 3. ACCOUNTING POLICIES (CONTINUED)

(a) **New and amended standards adopted by the Group (Continued)**

(ii) **Impact of adoption**

The Group has adopted HKFRS 16 retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provision in the standard. The adjustments arising from the new leasing rules are therefore recognised in the opening interim condensed consolidated balance sheet on 1 January 2019.

In applying HKFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of lease with reasonably similar characteristics; and
- the accounting for operating lease with a remaining lease term of less than 12 months as at 1 January 2019 as short-term lease.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date, the Group relied on its assessment made applying HKAS 17 and HKFRIC 4 “Determining whether an Arrangement contains a Lease”.

On adoption of HKFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as “operating leases” under the principles of HKAS 17 Leases (“HKAS 17”). These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee’s incremental borrowing rate as of 1 January 2019 (date of initial application of HKFRS 16). The weighted average lessee’s incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 3.8%.

## Notes to the Unaudited Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2019

### 3. ACCOUNTING POLICIES (CONTINUED)

(a) **New and amended standards adopted by the Group (Continued)**

(ii) **Impact of adoption (Continued)**

For leases previously classified as finance leases, the entity recognised the carrying amount of the lease asset and lease liability immediately before transition as the carrying amount of the right-of-use asset and the lease liability at the date of initial application. The measurement principles of HKFRS 16 are only applied after that date. The remeasurements to the lease liabilities were recognised as adjustments to the related right-of-use assets immediately after the date of initial application. As at 1 January 2019, the date of initial application, the adoption of HKFRS 16 does not have significant impact to the Group in relation to a lease previously classified as finance lease under HKAS 17.

On adoption of HKFRS 16, the Group did not need to make any adjustments to the accounting for investment property held as lessor as a result of adopting the new leasing standard.

## Notes to the Unaudited Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2019

### 3. ACCOUNTING POLICIES (CONTINUED)

(a) **New and amended standards adopted by the Group (Continued)**

(ii) **Impact of adoption (Continued)**

The reconciliation between the operating lease commitments as disclosed by applying HKAS 17 as at 31 December 2018 and the lease liabilities recognised in the opening of the interim condensed consolidated balance sheet as at 1 January 2019 (date of initial application of HKFRS 16) is as follows:

	Unaudited HK\$'000
Operating lease commitments disclosed as at 31 December 2018	16,350
Discounted using the lessee's incremental borrowing rate at the date of initial application	14,818
Add:	
Finance lease liability recognised as at 31 December 2018 reclassified from property, plant and equipment	792
Less:	
Short-term leases recognised on a straight-line basis as expense	(1,148)
Lease liabilities recognised as at 1 January 2019	<u>14,462</u>
Of which are:	
– Current lease liabilities	4,225
– Non-current lease liabilities	<u>10,237</u>
	<u>14,462</u>

The associated right-of-use assets were measured at the amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised as at 1 January 2019. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

The change in accounting policy increased both right-of-use assets and lease liabilities by HK\$14,462,000 in the opening of the interim condensed consolidated balance sheet on 1 January 2019. The recognised right-of-use assets of HK\$14,462,000 are related to properties and a motor vehicle.



## Notes to the Unaudited Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2019

### 3. ACCOUNTING POLICIES (CONTINUED)

#### (b) Impact of standards issued but not yet applied by the Group

Certain new accounting standards and interpretations have been published that are not mandatory for this reporting period and have not been early adopted by the Group. These standards are not expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

#### (c) Non-current assets (or disposal groups) held for sale and discontinued operations

Non-current assets (or disposal groups) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. They are measured at the lower of their carrying amount and fair value less costs to sell.

An impairment loss is recognised for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset (or disposal group) is recognised at the date of derecognition.

Non-current assets (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised.

The assets of a disposal group classified as held for sale are presented separately from the other assets in the balance sheet. The liabilities of a disposal group classified as held for sale are presented separately from other liabilities in the interim condensed consolidated balance sheet.

## Notes to the Unaudited Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2019

### 3. ACCOUNTING POLICIES (CONTINUED)

#### (c) Non-current assets (or disposal groups) held for sale and discontinued operations (Continued)

A discontinued operation is a component of the entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately in the interim condensed consolidated statement of profit or loss.

### 4. ESTIMATES

The preparation of interim condensed consolidated 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 expenses. Actual results may differ from these estimates.

In preparing this interim condensed consolidated 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 2018.

### 5. FINANCIAL RISK MANAGEMENT

#### 5.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk.

The interim condensed consolidated financial information does 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 2018.

## Notes to the Unaudited Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2019

### 5. FINANCIAL RISK MANAGEMENT (CONTINUED)

#### 5.1 Financial risk factors (Continued)

As a result of adoption of HKFRS 16, the Group recognised lease liabilities of HK\$14,462,000 as at 1 January 2019 and HK\$22,176,000 as at 30 June 2019. The table below analyses the Group's lease liabilities into relevant maturity grouping based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	<b>At 30 June 2019 (Unaudited) HK\$'000</b>	At 1 January 2019 (Unaudited) HK\$'000
Less than 1 year	<b>9,663</b>	4,225
Between 1 and 5 years	<b>10,723</b>	7,244
Over 5 years	<b>1,790</b>	2,993
	<hr/>	<hr/>
Total	<b>22,176</b>	14,462
	<hr/> <hr/>	<hr/> <hr/>

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

#### 5.2 Fair value estimation

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 Condensed Consolidated Financial Information

For the six months ended 30 June 2019

### 5. FINANCIAL RISK MANAGEMENT (CONTINUED)

#### 5.2 Fair value estimation (Continued)

The following table presents the Group's assets measured at fair values in the interim condensed consolidated balance sheet in accordance with the fair value hierarchy at 30 June 2019.

	Level 1 (Unaudited) HK\$'000	Level 2 (Unaudited) HK\$'000	Level 3 (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
<b>Assets</b>				
Financial assets at fair value through profit or loss				
– Unlisted convertible bonds in Hong Kong	–	–	15,916	15,916
– Unlisted equity investment in the USA	–	–	5,830	5,830
– Listed securities in Hong Kong	9,638	–	–	9,638
Total financial assets	9,638	–	21,746	31,384

The following table presents the Group's assets measured at fair values in the consolidated balance sheet in accordance with the fair value hierarchy at 31 December 2018.

	Level 1 (Audited) HK\$'000	Level 2 (Audited) HK\$'000	Level 3 (Audited) HK\$'000	Total (Audited) HK\$'000
<b>Assets</b>				
Financial assets at fair value through profit or loss				
– Unlisted convertible bonds in Hong Kong	–	–	15,916	15,916
– Unlisted equity investment in the USA	–	–	5,830	5,830
– Listed securities in Hong Kong	11,078	–	–	11,078
Total financial assets	11,078	–	21,746	32,824

Note: See note 3(a)(ii) for details regarding the restatement as a result of a change in accounting policy.

## Notes to the Unaudited Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2019

### 5. FINANCIAL RISK MANAGEMENT (CONTINUED)

#### 5.2 Fair value estimation (Continued)

There were no transfers of financial assets between the fair value hierarchy classifications during the period (six months ended 30 June 2018: same).

There were no other changes in valuation techniques during the period (six months ended 30 June 2018: same).

There were no significant changes in the business or economic circumstances for the six months ended 30 June 2019 that affect the fair values of the Group's financial assets and financial liabilities. There were no reclassifications of financial assets for the six months ended 30 June 2019.

#### 5.3 Fair value measurements using significant unobservable inputs (Level 3)

	Financial asset at fair value through profit or loss		
	Unlisted equity investment in the USA HK\$'000	Unlisted convertible bonds in Hong Kong HK\$'000	Total HK\$'000
As at 1 January 2019	5,830	15,916	21,746
As at 30 June 2019	5,830	15,916	21,746

The unlisted equity investment classified as financial asset at fair value through profit or loss ("FVPL") represents an investment in a 18% equity interest of an unlisted company incorporated in the USA. It is principally engaged in acquisition and management of a retail plaza and related properties for re-development or rental appreciation.

The unlisted convertible bonds classified as financial assets at FVPL represent investment in an unlisted callable convertible bond issued by an unlisted company in Hong Kong, which is not traded in an active market.

The Group considers the fair values of the financial assets at fair value through profit or loss as at 30 June 2019 approximate the values as last annual reporting date as there are no indication of significant change in the values since then.

## Notes to the Unaudited Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2019

### 5. FINANCIAL RISK MANAGEMENT (CONTINUED)

#### 5.3 Fair value measurements using significant unobservable inputs (Level 3) (Continued)

##### 5.3.1 Group's valuation process

The Group's finance department reviews the valuations of the Group's financial instruments and non-financial assets that are stated at fair values for financial reporting purposes, including Level 3 fair values. These valuation results are then reported to the directors for discussions in relation to the valuation processes and the reasonableness of the valuation results.

#### 5.4 Fair value of financial assets and liabilities measured at amortised cost

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

- Other financial assets at amortised cost
- Financial assets at fair value through profit or loss
- Trade receivables
- Short-term bank deposits
- Cash and cash equivalents
- Trade and other payables
- Amount due to a non-controlling interest
- Lease liabilities
- Borrowings

### 6. REVENUE

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

## Notes to the Unaudited Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2019

### 7. SEGMENT INFORMATION

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

The executive directors assess the performance of the operating segments based on a measure of earnings before interest expense, taxes, depreciation and amortisation ("EBITDA"), excluding fair value gain on financial asset FVPL and loss from discontinued operations. Information about discontinued operations is set out in note 21.

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

#### **Continuing operations:**

- (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 Bangladesh and Shenzhen, the People's Republic of China ("PRC"). Customers are mainly located in the USA and Europe.
- (ii) Trading Business: The trading and distribution business of headwear, small leather goods, bags and accessories of the Group is operating through Drew Pearson International (Europe) Ltd., ("DPI") which focuses on the Europe market, and H3 Sportgear LLC ("H3"), San Diego Hat Company ("SDHC") and Aquarius Ltd. ("Aquarius") which focus on the United States ("US") market.

#### **Discontinued operations:**

Retail Business: The Group operates headwear stores in Hong Kong and Sanrio stores in the PRC.

## Notes to the Unaudited Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2019

### 7. SEGMENT INFORMATION (CONTINUED)

	Continuing operations						Discontinued operations	
	Manufacturing		Trading		Total		Retail	
	Six months ended	2018	Six months ended	2018	Six months ended	2018	Six months ended	2018
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue from external customers	<b>355,053</b>	319,937	<b>166,128</b>	115,901	<b>521,181</b>	435,838	<b>22,157</b>	31,140
Inter-segment revenue	<b>48,528</b>	36,218	–	–	<b>48,528</b>	36,218	–	–
Reportable segment revenue	<b>403,581</b>	356,155	<b>166,128</b>	115,901	<b>569,709</b>	472,056	<b>22,157</b>	31,140
Reportable segment profit/(loss)	<b>55,853</b>	51,836	<b>(9,164)</b>	490	<b>46,689</b>	52,326	<b>(4,643)</b>	(5,762)
Fair value gain on financial assets at FVPL					<b>2,613</b>	286	–	–
Gain on disposal of financial assets at FVPL					<b>5,068</b>	–	–	–
Share-based payment expenses					<b>(879)</b>	(1,620)	–	–
Unallocated corporate income					<b>4,793</b>	5,063	–	–
Unallocated corporate expenses					<b>(11,583)</b>	(8,507)	–	–
Profit from operations					<b>46,701</b>	47,548	<b>(4,643)</b>	(5,762)
Finance (costs)/income – net					<b>(1,092)</b>	599	<b>11</b>	14
Income tax expense					<b>(5,663)</b>	(6,497)	–	–
Profit/(loss) for the period					<b>39,946</b>	42,650	<b>(4,632)</b>	(5,748)

Segment assets exclude investment properties, deferred income tax assets, financial assets at FVPL, tax recoverable, 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.



## Notes to the Unaudited Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2019

### 7. SEGMENT INFORMATION (CONTINUED)

	Continuing operations				Discontinued operations				Total	
	Manufacturing		Trading		Retail					
	30 June 2019 (Unaudited) HK\$'000	31 December 2018 (Audited) HK\$'000	30 June 2019 (Unaudited) HK\$'000	31 December 2018 (Audited) HK\$'000	30 June 2019 (Unaudited) HK\$'000	31 December 2018 (Audited) HK\$'000	30 June 2019 (Unaudited) HK\$'000	31 December 2018 (Audited) HK\$'000		
Reportable segment assets	493,702	501,729	541,052	371,842	25,038	20,019	1,059,792		893,590	
Investment properties							41,061		41,061	
Deferred income tax assets							2,190		2,189	
Financial assets at FVPL							31,384		32,824	
Tax recoverable							2,329		823	
Short-term bank deposits							3,277		3,852	
Cash and cash equivalents							136,319		97,254	
Total assets							1,276,352		1,071,593	

Segment liabilities exclude current and deferred income tax liabilities, bank borrowings and corporate liabilities which are not directly attributable to the business activities of any operating segment.

	Continuing operations				Discontinued operations				Total	
	Manufacturing		Trading		Retail					
	30 June 2019 (Unaudited) HK\$'000	31 December 2018 (Audited) HK\$'000	30 June 2019 (Unaudited) HK\$'000	31 December 2018 (Audited) HK\$'000	30 June 2019 (Unaudited) HK\$'000	31 December 2018 (Audited) HK\$'000	30 June 2019 (Unaudited) HK\$'000	31 December 2018 (Audited) HK\$'000		
Reportable segment liabilities	126,246	144,724	72,548	18,519	26,183	21,255	224,977		184,498	
Deferred income tax liabilities							4,290		3,892	
Current income tax liabilities							19,527		16,114	
Bank borrowings							288,883		150,021	
Other corporate liabilities							573		2,574	
							538,250		357,099	
Capital expenditure incurred during the period/year	33,075	63,412	30,449	80,177	—	313	63,524		143,902	

## Notes to the Unaudited Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2019

### 8. PROFIT BEFORE INCOME TAX

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

	<b>Six months ended 30 June</b>	
	<b>2019</b>	2018
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
<b>Continuing operations</b>		
<b>(a) Operating profit</b>		
Gain on disposal of financial assets at FVPL	<b>(5,068)</b>	—
Fair value gain on financial assets at FVPL	<b>(2,613)</b>	(286)
Net exchange loss/(gain)	<b>235</b>	(1,179)
Depreciation of property, plant and equipment	<b>14,101</b>	11,559
Depreciation of right-of-use assets	<b>3,660</b>	—
Amortisation of other intangible assets	<b>4,356</b>	1,035
Net provision for inventories	<b>1,990</b>	4,008
	<b>—————</b>	<b>—————</b>
<b>(b) Finance (costs)/income — net</b>		
Interest on bank loans, overdrafts and other borrowings	<b>(3,738)</b>	(1,930)
Interest accretion on license fee payables	<b>(149)</b>	(78)
Interest on lease liabilities	<b>(317)</b>	—
	<b>—————</b>	<b>—————</b>
	<b>(4,204)</b>	(2,008)
Amount capitalised ( <i>note</i> )	<b>2,395</b>	1,414
	<b>—————</b>	<b>—————</b>
Finance costs	<b>(1,809)</b>	(594)
Finance income	<b>717</b>	1,193
	<b>—————</b>	<b>—————</b>
Finance (costs)/income — net	<b>(1,092)</b>	599
	<b>—————</b>	<b>—————</b>

Note:

Interest expenses on bank borrowings were capitalised at the weighted average rate of its general borrowings of approximately 3.8% (six months ended 30 June 2018: 3.1%).

## Notes to the Unaudited Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2019

### 9. INCOME TAX EXPENSE

	<b>Six months ended 30 June</b>	
	<b>2019</b>	2018
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
Current year		
— Hong Kong profits tax	<b>350</b>	379
— Overseas tax	<b>6,001</b>	7,670
	<b>6,351</b>	8,049
Over-provision in prior years		
— Hong Kong profits tax	<b>(987)</b>	(408)
— Overseas tax	<b>(98)</b>	(2,067)
	<b>(1,085)</b>	(2,475)
Deferred income tax	<b>397</b>	(77)
	<b>5,663</b>	5,497

Income tax expense 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% (six months ended 30 June 2018: 16.5%) on the estimated assessable profits for the period. Taxation on overseas profits has been calculated on the estimated assessable profits for the period at the rates of taxation prevailing in the countries in which the Group operates.

## Notes to the Unaudited Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2019

### 10. EARNINGS PER SHARE

#### (a) Basic

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

	<b>Six months ended 30 June</b>	
	<b>2019</b>	2018
	<b>(Unaudited)</b>	(Unaudited)
Profit/(loss) attributable to owners of the Company ( <i>HK\$'000</i> )		
– Continuing operations	<b>39,210</b>	41,815
– Discontinued operations	<b>(4,632)</b>	(5,748)
	<b>34,578</b>	36,067
Weighted average number of ordinary shares in issue	<b>405,323,284</b>	405,272,179
Basic earnings per share ( <i>HK cents</i> )		
– Continuing operations	<b>9.67</b>	10.32
– Discontinued operations	<b>(1.14)</b>	(1.42)
	<b>8.53</b>	8.90

#### (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.

## Notes to the Unaudited Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2019

### 10. EARNINGS PER SHARE (CONTINUED)

#### (b) Diluted (Continued)

	Six months ended 30 June	
	<b>2019</b>	2018
	<b>(Unaudited)</b>	(Unaudited)
Profit/(loss) attributable to owners of the Company (HK\$'000)		
— Continuing operations	<b>39,210</b>	41,815
— Discontinued operations	<b>(4,632)</b>	(5,748)
	<b>34,578</b>	36,067
Weighted average number of ordinary shares in issue	<b>405,323,284</b>	405,272,179
Adjustment for share options	<b>453,120</b>	4,820,490
Weighted average number of ordinary shares for diluted earnings per share	<b>405,776,404</b>	410,092,669
Diluted earnings per share (HK cents)		
— Continuing operations	<b>9.66</b>	10.19
— Discontinued operations	<b>(1.14)</b>	(1.40)
	<b>8.52</b>	8.79

## Notes to the Unaudited Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2019

### 11. DIVIDENDS

#### (a) Dividends attributable to the period

	<b>Six months ended 30 June</b>	
	<b>2019</b>	2018
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
Interim dividend declared of 2 HK cents (2018: 2 HK cents) per share	<b>8,106</b>	8,106

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 six months ended 30 June 2019.

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

	<b>Six months ended 30 June</b>	
	<b>2019</b>	2018
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
Final dividend paid in respect of 2018 of 3 HK cents (2017: 3 HK cents) per share	<b>12,160</b>	12,160

## Notes to the Unaudited Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2019

### 12. CAPITAL EXPENDITURE

During the six months ended 30 June 2019, the Group acquired property, plant and equipment of HK\$36,763,000, including HK\$940,000 arising from acquisition of a subsidiary (Note 19) (six months ended 30 June 2018: HK\$67,941,000) and intangible assets of HK\$26,761,000, including HK\$24,637,000 arising from acquisition of a subsidiary (six months ended 30 June 2018: HK\$1,063,000).

As at 30 June 2019, other intangible assets represent acquired customer relationship of HK\$4,913,000 (31 December 2018: HK\$5,368,000) and licensing rights for the use of certain licensed trademark, brands and logos in the Group's products of HK\$28,969,000 (31 December 2018: HK\$6,612,000).

The Group's investment properties were revalued at 31 December 2018. No valuation was performed during the period as there was no indication of significant changes in the value since last annual reporting date (six months ended 30 June 2018: same).

### 13. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

#### (i) Amounts recognised in the interim condensed consolidated balance sheet

The interim condensed consolidated balance sheet shows the following amounts relating to the leases in respect of properties and a motor vehicle:

	<b>At 30 June 2019 (Unaudited) HK\$'000</b>	At 1 January 2018 (Unaudited) HK\$'000
<b>Right-of-use assets</b>		
Properties	<b>21,348</b>	13,670
Motor vehicle	<b>701</b>	792
	<b>22,049</b>	14,462
<b>Lease liabilities</b>		
Current	<b>9,663</b>	4,225
Non-current	<b>12,513</b>	10,237
	<b>22,176</b>	14,462

Additions to the right-of-use assets during the six months ended 30 June 2019 is HK\$12,196,000 including HK\$4,431,000 arising from acquisition of a subsidiary.

## Notes to the Unaudited Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2019

### 13. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES (CONTINUED)

**(ii) Amounts recognised in the interim condensed consolidated statement of profit or loss**

The interim condensed consolidated statement of profit or loss shows the following amounts relating to the leases in respect of properties and motor vehicle:

	Six months ended 30 June 2019 (Unaudited) HK\$'000
Depreciation charge of right-of-use assets ( <i>Note 8a</i> )	3,660
Interest expenses (included in finance costs) ( <i>Note 8b</i> )	317
Expenses relating to short-term leases	<u>7,556</u>

The total cash outflow for leases in the six months ended 30 June 2019 is HK\$11,402,000.

**(iii) The Group's lease activities**

The Group leases various properties and a motor vehicle. Rental contracts are typically made for 2 to 10 years. The lease agreements do not impose any covenants.



## Notes to the Unaudited Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2019

### 14. TRADE RECEIVABLES AND OTHER FINANCIAL ASSETS AT AMORTISED COST

	<b>30 June 2019 (Unaudited) HK\$'000</b>	31 December 2018 (Audited) HK\$'000
Trade receivables	<b>307,241</b>	217,946
Less: provision for impairment loss	<b>(3,057)</b>	(2,545)
	<u><b>304,184</b></u>	<u>215,401</u>
Trade receivables, net		
	<b>304,184</b>	215,401
Other financial assets at amortised cost	<b>8,765</b>	18,305
Less: provision for impairment loss	<b>(562)</b>	(562)
	<u><b>8,203</b></u>	<u>17,743</u>
	<b>312,387</b>	233,144
Less: non-current portion of other financial assets at amortised cost	<b>—</b>	(81)
	<u><b>312,387</b></u>	<u>233,063</u>
Current portion		
	<b>312,387</b>	233,063

The carrying amounts of the trade receivables and other financial assets at amortised cost approximate their fair values.

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

	<b>30 June 2019 (Unaudited) HK\$'000</b>	31 December 2018 (Audited) HK\$'000
0–30 days	<b>85,783</b>	74,305
31–60 days	<b>91,114</b>	58,945
61–90 days	<b>73,743</b>	38,412
91–120 days	<b>27,661</b>	19,842
Over 121 days	<b>28,940</b>	26,442
	<u><b>307,241</b></u>	<u>217,946</u>

## Notes to the Unaudited Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2019

### 15. SHARE CAPITAL

#### (a) Share capital

	Number of shares of HK\$0.10 each	HK\$'000
<b>Authorised:</b>		
At 1 January 2018, 30 June 2018, 1 January 2019 and 30 June 2019	<b>1,000,000,000</b>	100,000
<b>Issued and fully paid:</b>		
At 1 January 2018	<b>405,173,284</b>	40,517
Share option scheme:		
— Exercise of share options ( <i>Note</i> )	<b>150,000</b>	15
At 30 June 2018, 1 January 2019 and 30 June 2019	<b>405,323,284</b>	40,532

*Note:*

During the six months ended 30 June 2018, options were exercised to subscribe for 130,000 shares and 20,000 shares at the exercise price of HK\$0.946 per share and HK\$1.12 per share respectively under the share option schemes. Those newly issued shares rank pari passu with the existing shares.

#### (b) Equity settled share-based payment transactions

On 29 December 2011, share option scheme (the “Share Option Scheme”) was adopted whereby the Board of Directors, may, at their absolute discretion, grant options to any eligible employee, including directors of the Company, any of its subsidiaries or any investee entity, any suppliers of goods or services to any member of the Group or any investee entity, or any customer of the Group or any investee entity to subscribe for shares in the Company.

## Notes to the Unaudited Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2019

### 15. SHARE CAPITAL (CONTINUED)

#### (b) Equity settled share-based payment transactions (Continued)

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 39,858,328, being 10% of the shares in issue of the Company as at 29 December 2011, the date of adoption of the Share Option Scheme. The scheme mandate limit was refreshed on 16 May 2018. Upon refreshing of the scheme mandate limit, the Company may grant options entitling holders thereof to subscribe for up to a maximum of 40,532,828 shares, representing 10% of the shares in issue of the Company as at 16 May 2018.

On 13 April 2017, a total of 20,370,000 share options were granted to certain directors and employees of the Group. The share option period shall be ten years from the date of grant and the share option shall lapse at the expiry date of the option period. 20% of the options shall vest on the first to fifth anniversary dates of the date of grant every year.

There is no new share option granted during the six months ended 30 June 2019 (six months ended 30 June 2018: same).

#### (i) Movement in share option

	2019		2018	
	Number of share options (Unaudited) '000	Weighted average exercise price (Unaudited) HK\$	Number of share options (Unaudited) '000	Weighted average exercise price (Unaudited) HK\$
At 1 January	44,200	1.243	45,350	1.241
Exercise	—	—	(150)	0.969
Lapsed	(11,900)	0.946	(1,000)	1.190
At 30 June	32,300	1.353	44,200	1.243
Options vested at closing	15,738	1.294	21,294	1.077

## Notes to the Unaudited Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2019

### 15. SHARE CAPITAL (CONTINUED)

#### (b) Equity settled share-based payment transactions (Continued)

##### (i) Movement in share option (Continued)

As at 30 June 2019, the options have a weighted average contractual terms of 6.9 years (31 December 2018: 6.0 years).

Share options outstanding at the end of the year have the following expiry dates and exercise prices:

		<b>30 June 2019</b>	31 December 2018
	Exercise price (Unaudited) HK\$	<b>Number of share options (Unaudited) '000</b>	(Audited) '000
22 June 2019	0.946	—	11,900
7 November 2020	0.920	<b>900</b>	900
29 December 2021	0.800	<b>1,000</b>	1,000
14 July 2025	1.120	<b>11,030</b>	11,030
12 April 2027	1.534	<b>19,370</b>	19,370
		<b>32,300</b>	44,200

As at 30 June 2019, out of total 32,300,000 (31 December 2018: 44,200,000) outstanding options, 15,738,000 options (31 December 2018: 21,294,000) are exercisable. No share option was exercised during six months ended 30 June 2019 (six months ended 30 June 2018: 150,000).

Under this share option scheme, HK\$879,000 (six months ended 30 June 2018: HK\$1,620,000) of share-based payment expenses has been included in the interim condensed consolidated statement of profit or loss for the six months ended 30 June 2019 and a corresponding amount has been credited to share based compensation reserve.

## Notes to the Unaudited Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2019

### 16. TRADE AND OTHER PAYABLES

	<b>30 June 2019 (Unaudited) HK\$'000</b>	31 December 2018 (Audited) HK\$'000
Trade payables	<b>71,060</b>	77,276
Bills payables	<b>5,753</b>	11,867
Accrued charges and other payables	<b>109,928</b>	97,216
	<b>186,741</b>	186,359
Less: other non-current payables	<b>(16,827)</b>	(2,572)
Current portion	<b>169,914</b>	183,787

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

	<b>30 June 2019 (Unaudited) HK\$'000</b>	31 December 2018 (Audited) HK\$'000
0-30 days	<b>45,782</b>	38,432
31-60 days	<b>10,308</b>	21,336
61-90 days	<b>4,109</b>	12,429
Over 90 days	<b>10,861</b>	5,079
	<b>71,060</b>	77,276

Contract liabilities of HK\$543,000 (31 December 2018: HK\$2,777,000) are recognised when a customer pays consideration, or is contractually required to pay consideration and the amounts are already due, before the Group recognised the related revenue. The Group expects to deliver the goods to satisfy the remaining performance obligation of these contract liabilities within one year or less.

## Notes to the Unaudited Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2019

### 16. TRADE AND OTHER PAYABLES (CONTINUED)

Revenue recognised during the period ended 30 June 2019 that was included in the contract liabilities balance at the beginning of the period amounted to HK\$532,000 (six months ended 30 June 2018: HK\$487,000). The Group recognised its contract liabilities under other payables and accruals in the interim condensed consolidated balance sheet.

### 17. BORROWINGS

Movement in borrowings is analysed as follows:

	(Unaudited) HK\$'000
<b>Six months ended 30 June 2019</b>	
Opening amount as at 1 January 2019, as originally presented	150,021
Change in accounting policy ( <i>Note 3(a)</i> )	(792)
	<hr/>
Opening amount as at 1 January 2019, as restated	149,229
Repayment of bank borrowings	(25,407)
Proceeds from bank borrowings	136,664
Acquisition of a subsidiary ( <i>Note 19</i> )	28,397
	<hr/>
<b>Closing amount as at 30 June 2019</b>	<b>288,883</b>
	<hr/> <hr/>
<b>Six months ended 30 June 2018</b>	
Opening amount as at 1 January 2018	112,528
Repayment of bank borrowings	(30,180)
Proceeds from bank borrowings	45,000
	<hr/>
Closing amount as at 30 June 2018	127,348
	<hr/> <hr/>

## Notes to the Unaudited Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2019

### 18. CAPITAL COMMITMENTS

Capital expenditure contracted for but not yet incurred as at the balance sheet date is as follows:

	<b>30 June 2019 (Unaudited) HK\$'000</b>	31 December 2018 (Audited) HK\$'000
Contracted but not provided for	<u><b>3,775</b></u>	<u>9,428</u>

### 19. BUSINESS COMBINATION

Pursuant to an agreement signed between Mainland Aquarius Investments Ltd (“Mainland Aquarius”), a wholly-owned subsidiary of the Company, and the sole shareholder of Aquarius, Mainland Aquarius acquired the entire issued share capital of Aquarius in the forms of:

- (i) Fixed cash consideration of US dollars (“US\$”) 7,000,000 (equivalent to approximately HK\$54,460,000); and
- (ii) Contingent consideration of US\$2,000,000 (equivalent to approximately HK\$15,560,000).

Upon the completion of the acquisition on 30 May 2019, Aquarius became a subsidiary of Mainland Aquarius. Acquisition-related costs of HK\$4,069,000 have been charged to administrative expenses in the interim condensed consolidated statement of profit or loss for the period ended 30 June 2019.

The goodwill is attributable to a number of factors, among others, to the synergies in sales and cost saving opportunities expected to arise after the Group’s acquisition of this subsidiary. None of the goodwill recognised is expected to be deductible for income tax purposes.

## Notes to the Unaudited Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2019

### 19. BUSINESS COMBINATION (CONTINUED)

The provisional fair values of assets acquired and liabilities assumed, the consideration paid and the carrying value of non-controlling interest at the acquisition date are summarised in the table below:

	<i>HK\$'000</i>
<b>Consideration</b>	
Cash paid	54,460
Contingent consideration payable	15,560
	<u>70,020</u>
<b>Recognised amounts of identifiable assets acquired and liabilities assumed</b>	
Property, plant and equipment	940
Right-of-use assets	4,431
Intangible assets — customer relationships	309
Intangible assets — licensing rights	24,328
Deferred income tax assets	345
Inventories	49,316
Other current assets	1,755
Other financial assets at amortised cost	2,388
Trade receivables	72,208
Tax recoverable	1,268
Cash and cash equivalents	181
Trade and other payables	(54,680)
Borrowings	(28,397)
Lease liabilities	(4,431)
Deferred income tax liabilities	(65)
	<u>69,896</u>
Goodwill	124
	<u>70,020</u>
Cash consideration paid	54,460
Less: cash and cash equivalents acquired	(181)
	<u>54,279</u>
Net cash outflow on acquisition for the period	
Acquisition-related costs included in administrative expenses in the interim condensed consolidated statement of profit or loss for the period	<u>4,069</u>



## Notes to the Unaudited Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2019

### 19. BUSINESS COMBINATION (CONTINUED)

The fair value of trade receivables is HK\$72,208,000. The gross contractual amount for trade receivables due is HK\$72,208,000, all of which is expected to be collectible.

The fair value of the acquired identifiable assets was provisional pending receipt of the final valuation of those assets. Deferred income tax liabilities of HK\$65,000 have been provided in relation to the fair value adjustments of intangible assets arising from the acquisition.

The contingent consideration payable represents the amount payable up to US\$2,000,000 (equivalent to approximately HK\$15,560,000) upon fulfillment of certain profit targets. The maximum potential undiscounted amount of all future payments that the Group could be required to make under this arrangement is US\$2,000,000 (equivalent to approximately HK\$15,560,000). Management is confident to meet its profit targets and hence, contingent consideration of US\$2,000,000 was recognised.

The revenue included in the interim condensed consolidated statement of profit or loss since 30 May 2019 contributed by Aquarius was HK\$25,157,000. It had net profit of HK\$1,803,000 over the same period.

Had Aquarius been consolidated from 1 January 2019, the interim condensed consolidated statement of profit or loss would show pro-forma revenue for continuing operations of HK\$649,401,000 and profit of HK\$36,694,000.

## Notes to the Unaudited Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2019

### 20. ASSETS AND LIABILITIES OF DISPOSAL COMPANY CLASSIFIED AS HELD-FOR-SALE

During six months ended 30 June 2019, in light of continuing loss and the uncertain market outlook, the Group intends to exit the retail business. The Group has been active in negotiating with a potential buyer to sell its entire stake in the Disposal Company, a 75%-owned subsidiary of the Company, which engaging in selling Sanrio products.

#### (a) Assets of disposal Company classified as held-for-sale

	As at 30 June 2019 <i>HK\$'000</i>
Property, plant and equipment	1,541
Right-of-use assets	949
Inventories	16,127
Trade receivables	2,432
Other current assets	921
Other financial assets at amortised cost	1,149
Cash and cash equivalent	971
	<u>24,090</u>

#### (b) Liabilities of Disposal Company classified as held-for-sale

	As at 30 June 2019 <i>HK\$'000</i>
Trade and other payables	15,177
Lease liabilities	953
	<u>16,130</u>

## Notes to the Unaudited Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2019

### 20. ASSETS AND LIABILITIES OF DISPOSAL COMPANY CLASSIFIED AS HELD-FOR-SALE (CONTINUED)

- (c) **Cumulative income recognised in other comprehensive income relating to Disposal Company classified as held-for-sale**

	As at 30 June 2019 HK\$'000
Exchange difference arising on translation of the financial statements of foreign subsidiaries	<u>2,089</u>

The expected consideration of the transaction is higher than the aggregate carrying amount of the related assets and liabilities. Therefore, no impairment loss was recognised on reclassification of the assets and liabilities as held-for-sale.

### 21. DISCONTINUED OPERATION

During the six months ended 30 June 2019, apart from the Disposal Company, the Group also closed all its Hatworld headwear stores in Hong Kong. This, together with the Disposal Company, during the periods ended 30 June 2019 and 2018 were reclassified as discontinued operations of the Group.

## Notes to the Unaudited Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2019

### 21. DISCONTINUED OPERATION (CONTINUED)

	2019 HK\$'000	2018 HK\$'000
<b>Results of the discontinued operations:</b>		
Revenue	22,157	31,140
Cost of sales	<u>(12,080)</u>	<u>(15,166)</u>
Gross profit	10,077	15,974
Other income	77	5
Selling and distribution expenses	(9,882)	(16,153)
Administrative expenses	<u>(4,915)</u>	<u>(5,588)</u>
Operating profits	(4,643)	(5,762)
Finance income	11	42
Finance costs	<u>—</u>	<u>(28)</u>
<b>Loss for the period</b>	<b>(4,632)</b>	<b>(5,748)</b>
Exchange difference arising on translation of discontinued operations	<u>(792)</u>	<u>(313)</u>
<b>Other comprehensive loss from discontinued operations</b>	<b><u>(5,424)</u></b>	<b><u>(6,061)</u></b>
Loss from discontinued operations attributable to:		
— Owners of the Company	(5,424)	(6,061)
— Non-controlling interests	<u>—</u>	<u>—</u>
	<b><u>(5,424)</u></b>	<b><u>(6,061)</u></b>
<b>Cash flows from discontinued operations:</b>		
Net cash (outflow)/inflow from operating activities	(855)	753
Net cash outflow from investing activities	—	(218)
Net cash outflow from financing activities	<u>(21)</u>	<u>—</u>

## Notes to the Unaudited Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2019

### 22. SIGNIFICANT RELATED PARTY TRANSACTIONS

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

#### (a) Sale and purchase of goods and services

	<b>Six months ended 30 June</b>	
	<b>2019</b>	2018
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
Sales of goods to affiliated companies of a shareholder	<b>219,340</b>	201,890
Rental paid in respect of office premises to directors and a company controlled by a director	<b>871</b>	861
Claim charges paid to affiliated companies of a shareholder	<b>1,375</b>	291

## Notes to the Unaudited Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2019

### 22. SIGNIFICANT RELATED PARTY TRANSACTIONS (CONTINUED)

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

	<b>30 June 2019 (Unaudited) HK\$'000</b>	31 December 2018 (Audited) HK\$'000
Trade receivables from affiliated companies of a shareholder	<b><u>132,248</u></b>	<u>132,207</u>

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

#### (c) Key management personnel remuneration

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

	<b>Six months ended 30 June</b>	
	<b>2019 (Unaudited) HK\$'000</b>	2018 (Unaudited) HK\$'000
Short-term employee benefits	<b>12,230</b>	12,054
Retirement scheme contributions	<b><u>111</u></b>	<u>102</u>
	<b><u>12,341</u></b>	<u>12,156</u>

### 23. APPROVAL OF INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

The interim condensed consolidated financial information was approved by the Board of Directors on 26 August 2019.

## Other Information Provided in Accordance with the Listing Rules

### DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 30 June 2019, the interests of the Directors in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), which had been notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

#### Long positions in the shares and underlying shares of the Company

	Number of shares			Total	Percentage of interest
	Personal interest	Other direct interest	Underlying shares		
Mr. Ngan Hei Keung	—	221,508,000 <i>(note 1, 2)</i>	44,800,000 <i>(note 3, 4)</i>	266,308,000	65.70%
Madam Ngan Po Ling, Pauline, <i>BBS, JP</i>	37,808,000 <i>(note 2)</i>	183,700,000 <i>(note 1)</i>	44,800,000 <i>(note 3, 4)</i>	266,308,000	65.70%
Mr. James S. Patterson	—	—	1,000,000 <i>(note 4)</i>	1,000,000	0.25%
Ms. Maggie Gu	—	—	2,200,000 <i>(note 4, 5)</i>	2,200,000	0.54%
Mr. Ngan Siu Hon, Alexander	—	—	2,000,000 <i>(note 5)</i>	2,000,000	0.49%

#### 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 37,808,000 shares are beneficially owned by Madam Ngan, Pauline, the spouse of Mr. Ngan.
- (3) Pursuant to the contingent purchase deed renewed on 30 September 2014 between Mr. Ngan, Madam Ngan and New Era Cap Hong Kong LLC ("NEHK"), NEHK is entitled to require Mr. Ngan and Madam Ngan to purchase up to 39,800,000 shares on the terms and conditions of the said deed.

## 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: (Continued)

- (4) Mr. Ngan and Madam Ngan are entitled to subscribe for 2,000,000 shares and 3,000,000 shares respectively pursuant to the outstanding options granted under the Company's share options scheme.
- (5) Mr. James S. Patterson is entitled to subscribe for 1,000,000 shares pursuant to the outstanding options granted under the Company's share options scheme.
- (6) Ms. Maggie Gu is entitled to subscribe for 2,200,000 shares pursuant to the outstanding options granted under the Company's share options scheme.
- (7) Mr. Ngan Siu Hon, Alexander is entitled to subscribe for 2,000,000 shares pursuant to the outstanding options granted under the Company's share options scheme.

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 29 December 2011, share option scheme (the "Share Option 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 Share Option 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 Share Option Scheme. Upon refreshing of the scheme mandate limit, the Company may grant options entitling holders thereof to subscribe for up to a maximum of 40,532,828 shares, representing 10% of the shares in issue of the Company as at 16 May 2018.



## Other Information Provided in Accordance with the Listing Rules

### SHARE OPTION SCHEMES (CONTINUED)

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 Share Option Schemes will remain in force for a period of 10 years from the date of its adoption. The purpose of the Share Option 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 Share Option 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 Share Option 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 Share Option 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 Share Option Scheme was 40,532,828 shares, which represented 10% of the issued share capital of the Company.

## Other Information Provided in Accordance with the Listing Rules

### SHARE OPTION SCHEMES (CONTINUED)

At 30 June 2019, the Directors, employees, customers and suppliers of the Group had the following interests in options to subscribe for shares of the Company (market value per share was HK\$1.06 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\$	Number of shares		Market value per share at date of grant HK\$	
				Outstanding at 1.1.2019	Lapsed during the period		
Director	23.06.2009	23.06.2010–22.06.2019	0.946	7,000,000	(7,000,000)	–	0.93
	15.07.2015	15.07.2016–14.07.2025	1.120	2,200,000	–	2,200,000	1.12
	13.04.2017	13.04.2017–12.04.2027	1.534	8,000,000	–	8,000,000	1.50
				<u>17,200,000</u>	<u>(7,000,000)</u>	<u>10,200,000</u>	
Employees	23.06.2009	23.06.2010–22.06.2019	0.946	4,900,000	(4,900,000)	–	0.93
	08.11.2010	08.11.2011–07.11.2020	0.920	900,000	–	900,000	0.92
	30.12.2011	30.12.2012–29.12.2021	0.800	1,000,000	–	1,000,000	0.80
	15.07.2015	15.07.2016–14.07.2025	1.120	8,830,000	–	8,830,000	1.12
	13.04.2017	13.04.2017–12.04.2027	1.534	11,370,000	–	11,370,000	1.50
				<u>27,000,000</u>	<u>(4,900,000)</u>	<u>22,100,000</u>	

*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.

Under this share option scheme, HK\$879,000 of share-based payment expense has been included in the condensed consolidated statement of profit or loss for the six months ended 30 June 2019 (2018: HK\$1,620,000) 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.

## Other Information Provided in Accordance with the Listing Rules

### SUBSTANTIAL SHAREHOLDERS

So far as is known to the Directors or chief executives of the Company, as at 30 June 2019, shareholders (other than Directors or chief executives of the Company) who had interests or short positions in the shares or underlying shares of the Company which were required to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

#### Long positions in the shares and underlying shares

Name	Capacity	Number of shares			Total	Percentage of interest
		Personal interest	Other interest	Underlying shares		
Madam Ngan Po Ling, Pauline, <i>BBS, JP</i>	Beneficial owner	37,808,000	—	—	37,808,000	9.33%
	Interest of a controlled corporation ( <i>note 1</i> )	—	183,700,000	—	183,700,000	45.32%
					221,508,000	54.65%
Successful Years International Co., Ltd. ( <i>note 1</i> )	Beneficial owner	183,700,000	—	—	183,700,000	45.32%
Mr. Christopher Koch ( <i>note 2</i> )	Interest of a controlled corporation	—	79,601,000	—	79,601,000	19.64%
NEHK ( <i>note 2</i> )	Interest of a controlled corporation	79,601,000	—	—	79,601,000	19.64%

#### Notes:

- 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.
- 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.

## Other Information Provided in Accordance with the Listing Rules

### SUBSTANTIAL SHAREHOLDERS (CONTINUED)

#### Short positions in the underlying shares

Name	Number of underlying shares	Percentage of interest
Mr. Christopher Koch	39,800,000 <i>(Note)</i>	9.82%
NEHK	39,800,000 <i>(Note)</i>	9.82%

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

Save as disclosed above, as at 30 June 2019, the Company had not been notified by any persons (other than Directors) who had interests in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

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

During the six months ended 30 June 2019, 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 2019.

### 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 enquiries by the Company, that they have complied with the required standard set out in Model Code throughout the period ended 30 June 2019.

## Other Information Provided in Accordance with the Listing Rules

### AUDIT COMMITTEE

The Company has complied with Rule 3.21 of the Listing Rules in relation to the establishment of an audit committee. The audit committee members comprise of all independent non-executive directors. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control procedures of the Group. The audit committee has reviewed the interim condensed consolidated financial information for the period ended 30 June 2019.

By Order of the Board

**Ngan Hei Keung**

*Chairman*

Hong Kong, 26 August 2019

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