Mainland Headwear Holdings Limited

(Stock code: 1100)

2019

ANNUAL REPORT

Contents

Corporate Information

DIRECTORS

Executive Directors

Mr. Ngan Hei Keung *(Chairman)*
Madam Ngan Po Ling, Pauline, *BBS, JP*
(Deputy Chairman and Managing Director)
Mr. James S. Patterson
Mr. Ngan Siu Hon, Alexander
Mr. Lai Man Sing *(Chief Financial Officer)*

Independent Non-executive Directors

Mr. Leung Shu Yin, William
Mr. Liu Tieh Ching, Brandon, *JP*
Mr. Gordon Ng

COMPANY SECRETARY

Ms. Chan Hoi Ying

AUDITORS

PricewaterhouseCoopers
Certified Public Accountants
Registered Public Interest Entity Auditor

PRINCIPAL BANKER

Hang Seng Bank Limited
The Hongkong and Shanghai Banking Corporation Limited

REGISTERED OFFICE

Clarendon House,
2 Church Street,
Hamilton HM 11,
Bermuda.

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Rooms 1001–1005, 10th Floor,
Tower 2, Enterprise Square I,
9 Sheung Yuet Road,
Kowloon Bay,
Kowloon,
Hong Kong.

BERMUDA SHARE REGISTRAR

Codan Services Limited
Clarendon House,
2 Church Street,
Hamilton HM 11,
Bermuda.

HONG KONG BRANCH SHARE REGISTRAR

Tricor Tengis Limited
Level 54,
Hopewell Centre,
183 Queen's Road East,
Hong Kong

COMPANY WEBSITES

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

Chairman's Statement

Madam Pauline Ngan, ***BBS, JP***
Deputy Chairman and Managing Director

Mr. Ngan Hei Keung
Chairman

On behalf of the Board of Directors of Mainland Headwear Holdings Limited (the "Company"), I am pleased to present the annual results of the Company and its subsidiaries (collectively, "Mainland Headwear" or the "Group") for the year ended 31 December 2019.

OVERVIEW

The past financial year has been a turbulent period for the global economy as well as markets owing to the protracted China-US trade dispute and negotiations. Challenges, however, always come with opportunities, which only those who are well-prepared can fully realise. The stable top-line growth of its Manufacturing Business clearly testifies to its foresight in establishing its production stronghold in Bangladesh as early as 2013, by grasping the opportunities arising from the "Belt and Road" strategic initiative. The Group's Bangladesh factory has become a major competitive advantage and has satisfied the keen demand from its US customers for orders from production bases outside China.

Chairman's Statement

We are pleased that Phase II of the Bangladesh factory building has been substantially completed in late 2019, which enable the Group to have more space to house more automated machinery, which in turn, boosting our production efficiency during the year. As a result, the Group was able to increase production capacity by 12% year-on-year to approximately 4.5 million pieces of headwear products per month.

As for the Trading Business, the investments made in the previous years, together with the acquisition of Aquarius Ltd. ("AQ"), have also yielded fruit. Facing the weak retail market sentiment in the US, the Group's subsidiary H3 Sportgear LLC ("H3") still managed to achieve sustained revenue growth, thanks to the stronger team effort, a testimony to the success of the business consolidation strategy. As for the e-commerce business, we made our initial foray last year, as online consumption has emerged as a prevailing market trend, and the business has witnessed remarkable growth. This segment was further bolstered by the addition of AQ, a leading accessories supplier in the USA that the Group has newly acquired in mid-2019, widening the business spectrum from headwear to the accessories segment.

Yet another decision that has proven to be correct was that the management had elected to completely exit the retail market, even before that sector went from bad to worse due to the recent COVID-19 outbreak. With the cessation of all retail operations on both sides of the border, the Group has been able to focus its resources on the Manufacturing and Trading segments.

Chairman's Statement

FINANCIAL REVIEW

In spite of the aforementioned challenges during the year, the Group was able to record a marked revenue growth of 29.4% for continuing operations, achieving a turnover of HK$1,146,834,000 (2018: HK$885,933,000). The upturn was clear evidence that the Group's primary income source, the Manufacturing Business, continued to deliver a stable revenue stream, and the expanding Trading Business generated encouraging growth. Gross profit from continuing operations was increased by 30.0% to HK$346,212,000 (2018: HK$266,291,000) owing to the outstanding performance of the Trading Business. Correspondingly, gross profit margin for continuing operations improved, reaching 30.2% (2018: 30.1%). Owing to the non-cash impairment loss on goodwill in relation to San Diego Hat Company ("SDHC") of around HK$11,310,000, profit from continuing operations fell by 23.8% to HK$61,671,000 (2018: HK$80,965,000). The discontinued operations turned around to profit of HK$1,172,000 (2018: loss of HK$13,619,000). Profit attributable to shareholders fell by 6.9% to HK$58,213,000 (2018: HK$62,513,000).

To share the fruit of the Group's labour with shareholders, the Board has resolved to propose a final dividend of 3 HK cents (2018: 3 HK cents) per share for the year. Together with the interim dividend of 2 HK cents per share (2018: 2 HK cents), total dividend for the year amounted to 5 HK cents (2018: 5 HK cents).

Chairman's Statement

BUSINESS REVIEW

Manufacturing Business

Based on the powerful advantages of the Bangladesh factory, the Group has been receiving strong orders from customers. During the year, the Manufacturing Business achieved segment revenue of HK$743,161,000 (2018: HK$728,934,000), while revenue from external customers declined mildly by 0.4% to HK$670,327,000 (2018: HK$672,790,000), accounting for approximately 58.5% of the Group's total revenue for continuing operations. Operating profit of the Manufacturing Business decreased by 3.4% to HK$104,951,000 (2018: HK$108,673,000). This was due to the increase in the 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, in turn, has helped improve production efficiency.

The Group is delighted to report that Phase II of the Bangladesh factory building, equipped with smart production lines and advanced equipment, has been substantially completed in late 2019. Production capacity at the expanded Bangladesh factory achieved a significant increase – rising from 75% a year ago to over 90% of the Group's total capacity. As a result of expanded production capacity, reinforced by a higher level of automation and thus improvement in efficiency, the annual output of headwear products in 2019 increased by approximately 12% compared with that of last year. As at 31 December 2019, the Bangladesh factory had approximately 5,200 employees.

Another piece of good news is that the Group and New Era Cap Co., Inc. ("New Era"), the largest manufacturer and marketer of sports and fashion headwear and apparel in the United States, have extended their strategic partnership by signing a five-year manufacturing agreement in November 2019. Effective from 1 January 2020 to 31 December 2024, the agreement outlines planned production supplied to New Era amounting to not less than US$47 million in the first year, and an annually reviewed minimum purchase amount in the coming years. Currently, New Era is a long-standing partner of the Group and a substantial shareholder of Mainland Headwear owning 79,601,000 Shares, representing about 19.64% of the latter's issued share capital. The renewal and the commissioning of Phase II of the Group's Bangladesh factory can bolster its manufacturing business development to a new level as well as promote synergies and benefit both the Group and New Era.

As for the factory in Shenzhen with a workforce of around 800, it mainly serves as the Group's product R&D and design hub, while also supporting its procurement and supply chain management, as well as the automation at its Bangladesh counterpart and providing high value-added services. It also focuses on producing products that are sold in APAC markets.

Chairman's Statement

Trading Business

Despite being impacted by such uncertainties as the lackluster US and UK retail markets and shadowed by the China-US trade war and Brexit, top-line growth of the Trading Business still soared by 123.6% to HK$476,507,000 (2018: HK$213,143,000), accounting for 41.5% of the Group's total revenue for continuing operations. The surge was mainly attributable to (i) 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; (ii) consolidation of the financial results of AQ from 1 June 2019 subsequent to the Group's acquisition; and (iii) the burgeoning e-commerce business that the Group entered into last year.

During the year, the Group recognised a non-cash impairment loss on goodwill of approximately HK$11,310,000. SDHC is mainly engaged in the trading of headwear and related accessories in the USA. Its customers are mainly retailers, whose operation was significantly challenged by the macro environment during the year ended 31 December 2019. In addition, SDHC mainly sources its products from China, the increased tariff on import products arising from China-USA trade war added another cost burden to its operation. Despite SDHC placed a significant amount of effort on marketing and advertising activities, its actual results fell short of expectation, and SDHC suffered from an operational loss during the year ended 31 December 2019. In view of the loss suffered by SDHC, the uncertainties over the future profitability of its business model as well as the Group's resources to place on this operation, the management considers an impairment indicator existed as at 31 December 2019. A full impairment of HK$11,310,000 was made during the year ended 31 December 2019. Owing to the non-cash impairment loss on goodwill, and the increase in advertisement and marketing costs so as to promote its e-commerce business, operating loss of the business amounted to HK$21,986,000 (2018: HK$19,218,000).

Discontinued Operations

Following the retreat from the Hong Kong retail market in the first half year, the Group has also terminated its PRC retail operation by entering into an Equity Transfer Agreement with Sanrio Co., Ltd ("Sanrio") in August 2019, pursuant to which the Group has transferred the whole retail operation in the PRC to Sanrio. Consequently, the Group has completely exited the retail market. Correspondingly, revenue of the segment narrowed down to HK$32,399,000 (2018: HK$55,560,000), but the segment turned around to an operating profit of HK$1,172,000 including a gain on disposal of a subsidiary of HK$2,857,000 (2018: loss of HK$13,619,000).

With the cessation of all retail operations on both sides of the border, we have been able to direct greater attention and resources towards the profitable and expanding Manufacturing and Trading segments in the best interest of the Group and its shareholders.

PROSPECTS

Even though trade tensions between the US and the PRC have eased following the signing of a Phase 1 trade deal between the two parties, the outbreak of COVID-19 in late December 2019 will likely impact the global economy in the coming year. Already, the pandemic has led to the season suspension of some major sporting events, including the NBA and NHL. That said, with the coronavirus being primarily a near-term concern, the management remains cautiously optimistic, and will maintain close contacts with its business partners.

Chairman's Statement

More importantly, the Bangladesh factory, which is its principal production base that contributes over 90% of its total capacity, has underpinned the Group's long-term growth. Following the substantial completion of Phase II at the Bangladesh factory in late 2019, its production capacity and thus competitiveness has been further strengthened. The monthly capacity is set to reach five million pieces of headwear products in the future. The management is confident that this factory would bring greater contributions to the Group next year as production efficiency will increase, and subsequently raise its profitability to an optimal level. Our confidence is supported by the extended strategic partnership with New Era for another five years, which further shores up the stability of its Manufacturing Business.

As for the Trading Business, despite facing similar headwinds, the Group expects that the fruitful results of investment during previous years will be fully realised. With a full-fledged sales team following the consolidation of H3, the maturing e-commerce business is expected to benefit from the rise of online consumption especially during the outbreak of COVID-19, and greater synergies brought by its newest acquisition AQ, thus the management is confident that the Trading Business will steadily grow.

Given the Group's strengthened presence in Bangladesh and broadened product portfolio, it possesses the strengths as well as the growth momentum necessary to prudently yet confidently face the future. The management will continue its endeavour to bolster the two major business operations, while enhancing efficiency across all areas of operation, which will, in turn, steer Mainland Headwear towards the breaking of new business ground and the creation of greater long-term value for shareholders.

ACKNOWLEDGEMENTS

On behalf of Mainland Headwear, I would like to express sincere gratitude to our shareholders, staff, customers and suppliers for their long-term support of the Group.

Ngan Hei Keung
Chairman

Hong Kong
30 March 2020

Management Discussion and Analysis

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2019, the Group had cash and cash equivalents, short-term deposits and a portfolio of liquid investments totaling Hong Kong dollars ("HK$") 127.8 million (2018: HK$112.2 million). About 39%, 32% and 19% of these liquid funds were denominated in Renminbi, United States dollars and Hong Kong dollars respectively and the remaining were mainly in Pound Sterling and Bangladesh Taka.

As at 31 December 2019, the Group had banking facilities of HK$581.3 million (2018: HK$381.3 million), of which HK$306.3 million (2018: HK$219.4 million) was not utilised.

The bank borrowing over equity ratio of the Group was 36.1% (2018: 21.0%). In view of the strong financial and liquidity position, the Group have sufficient financial resources to meet its commitments and working capital requirements.

CAPITAL EXPENDITURE

During the year, the Group spent HK$35.2 million (2018: HK$118.6 million on the construction of a commercial building in the USA and a factory building in Bangladesh) on the construction of a factory building in Bangladesh. The Group spent approximately HK$37.8 million (2018: HK$18.5 million) on additions to plant and equipment and on addition to lands to upgrade its manufacturing capability and expansion in the Bangladesh factory. The Group also spent HK$4.2 million (2018: HK$0.6 million) on equipments and systems of Trading business.

Management Discussion and Analysis

The Group budgeted HK$26.8 million for capital expenditures of which HK$21.8 million is estimated to be used for the expansion in the Bangladesh under Manufacturing business. The Group also authorised a capital commitment of HK$5.0 million for the equipment upgrades for Trading business.

The above capital expenditure is expected to be financed by internal resources of the Group and banking facilities.

ACQUISITION OF A SUBSIDIARY

Pursuant to an agreement signed between Mainland Aquarius Investments Ltd ("Mainland Aquarius"), a wholly-owned subsidiary of the Company, and the sole shareholder of AQ, Mainland Aquarius acquired the entire issued share capital of AQ at a cash consideration ranging from US$7,000,000 (equivalent to HK$54,460,000) to US$9,000,000 (equivalent to HK$70,020,000), depending on the profitability of AQ for the year ended 30 April 2019. The consideration was eventually determined to be US$8,751,000 (equivalent to approximately HK$68,086,000).

Upon completion of the acquisition on 30 May 2019, AQ became a wholly-owned subsidiary of the Group. Acquisition-related costs of HK$4,069,000 have been charged to administration expenses in the consolidated statement of profit or loss and in operating cash flows in the consolidated cash flow statement for the year ended 31 December 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.

Management Discussion and Analysis

EXCHANGE RISK

Most assets and liabilities of the Group are denominated either in Hong Kong dollars, United States dollars, Renminbi or Bangladesh Taka. The Group estimates that any 1% appreciation of the Renminbi and Bangladesh Taka is expected to reduce the gross margin of the Manufacturing Business by about 0.1% and 0.1% respectively.

EMPLOYEES AND REMUNERATION POLICIES

At 31 December 2019, the Group employed 819 (2018: 1,211) employees in the PRC (include Hong Kong), 5,265 (2018: 4,675) employees in Bangladesh and a total of 162 (2018: 57) employees in the USA and the United Kingdom. The expenditures for employees during the year were approximately HK$288.3 million (2018: HK$250.2 million). The Group ensures that the pay levels of its employees are competitive and employees were 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.

Biographical Details of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Ngan Hei Keung

aged 64, is the Chairman of the Company and co-founder of the Group. Mr. Ngan is responsible for the production activities of the Group. Mr. Ngan obtained a bachelor degree from 福建農業學院 (Fujian Agricultural College) (now known as 福建農林大學 (Fujian Agricultural University, the "FA University")) in 1982 and currently is a guest professor of the FA University. Mr. Ngan has over 30 years of experience in the headwear industry. Mr. Ngan was a director of Yan Oi Tong in 2007. Mr. Ngan is the spouse of Madam Ngan Po Ling, Pauline, *BBS, JP* and the father of Mr. Andrew Ngan and Mr. Ngan Siu Hon Alexander.

Madam Ngan Po Ling, Pauline, *BBS, JP*

aged 60, is the Deputy Chairman and Managing Director of the Company and co-founder of the Group. She is responsible for the marketing activities of the Manufacturing Business. She has over 30 years of experience in the headwear industry. She was the chairman of Po Leung Kuk and Yan Oi Tong, and the president of Hong Kong Young Industrialists Council. She is also the Hong Kong Deputy to the 12th and 13th National People's Congress, People's Republic of China, the ex-officio member and ex-officio executive committee of Heung Yee Kuk New Territories, the standing committee member of the Chinese General Chamber of Commerce, member of Advisory Board of Po Leung Kuk, the president honoris causa of Hong Kong Young Industrials Council, the honorary president and standing director of Hong Kong Federation of Overseas Chinese Association, the committee member of All-China Women's Federation, the standing committee member of All-China Federation of Returned Overseas Chinese and the vice chairman of Hubei Province Federation of Returned Overseas Chinese. Madam Ngan is the winner of Young Industrialist Awards of Hongkong 2001. She was awarded the Bronze Bauhinia Star in the Hong Kong Special Administrative Region 2009 Honours List and JP (Justice of the Peace) title in 2013. Madam Ngan is the spouse of Mr. Ngan Hei Keung and the mother of Mr. Andrew Ngan and Mr. Ngan Siu Hon Alexander.

Mr. James S. Patterson

aged 49, was appointed as Executive Director of the Company in April 2009. Mr. Patterson graduated from the State University of New York at Buffalo, Buffalo, NY, USA and completed a Bachelor Degree in Economics. Mr. Patterson has been employed for more than 20 years with New Era Cap Co., Inc. ("New Era"), a US based company which is engaged in the global marketing, sale, and manufacturing of headwear and apparel. Mr. Patterson is holding the position of chief operating officer and senior vice president of New Era.

Biographical Details of Directors and Senior Management

Mr. Ngan Siu Hon Alexander

aged 29, joined the Company in November 2014 and appointed as the Executive Director of the Company in 2015. He graduated from Purdue University, West Lafayette, Indiana, USA with a Bachelor of Science degree in Economics. Prior to joining the Company, Mr. Ngan worked at a well-known investment bank in Hong Kong. He is the son of Mr. Ngan Hei Keung and Madam Ngan Po Ling, Pauline, *BBS, JP* and brother of Mr. Andrew Ngan.

Mr. Lai Man Sing, Thomas

aged 52, firstly joined the Company during July 1999 to May 2001, rejoined the Company in March 2008 and was appointed as Executive Director of the Company in December 2019. He is the Chief Financial Officer of the Company and in charge of the finance department. Mr. Lai obtained his first degree from London School of Economics and Political Science, University of London, UK and earned a Master degree in Business Administration from University of Western Sydney, Australia. He is a Chartered Financial Analyst (CFA) charterholder. He is also a fellow member of the Hong Kong Institute of Certified Public Accountants and a fellow member of The Australian Society of Certified Practising Accountants. He took senior financial position for sizable listed companies and worked in international accounting field for many years. Mr. Lai is presently an independent non-executive director of Fu Shek Financial Holdings Limited which is listed on the main board of the Stock Exchange of Hong Kong Limited.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Leung Shu Yin, William

aged 70, was appointed as an Independent Non-executive Director of the Company in March 2000. Mr. Leung graduated from the Department of Accountancy of Hong Kong Polytechnic (now known as the Hong Kong Polytechnic University). He is a fellow member of the Hong Kong Institute of Certified Public Accountants, the Association of Chartered Certified Accountants and the Taxation Institute of Hong Kong. He is also a member of the Hong Kong Securities and Investment Institute and the Society of Chinese Accountants and Auditors. Mr. Leung is currently a practising director of two certified public accountants firms in Hong Kong. He is also presently independent non-executive directors of Lai Sun Garment (International) Limited, Lai Sun Development Company Limited and Crocodile Garments Limited, which are listed on the main board of the Stock Exchange.

Mr. Liu Tieh Ching, Brandon, *JP*

aged 74, was appointed as an Independent Non-executive Director of the Company in August 2006. Mr. Liu is a merchant. He is an Advisory Member of the Business Forum of China National Committee for Pacific Economic Corporation of Pacific Economic Cooperation Council, the Honorary President of The Hong Kong Commerce and Industry Associations and the Vice Chairman of The Chinese General Chamber of Commerce.

Biographical Details of Directors and Senior Management

Mr. Gordon Ng

aged 55, obtained his Bachelor's degree in Microbiology and Biochemistry and Master's degree in Intellectual Property from University of London. He was qualified as a solicitor in England and Wales in 1993 and Hong Kong in 1994. He has been the Head of Corporate Finance/Capital Market, Asia of the Hong Kong Office of an international law firm since July 2013. Prior to that, he had been a partner of a number of international law firms. Mr. Ng is presently an independent non-executive director of China Energine International (Holdings) Limited and ZTE Corporation which are listed on the main board of the Stock Exchange.

SENIOR MANAGEMENT

Ms. Maggie Gu

aged 42, first joined the Company during May 2003 to May 2008 and rejoined as Sales and Marketing Director in February 2009. Ms. Gu was appointed as the Chief Operating Officer of the Company in September 2012. She studied in United States of America, and graduated from the California State University Fullerton, with the degree of Bachelor of Arts in Communications. She managed the global marketing department with a reputable media company in US before she returned to Hong Kong. She is now responsible for the strategy formulation and direction of global marketing and business development of the Group and oversees the Company's daily operations.

Mr. Andrew Ngan

aged 32, was the non-executive director of the Company from July 2011 to June 2017. He is now the Continuous Improvement Director of the Group, responsible for enhancement of business development. Mr. Ngan graduated from the Carnegie Mellon University, Pittsburgh, USA. He completed a Bachelor of Science Degree in Information Systems in 2010. He is a Director of Po Leung Kuk since 2018. He is now the Committee Member of the Chinese People's Political Consultative Conference of Hunan Province, member of Hunan Youth Federation and director of the Hong Kong Youth Association of Fujian Overseas Friendship Association. He is the son of Mr. Ngan Hei Keung and Madam Ngan Po Ling, Pauline, *BBS, JP* and the brother of Mr. Ngan Siu Hon, Alexander.

Mr. Sandy Schonwald

age 72, is the founder of Aquarius Ltd and is the Chief Executive Officer of Aquarius Ltd. He has over 50 years of experience in the apparel accessory industry and has been directly involved in the manufacturing, sourcing, marketing, business development, administration and design for both the North American and International markets. He holds a BBA from the University of Oklahoma.

Mr. Randall Gross

age 64, joined Aquarius Ltd in 2001 and is the Chief Operations Officer of Aquarius Ltd. He has spent 6 years in Retail Management and has over 35 years of Accessories experience. He had worked for several worldwide, well-known accessories brands. He holds a Bachelor of Science in Business Management from Temple University.

Biographical Details of Directors and Senior Management

Mr. Bobby Fields

age 58, joined Aquarius Ltd in 1996 and is the Senior Vice President of Licensed and Private Label Accessories at Aquarius Ltd. He has over 35 years of experience in belts, small leather goods, headwear and cold weather merchandise and also a strong supplier network. He holds a Bachelor's degree from California State University, Northridge.

Mr. Raj Kapoor

aged 59, is the managing director of the Group's Europe operations. Mr. Kapoor obtained a bachelor degree from the University of Newcastle Upon Tyne in the United Kingdom ("UK") and has over 20 years of experience in the headwear industry in Europe. He joined the Group in March 2005 when the Group set up its subsidiary in the UK.

Mr. John Astleford

aged 50, is the Managing Director of the Group's US operations. He has more than 20 years of experience in the apparel and accessory industry. He has served on the Executive Committee and/or Board of 5 different companies. Mr. Astleford has previously held business unit leadership positions in sales, marketing, merchandising, and licensing in both private and public companies. He has a BBA in Marketing from Texas Christian University.

Mr. Michael Ball

aged 51, joined the Company in 2010. He is the sales director of the Group's Europe operations. He has more than 20 years experience in the sales and marketing of headwear products.

Mr. Omar Cantu

aged 49, is the Chief Executive Officer of H3 Sportgear, LLC. Mr. Cantu joined the Company in 2017. He has over 20 years experience in the licensed apparel, headwear and accessory industry. Mr. Cantu has previously held executive positions overseeing operations, accounting, human resources and licensing in privately held companies.

Mr. Lau Ka Fai, Edward

aged 53, joined the Company in February 2009 and is the Product Development Director. Mr. Lau graduated from the Hong Kong Polytechnic (now known as Hong Kong Polytechnic University) with a Bachelor of Arts in Fashion Design (with commendation). He holds a Master Degree in Business Administration in Management from Southeastern University Washington, DC. He is also a Diploma Member of the Chartered Society of Designers London. He has worked in creative and design areas within several global buying offices for more than 20 years and is now responsible for design and product development in the US and Asia.

Ms. Leung Ka Pik, Ada

aged 58, joined the Company in 2007 and is the Human Resources and Administrative Director. She holds a Master Degree in Business Administration from University of Canberra, Australia. She had worked in two listed apparel companies and international accounting firm for many years.

Corporate Governance Report

The Company is committed to maintaining a high standard of corporate governance practices. The Board considers shareholders can maximise their benefits from good corporate governance.

CORPORATE GOVERNANCE PRINCIPLES AND THE COMPANY'S PRACTICES

A. Directors

A.1. Board of Directors

An issuer should be headed by an effective board which should assume responsibility for leadership and control of the issuer and be collectively responsible for promoting the success of the issuer by directing and supervising the issuer's affairs. Directors should take decisions objectively in the interests of the issuer.

Regular Board meetings are held at quarterly intervals. In addition, special Board meetings will be held when necessary. Attendance of individual Directors at shareholders' meetings and board meetings in 2019 are as follows:

		Shareholders' Meeting	Board Meeting
Number of meetings		2	4
Executive Directors			
Mr. Ngan Hei Keung	*(Chairman)*	2/2	4/4
Madam Ngan Po Ling, Pauline, *BBS, JP*	*(Deputy Chairman and Managing Director)*	2/2	4/4
Mr. James S. Patterson		0/2	2/4
Ms. Maggie Gu	*(Chief Operating Officer)*	0/2	2/4
Mr. Ngan Siu Hon, Alexander		1/2	2/4
Mr. Lai Man Sing		0/0	0/0
Independent Non-executive Directors			
Mr. Leung Shu Yin, William		2/2	4/4
Mr. Liu Tieh Ching, Brandon, *JP*		1/2	2/4
Mr. Gordon Ng		1/2	3/4

Directors are consulted to include matters in the agenda for regular Board meetings.

Corporate Governance Report

Dates of regular Board meetings are scheduled at least 14 days in advance to provide sufficient notice to give all Directors an opportunity to attend. For all other Board meetings, reasonable notice will be given.

Directors have access to the advice and services of the Company Secretary to ensure that Board procedures, and all applicable rules and regulations, are followed.

Minutes of the Board, the Audit Committee, the Remuneration Committee and the Nomination Committee are kept by the Company Secretary. Minutes are open for inspection at any reasonable time on reasonable notice by any Director.

Minutes of the Board and Board Committees have recorded in sufficient detail the matters considered by the Board and the Committees, decisions reached, including any concerns raised by Directors or dissenting views expressed. Draft and final versions of minutes of the Board are sent to all Directors for their comments and records respectively.

The Board shall resolve to provide separate independent professional advice to Directors to assist Directors to discharge their duties at the Company's expense.

A.2. Chairman and Chief Executive Officer

There are two key aspects of the management of every issuer — the management of the board and the day-to-day management of the issuer's business. There should be a clear division of these responsibilities at the board level to ensure a balance of power and authority, so that power is not concentrated in any one individual.

Code Provision A.2.1 stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

Mr. Ngan Hei Keung is the Chairman of the Company. Mr. Ngan oversees the management of the manufacturing facilities of the Group and also provides leadership for the Board. He ensures that the Board works effectively and discharges its responsibilities, and that all key and appropriate issues are discussed by the Board in a timely manner. Mr. Ngan is also responsible to ensure that all directors are properly briefed on issues arising at board meetings and that all directors receive adequate information, which must be complete and reliable, in a timely manner. Mr. Ngan is the husband of Madam Ngan Po Ling, Pauline, *BBS, JP*.

Madam Ngan Po Ling, Pauline, *BBS, JP* is the Deputy Chairman and Managing Director of the Company. She is responsible for the marketing activities of the Group's Manufacturing Business. Madam Ngan is the wife of Mr. Ngan Hei Keung.

The Board considers that there is adequate segregation of duties within the Board to ensure a balance of power and authority.

Corporate Governance Report

A.3. Board Composition

The board should have a balance of skills and experience appropriate for the requirements of the business of the issuer. The board should ensure that changes to its composition can be managed without undue disruption. The board should include a balanced composition of executive and non-executive directors (including independent non-executive directors) so that there is a strong independent element on the board, which can effectively exercise independent judgement. Non-executive directors should be of sufficient calibre and number for their views to carry weight.

The Board comprises five Executive Directors, namely Mr. Ngan Hei Keung, Madam Ngan Po Ling, Pauline, *BBS, JP*, Mr. James S. Patterson, Mr. Ngan Siu Hon, Alexander and Mr. Lai Man Sing; and three Independent Non-executive Directors, namely Mr. Leung Shu Yin, William, Mr. Liu Tieh Ching, Brandon, *JP* and Mr. Gordon Ng. All Directors are expressly identified by categories of Executive Directors and Independent Non-executive Directors, in all corporate communications that disclose the names of Directors of the Company.

The Company has complied with Rules 3.10(1) and 3.10(2) of the Listing Rules in relation to the appointment of a sufficient number of independent non-executive directors and an independent non-executive director with appropriate professional qualifications, or accounting or related financial management expertise.

According to Appendix 14 to the Listing Rules, it is recommended that serving more than nine years could be relevant to the determination of a non-executive director's independence. If an independent non-executive director serves more than nine years, any further appointment of such independent non-executive director should be subject to a separate resolution to be approved by shareholders.

Mr. Leung Shu Yin, William and Mr. Liu Tieh Ching, Brandon, *JP* have been appointed as independent non-executive directors for more than nine years. The Company has received from Mr. Leung and Mr. Liu confirmations of independence according to Rule 3.13 of the Listing Rules. Mr. Leung and Mr. Liu have not engaged in any executive management of the Group. Taking into consideration of their independent scope of work in the past years, the Directors consider Mr. Leung and Mr. Liu to be independent under the Listing Rules despite the fact that they have served the Company for more than nine years. The Board believes that Mr. Leung's and Mr. Liu's continued tenure brings considerable stability to the Board and the Board has benefited greatly from the contribution of Mr. Leung and Mr. Liu in relation to their extensive experience in accounting and finance fields, and commercial business field respectively.

Biographies which include relationships of Directors are set out in pages 11 to 13 of the annual report, which demonstrate a diversity of skills, expertise, experience and qualifications among members of the Board.

All Directors attended Corporate Governance training course organised by the Company's legal advisers, or read the materials provided by the Company's legal advisers during the year under review.

Corporate Governance Report

The Chairman has held one meeting with all the Independent Non-executive Directors without the presence of other executive Directors to discuss of the Company's business during the year under review.

A.4. Board Diversity Policy

The Company recognises that increasing diversity at the Board level will support the attainment of the Company's strategic objectives and sustainable development.

The Board has adopted a board diversity policy which sets out the approach to achieve and maintain diversity on the Board.

Pursuant to the board diversity policy, the Company seeks to achieve Board diversity through the consideration of a number of factors, including but not limited to cultural and educational background, ethnicity, professional experience, skills, knowledge and other qualities. The Company also takes into consideration its own business model and specific needs from time to time in determining the optimal composition of the Board.

A.5. Appointments, Re-election and Removal of Directors — Nomination Committee

There should be a formal, considered and transparent procedure for the appointment of new directors to the board. There should be plans in place for orderly succession for appointments to the board. All directors should be subject to re-election at regular intervals. An issuer must explain the reasons for the resignation or removal of any director.

Code Provision A.4.1 stipulates that non-executive directors should be appointed for a specific term, subject to re-election.

According to the Company's bye-law No. 87, at each annual general meeting, one-third of the Directors for the time being (or, if the member is not three or a multiple of three, then the number nearest to but not greater than one-third) shall retire from office by rotation provided that every Director (including those appointed for a specific term, the Chairman of the Board and Managing Director of the Company) shall be subject to retirement by rotation at least once every three years.

All Directors of the Company have a specific term of appointment and all the Independent Non-executive Directors of the Company are subject to retirement by rotation and re-election in accordance with the Company's bye-law No. 87.

All Directors appointed to fill a casual vacancy or as an addition are subject to election by shareholders at the first general meeting after their appointment.

The nomination committee was formed in March 2012 with specific written terms of reference in compliance with the Code. This Committee is chaired by Mr. Liu Tieh Ching, Brandon *JP*. The other members are Mr. Ngan Hei Keung, Mr. Leung Shu Yin, William, Mr. Gordon Ng and Mr. Ngan Siu Hon, Alexander. During the year of 2019, two nomination committee meeting was held, which was attended by all members of the Committee except for Mr. Gordon Ng and Mr. Liu Tieh Ching, Brandon, *JP,* who attended one meeting.

Corporate Governance Report

Nomination Committee has considered measurable objectives based on their professional experience and ethnicity to implement the board diversity policy. Such objectives will be reviewed from time to time to ensure their appropriateness and the progress made towards achieving those objectives will be ascertained. Nomination Committee will review the board diversity policy, as appropriate, to ensure its continued effectiveness from time to time.

A proposal for the appointment of a new Director will be considered and reviewed by the Board. All candidates must be able to meet the standards as set forth in Rules 3.08 and 3.09 of the Listing Rules. A candidate who is to be appointed as an Independent Non-executive Director should also meet the independence criteria set out in Rule 3.13 of the Listing Rules.

A.6. Director Nomination Policy

Director Nomination Policy of the Group is in place and was updated in the year taking into consideration the revised Listing Rules effective from 1 January 2019. The updated policy sets out the procedures, process and criteria for identifying and recommending candidates for election to the Board of Directors. One candidate was nominated for directorship in 2019.

A.7. Responsibilities of Directors

Every director is required to keep abreast of the responsibilities as a director of an issuer and of the conduct, business activities and development of that issuer. Given the essential unitary nature of the board, non-executive directors have the same duties of care and skill and fiduciary duties as executive directors.

Every newly appointed director of the Company is ensured to have a proper understanding of the operations and business of the Group and that he is fully aware of his responsibilities under statue and common law, the Listing Rules, applicable legal and regulatory requirements and the business governance policies of the Group. The Directors are continually updated with legal and regulatory developments, business and strategic development of the Group to enable the discharge of their responsibilities.

All Independent Non-executive Directors take an active role in board meetings to bring in independent judgement to bear on issues of strategy, policy, performance, accountability, resources, key appointments and standards of conducts. They scrutinise the Company's performance in achieving agreed corporate goals and objectives, and monitor the reporting of performance. They also take the lead where potential conflicts of interests arise and serve the audit and remuneration committees.

Every Director is aware that he/she should give sufficient time and attention to the affairs of the Company.

Corporate Governance Report

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers 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 year ended 31 December 2019.

A.8. Supply of and Access to Information

Directors should be provided in a timely manner with appropriate information in such form and of such quality as will enable them to make an informed decision and to discharge their duties and responsibilities as directors of an issuer.

In respect of regular Board meetings, and so far as practicable in all other cases, an agenda and accompanying board papers are sent in full to all Directors in a timely manner and at least 3 days before the intended date of a Board or Board Committee meeting.

Management are regularly reminded by the Company Secretary that they have an obligation to supply the Board and its Committees with adequate information in a timely manner to enable it to make informed decisions. The information supplied must be complete and reliable. The Board and each Director shall have separate and independent access to the Company's senior management.

All Directors are entitled to have access to Board papers, minutes and related materials. Where queries are raised by Directors, steps are taken to respond as promptly and fully as possible.

B. Remuneration of directors and senior management

B.1. The Level and Make-up of Remuneration and Disclosure

An issuer should disclose information relating to its directors' remuneration policy and other remuneration related matters. There should be a formal and transparent procedure for setting policy on executive directors' remuneration and for fixing the remuneration packages for all directors. Levels of remuneration should be sufficient to attract and retain the directors needed to run the company successfully, but companies should avoid paying more than necessary for this purpose. No director should be involved in deciding his own remuneration.

The Company has established a Remuneration Committee with specific written terms of reference as set out in Code Provisions B.1.3 (a) to (f) of the Code. The Remuneration Committee is responsible for making recommendations to the Board regarding the Company's remuneration policy, and for the formulation and review of the specific remuneration packages of all Executive Directors and senior executives of the Group.

A majority of the members of the Remuneration Committee are Independent Non-executive Directors. This Committee was chaired by Mr. Gordon Ng. The other members were Madam Ngan Po Ling, Pauline, *BBS, JP*, Mr. Leung Shu Yin, William, Mr. Liu Tieh Ching, Brandon, *JP* and Mr. Ngan Siu Hon, Alexander.

Corporate Governance Report

The Remuneration Committee held one meeting in 2019, which was attended by all members of the Committee except for Mr. Liu Tieh Ching, Brandon, *JP* and Mr. Ngan Siu Hon, Alexander. The Committee had considered the following proposals for the remuneration of Directors and senior management and made recommendation to the Board:

1. Annual salary review policy;

2. Offer of share options as part of the long term incentive schemes; and

3. Performance related bonus.

The Group ensures that the pay levels of its employees, including Directors and senior management, are competitive and employees are remunerated based on their positions and performance. Key employees of the Group are also granted share options under the share option schemes operated by the Company.

Details of the amount of Directors' emoluments for 2019 are set out in note 39 to the financial statements. Details of the share option schemes of the Company are set out in the Report of the Director and note 26 to the financial statements.

The remuneration of senior management whose names appear in the "Biographical Details of Directors and Senior Management" section are within the following bands:

	2019	2018
HK$1 — HK$500,000	**1**	—
HK$500,001 — HK$1,000,000	**3**	2
HK$1,000,001 — HK$1,500,000	**1**	—
HK$1,500,001 — HK$2,000,000	**3**	2
HK$2,000,001 — HK$3,000,000	**3**	3

The Remuneration Committee is provided with sufficient resources, including access to professional advice, to discharge its duties if considered necessary.

C. Accountability and audit

C.1. Financial Reporting

The board should present a balanced, clear and comprehensible assessment of the company's performance, position and prospects.

Management has provided such explanation and information to the Board as would enable the Board to make an informed assessment of the financial and other information put before the Board for approval.

Corporate Governance Report

The Directors acknowledge their responsibility to keep proper accounting records and prepare financial statements of each financial period, which shall give a true and fair view of the state of affairs of the Group and of the results and cash flow for that period. In preparing the financial statements for the year ended 31 December 2019, the Directors have made judgements and estimates that are prudent and reasonable and prepared the financial statements on a going concern basis.

A statement by the auditor about his reporting responsibilities is included in the Independent Auditor's Report on pages 55 to 62 of the annual report for the year ended 31 December 2019.

The Board's responsibility to present a balanced, clear and understandable assessment extends to annual and interim reports, other price-sensitive announcements and other financial disclosures required under the Listing Rules, and reports to regulators as well as information required to be disclosed pursuant to statutory requirements.

C.2. Internal Controls

The board should ensure that the issuer maintains sound and effective internal controls to safeguard the shareholders' investment and the issuer's assets.

The Board is responsible for the Group's system of internal controls and for reviewing its effectiveness through the Audit Committee. The Board requires management to establish and maintain sound and effective internal controls. Review of the Group's internal controls covering financial, operational and compliance controls, and risk management functions on different systems is done on a systematic rotational basis based on the risk assessments of the operations and controls.

C.3. Audit Committee

The board should establish formal and transparent arrangements for considering how it will apply the financial reporting and internal control principles and for maintaining an appropriate relationship with the company's auditor. The audit committee established by an issuer pursuant to the Listing Rules should have clear terms of reference.

The Company has established an Audit Committee with specific written terms of reference which deal clearly with its authority and duties. The terms of reference of the Audit Committee have included the duties set out in Code Provisions C.3.3 (a) to (n) of the Code, with appropriate modifications where necessary. The Audit Committee has made available its terms of reference, on the website of the Company, explaining its role and the authority delegated to it by the Board.

As set out in the terms of reference, the Audit Committee is responsible for reviewing the financial reporting system and internal control procedures, annual report and financial statements and interim report.

The Audit Committee comprises three Independent Non-executive Directors of the Company and is chaired by Mr. Leung Shu Yin, William. This Committee held two meetings in 2019 which were attended by all members of the Committee except for Mr. Liu Tieh Ching, Brandon, *JP* who attended one meeting. External auditor attended one meeting in 2019.

Corporate Governance Report

The following is a summary of the work performed by the Audit Committee during the year:

1. Reviewed external auditor audit committee report and management's response;

2. Reviewed and recommended to the Board approval of the audit fee proposal for 2019;

3. Considered and recommended to the Board that the shareholders be asked to re-appoint the existing auditor as the Company's external auditor for 2020;

4. Reviewed and approved the Group's internal audit plan for 2020;

5. Reviewed internal audit reports, and internal controls report and risk management report and brought to the attention of Management on internal control issues and high risk areas;

6. Reviewed the audited financial statements and final results announcement for the year 2018;

7. Reviewed the Interim Report and the interim results announcement for the six months ended 30 June 2019; and

8. Reviewed the determination and reporting of key audit matters.

All issues raised by the Committee have been addressed by Management. The work and findings of the Committee have been reported to the Board. During the year, no issues brought to the attention of Management and the Board were of sufficient importance to require disclosure in the Annual Report.

The Board agrees with the Audit Committee's proposal for the re-appointment of existing auditor as the Company's external auditor for 2020.

The remuneration of the Group's external auditor is HK$3,000,000 for audit fees and HK$1,068,000 for other non-assurance services.

Full minutes of Audit Committee meetings are kept by the Company Secretary. Draft and final versions of minutes of the Audit Committee meetings are sent to all members of the Committee for their comments and records respectively, in both cases within a reasonable time after the meeting.

The Audit Committee does not have a former partner of the Company's existing audit firm. The Audit Committee is provided with sufficient resources to perform its duties.

D. DIVIDEND POLICY

Policy on Payment of Dividend of the Company is in place setting out the factors in determination of dividend payment of the Company, the Company's long-term earning capacity and expected cash inflow and outflow, the frequency and form of dividend payments. The policy shall be reviewed periodically and submitted to the Board for approval if amendments are required.

Corporate Governance Report

E. Internal controls and Risk management report

During the year, the Group has complied with the Code Provision C.2 of the CG Code by establishing appropriate and effective risk management and internal control system.

(i) Control Environment

The Group operates within an established control environment and it comprises four layers of roles and responsibilities to manage risk and internal control:

Role	Accountability	Responsibilities
High level review	Board	Overall responsibility for the Group's risk management and internal control systems; oversees the controls for strategic and operational risks and monitors the effectiveness of the existing control systems through Audit Committee.
Supervision	Audit Committee	Supporting the Board in monitoring the performance of corporate governance, financial reporting, risk management and internal control systems; reviews risks raised during annual risk register execute; approves risk tolerance.
Risk and control owner	Managers of headquarters and business units	Day to day execution and monitoring of internal control; strategic policies and operating guidelines formulation and execution.
Risk monitoring and communication	CFO, company secretary and internal audit team	Evaluation of risk management and internal controls to identify areas for improvement; monitoring of corporate governance disclosure, statutory and listing rules compliance; undertaking of investigations.

(ii) Risk Assessment

The Group's risk management process is embedded into our strategy formulation, business planning, capital allocation, investment decisions, internal controls and day to day operations. Management is responsible for performing risk assessments and owning the design, implementation and maintenance of controls. Finance Department, Human Resources Department, Compliance Department and external professionals provide assistance and expertise management to help it in undertaking its responsibilities. Major identified risks are recorded in the risk register which has been monitored and updated regularly to reflect the latest development of situations.

Corporate Governance Report

Executive directors communicate regularly with each individual business unit/department heads to identify day to day operational risks and find ways to mitigate them if any.

Regarding financial risks, the board approves Company's yearly financial budgets and reviews its operating and financial performance and key performance indicators against the budget on a semiannual basis. Management closely monitors the financial reports of each business unit on a monthly basis against budget to detect material deviation at business unit level. Board approval is required for all significant capital investment or acquisition decisions.

Chief Financial Officer, Company Secretary and Human Resources and Administrative Director work with external legal and financial advisors to review adherence to relevant laws and regulations, Listing Rules compliance, public disclosure requirements and our standards of compliance practices.

(iii) Control Activities

Among others, control activities include approvals and verifications, reviews, safeguarding of assets and segregation of duties. They are performed by personnel at different levels within the Group with the support of well-defined policies and procedures:

Top-level reviews:	Conducting review of performance versus budget. For all three business sectors (manufacturing, trading and retails,) monthly operation update and financial reports are discussed between business unit heads and Headquarters management to manage operational and financial risks. Besides, for manufacturing business units, monthly production quantity target and defect rate target are set to the factories. Bi weekly KPI meetings and weekly production meetings are held to monitor the actual performance.
Information processing:	Many control functions on accuracy, completeness and authorization of transactions are built-in in ERP system and exception report can be generated for follow up actions if required.
Physical controls:	Inventory and major fixed assets are safeguarded by designed personnel and locations and are subject to periodic checks.
Segregation of duties:	If situation allows, the Group divides and segregates duties amongst different people, to strengthen checks and minimize the risks of errors or abuses.

Corporate Governance Report

(iv) Information and Communication

Information that gathered by business units from customers, suppliers, employees and relevant trade organizations and authorities are discussed internally and are shared with Hong Kong headquarters management formally or informally to facilitate decision making process. Management report to the board up to date status on performance, developments, significant risks and major initiatives and other relevant issues, and the board, in turn, communicate to management what information it needs and provide directions and feedbacks. There are at least four board meetings every year.

(v) Monitoring

Monitoring ensures that internal control continues to operate effectively. It involves assessment by appropriate personnel of the design and operation of controls and taking of suitable follow-up actions.

The Board and Audit Committee oversee the process, assisted by internal audit team. There are two audit committee meetings annually. 2019 audit plan and internal audit report were reviewed and approved by the Audit Committee. No significant internal control weaknesses in 2019 is noted.

Our external auditor, PricewaterhouseCoopers, performs independent statutory audits of the Group's financial statements and reports to the Audit Committee any significant weaknesses in our internal control procedures which come to its notice during the course of the audit.

Overall Assessment

1. The risk management and internal controls and accounting systems of the Group were in place and functioning effectively, and were designed to provide reasonable but not absolute assurance that material assets were protected, business risks attributable to the Group were identified and monitored, material transactions were executed in accordance with management's authorization and the financial statements were reliable to produce.

2. There was an ongoing process in place for identifying, evaluating and managing the significant risks faced by the Group.

3. The resources, qualifications, experience, training programs and budget of the employees of the Group's accounting and financial reporting teams were adequate.

Corporate Governance Report

E. Delegation by the Board

E.1. Management Functions

An issuer should have a formal schedule of matters specifically reserved to the board for its decision. The board should give clear directions to management as to the matters that must be approved by the board before decisions are made on behalf of the issuer.

The Board is responsible for formulating overall strategy, monitoring and controlling the performance of the Group whilst managing the Group's business is the responsibility of Management.

When the Board delegates aspects of its management and administration functions to Management, it has given clear directions as to the powers of Management, in particular, with respect to the circumstances where Management shall report back and obtain prior approval from the Board before making decisions or entering into any commitments on behalf of the Company.

The Company has established schedules of Matters Reserved to the Board for Decision and Matters Delegated to Management. The Board shall review those arrangements on a periodic basis to ensure that they remain appropriate to the needs of the Group.

Matters Reserved to the Board for Decision include:

1. Business plan;
2. Financial statements and budget;
3. Mergers and acquisitions and other substantial investments;
4. Formation of board committees;
5. Appointment and resignation of directors; and
6. Appointment and removal of auditors.

E.2. Board Committees

Board committees should be formed with specific written terms of reference which deal clearly with the committees' authority and duties.

Apart from Audit Committee (particulars are disclosed under C.3), Remuneration Committee (particulars are disclosed under B.1) and Nomination Committee (particulars are disclosed under A.4), there are no other board committees established by the Board. Where board committees are established to deal with matters, the Board shall prescribe sufficiently clear terms of reference to enable such committees to discharge their functions properly. The terms of reference of board committees shall require such committees to report back to the board on their decisions or recommendations, unless there are legal or regulatory restrictions on their ability to do so.

Corporate Governance Report

F. Company Secretary

Ms. Chan Hoi Ying, the Company Secretary of the Company, confirmed that she has taken no less than 15 hours relevant professional training during the financial year.

G. Communication with shareholders

G.1. Effective Communication

The board should endeavour to maintain an on-going dialogue with shareholders and in particular, use annual general meetings or other general meetings to communicate with shareholders and encourage their participation.

At the 2019 Annual General Meeting, a separate resolution was proposed by the Chairman in respect of each separate issue, including the re-election of Directors.

The Chairman of the Board and the chairmen of the Audit and Remuneration Committees shall attend the 2020 Annual General Meeting to answer questions of shareholders.

G.2. Procedures for putting forward proposals at general meetings

Any shareholder who wish to put forward proposals at general meetings of the Company shall submit such proposals to the Board in writing for the boards consideration not less than 7 days prior to the date of a general meeting through the Company Secretary.

The Company also published all corporate correspondence on the Company website, www.mainland.com.hk.

G.3. Voting by Poll

The right to demand a poll was set out in the circular to shareholders of the Company dispatched together with the Annual Report. The results of the voting by poll would be published on the websites of the Stock Exchange and the Company respectively.

Report of the Directors

The directors of the Company (the "Directors") have pleasure in submitting their annual report together with the audited financial statements for the year ended 31 December 2019.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities and other particulars of the subsidiaries are set out in note 16 to the financial statements.

SEGMENTAL INFORMATION

Details of segmental information are set out in note 5 to the financial statements.

RESULTS AND APPROPRIATIONS

An interim dividend of 2 HK cents (2018: 2 HK cent) per share, totaling HK$8,106,000 was paid on 10 October 2019. The Directors recommend the payment of a final dividend of 3 HK cents (2018: 3 HK cents) per share in respect of the year ended 31 December 2019. Subject to the approval at the forthcoming annual general meeting, the final dividend will be payable on or after 22 June 2020 to the shareholders whose names appear on the register of members at the close of the business on 3 June 2020, being the record date for determination of entitlements to the final dividend.

To determine the identity of members who are entitled to attend and vote at the forthcoming Annual General Meeting which will be held on 22 May 2020, the register of members of the Company will be closed from 19 May 2020 to 22 May 2020 (both dates inclusive). In order to qualify to attend the Annual General Meeting, 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 18 May 2020.

To determine the identity of members who are entitled to the final dividend of the Company for the year ended 31 December 2019, the register of members of the Company will be closed from 29 May 2020 to 3 June 2020 (both dates inclusive). In order to qualify for the proposed final 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 28 May 2020.

No arrangement has been made under which a shareholder has waived or agreed to waive any dividends.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 146.

Report of the Directors

MAJOR CUSTOMERS AND SUPPLIERS

The information in respect of the Group's sales and purchases attributable to the major customers and suppliers respectively during the financial year is as follows:

	Percentage of the Group's total Purchases	Sales
The largest customer	—	37.2%
Five largest customers in aggregate	—	61.5%
The largest supplier	12.5%	—
Five largest suppliers in aggregate	43.9%	—

As at 31 December 2019, New Era Cap Co., Inc., New Era Cap Company Ltd and New Era Japan GK, major customers of the Group, were affiliated companies of New Era Cap Hong Kong LLC ("NEHK"). NEHK holds 19.64% equity interest in the Company. Mr. Christopher Koch owns 75% of the issued share capital of NEHK.

Save as disclosed above, none of the Directors, their associates or any shareholder of the Company (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had an interest in these major customers or suppliers.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment are set out in note 14 to the financial statements.

SHARE CAPITAL ISSUED IN THE YEAR

Details of the shares issued in the year ended 31 December 2019 are set out in note 25 to the financial statements.

RESERVES

Details of movements in the reserves of the Company during the year are set out in note 38 to the financial statements.

As at 31 December 2019, the Company's reserves available for cash distribution amounted to HK$556,356,000 (2018: HK$489,752,000) as computed in accordance with the Companies Act 1981 of Bermuda. In addition, the Company's share premium account of HK$167,016,000 (2018: HK$167,016,000) as at 31 December 2019 may be distributed in the form of fully paid bonus shares.

Report of the Directors

EQUITY LINKED AGREEMENTS

Share options granted to directors and selected employee

Details of the share options granted in prior years is set out in note 26 of the financial statements and "Share Options" section in this Report of the Directors. No share was issued during the year.

DONATIONS

No charitable and other donations made by the Group during the year (2018: HK$30,000).

DIRECTORS

The Directors during the year and up to the date of this report were:

Executive directors

Mr. Ngan Hei Keung *(Chairman)*
Madam Ngan Po Ling, Pauline, *BBS, JP (Deputy Chairman and Managing Director)*
Mr. James S. Patterson
Ms. Maggie Gu *(Chief Operating Officer) (resigned on 27 December 2019)*
Mr. Ngan Siu Hon, Alexander
Mr. Lai Man Sing *(Chief Financial Officer) (appointed on 27 December 2019)*

Independent non-executive directors

Mr. Leung Shu Yin, William
Mr. Liu Tieh Ching, Brandon, *JP*
Mr. Gordon Ng

The Company has received from each of the Independent Non-executive Directors an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules and considers all the independent non-executive directors to be independent.

All the Directors are subject to retirement by rotation and re-election at the annual general meeting in accordance with the Bye-Laws No. 87 of the Company.

In accordance with the Company's Bye-Law No. 87, Madam Ngan Po Ling, Pauline, *BBS, JP,* Mr. Leung Shu Yin, William and Mr. Gordon Ng shall retire by rotation at the forthcoming annual general meeting. In addition, Mr. Lai Man Sing, being Director appointed by the Board after the Company's annual general meeting held on 20 May 2019, will hold office until the AGM pursuant to Bye Law No. 86(2). All of the retiring Directors, being eligible, offer themselves for re-election.

Report of the Directors

DIRECTORS' SERVICE CONTRACTS

Each of Mr. Ngan Hei Keung, Madam Ngan Po Ling, Pauline, *BBS, JP*, Mr. Ngan Siu Hon, Alexander and Mr. Lai Man Sing has entered into a service contract with the Company which may be terminated by not less than six months' notice in writing served by either party.

Each of Mr. James S. Patterson, Mr. Leung Shu Yin, William, Mr. Liu Tieh Ching, Brandon, *JP* and Mr. Gordon Ng has entered into a service contract with the Company, which may be terminated by not less than three months' notice in writing served by either party.

Save as disclosed above, none of the Directors has an unexpired service contract with the Company or any of its subsidiaries, which is not determinable by the Group within one year without payment of compensation, other than normal statutory obligations.

DIRECTORS' MATERIAL INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS THAT ARE SIGNIFICANT IN RELATION TO THE COMPANY'S BUSINESS

Save as disclosed in notes 23 and 33 to the financial statements and in the section "Connected Transaction" below, no other transactions, arrangements and contracts of significance to which the Company's subsidiaries or its parent company was a party and in which a Director of the Company and the Director's connected party had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year. The Company has complied with the disclosure requirements set out in Chapter 14A of the Listing Rule.

CONNECTED TRANSACTIONS

(i) Rent paid in respect of office premises to directors and a company controlled by a director were charged at a fixed monthly fee mutually agreed between the two parties as set out in the tenancy agreements entered into by the Company, a company controlled by a director and the directors on 23 March 2016. These transactions are continuing connected transactions as defined in Chapter 14A of the Listing Rules.

    The agreements were renewed on 21 March 2019. Pursuant to the adoption of HKFRS 16, these transactions are one-off connected transactions as defined in Chapter 14A of the Listing Rules. The Group recognised right-of-use assets and lease liabilities of HK$5,017,000 in relation to the leased office premises. The carrying amount of the right-of-use assets and lease liabilities as at 31 December 2019 are HK$3,661,000 and HK$3,789,000, respectively. The Company has complied with the applicable requirements in accordance with Chapter 14A of the Listing Rules as detailed in the section headed "Connected Transactions and Continuing Connected Transactions" in the Report of the Directors in respect of these transactions.

(ii) On 30 September 2014, the Company renewed a manufacturing agreement (the "Manufacturing Agreement") with New Era Cap Hong Kong LLC ("NEHK"), pursuant to which NEHK agreed to purchase products from the Company with minimum purchase commitments for the five financial years ended 31 December 2019. Under the Contingent Purchase Deed, NEHK is entitled to require Mr. Ngan Hei Keung ("Mr. Ngan") and Madam Ngan Po Ling, Pauline, *BBS, JP*, ("Madam Ngan") who are executive directors and controlling shareholders of the Company to purchase up to 39,800,000 shares of the Company from subscription and exercise of the option and owned by NEHK over a six months period after a notice is served by NEHK, if NEHK have agreed to give purchase commitment under the Manufacturing Agreement on the occurrence of several events.

Report of the Directors

On 8 December 2017, independent shareholders of the Company approved the Manufacturing Agreement and the maximum aggregate annual value of supply transactions for the two years ended 31 December 2019 are HK$545,761,000 and HK$661,300,000 respectively.

During the year ended 31 December 2019, affiliated companies of NE purchased goods totalling HK$427,138,000 from the Group.

Due to the interest in and benefits that Mr. Ngan and Madam Ngan (who are connected persons of the Company as they are Directors) can derive from Contingent Purchase Deed, the Manufacturing Agreement (including the supply transactions, subscription and grant of option) will constitute connected transaction and continuing connected transaction under the Listing Rules.

The aforesaid continuing connected transactions have been reviewed by independent non-executive directors of the Company. The independent non-executive directors confirmed that the aforesaid connection transactions were entered into (a) in the ordinary and usual course of business of the Group; (b) either on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; (c) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued an unqualified letter containing his findings and conclusions in respect of the continuing connected transactions disclosed by the Group as above in accordance with paragraph 14A.56 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

PERMITTED INDEMNITY PROVISION

At no time during the financial year and up to the date of this Report of the Directors, there was or is, any permitted indemnity provision being in force for the benefit of any of the directors of the Company (whether made by the Company or otherwise) or an associated company (if made by the Company).

The Company has taken out and maintained directors' liability insurance throughout the year, which provides appropriate cover for the Directors of the Group.

Report of the Directors

DIRECTORS' AND CHIEF EXECUTIVES INTERESTS IN SHARES AND UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY SPECIFIED UNDERTAKING OF THE COMPANY OR ANY OTHER ASSOCIATED CORPORATION

As at 31 December 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				
	Personal interest	**Other direct interest**	**Underlying shares**	**Total**	**Percentage of interest**
Mr. Ngan Hei Keung	—	221,508,000 *(notes 1, 2)*	44,800,000 *(notes 3, 4)*	266,308,000	65.70%
Madam Ngan Po Ling, Pauline, *BBS, JP*	37,808,000 *(note 2)*	183,700,000 *(note 1)*	44,800,000 *(notes 3, 4)*	266,308,000	65.70%
Mr. James S. Patterson	—	—	1,000,000 *(note 5)*	1,000,000	0.25%
Mr. Ngan Siu Hon, Alexander	—	—	2,000,000 *(note 6)*	2,000,000	0.49%
Mr. Lai Man Sing	—	—	1,000,000 *(note 7)*	1,000,000	0.25%

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, *BBS, JP* as to 40% and 60% respectively.

(2) The 37,808,000 shares are beneficially owned by Madam Ngan Po Ling, Pauline, *BBS, JP* the spouse of Mr. Ngan.

(3) Pursuant to the contingent purchase deed renewed on 22 November 2019 between Mr. Ngan, Madam Ngan and NEHK, NEHK is entitled to require Mr. Ngan and Madam Ngan to purchase up to 39,800,000 shares on the terms and conditions of the said deed.

(4) 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.

Report of the Directors

(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) Mr. Ngan Siu Hong, Alexander is entitled to subscribe for 2,000,000 shares pursuant to the outstanding options granted under the Company's share options scheme.

(7) Mr. Lai Man Sing is entitled to subscribe for 1,000,000 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 (including their spouse and children under 18 years of age) had any interests in the shares or short positions in the shares or underlying shares in, or debentures of, the Company or its specified undertaking or any of its associated corporations as defined in the SFO.

SHARE OPTION SCHEMES

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

On 29 December 2011, the Old Scheme was terminated and a new share option scheme (the "New Scheme") was adopted, whereby the Board of Directors, may, at their absolute discretion, grant options to any eligible employees, including directors of the Company or any of its subsidiaries or any invested entity, any suppliers of goods or services to any member of the Group or any interested entity, and any customers of the Group or any invested entity to subscribe for shares in the Company.

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

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

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

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

Report of the Directors

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

As at the date of annual report, the total number of shares available for issue, save for those granted but yet to be exercised, under the New Scheme was 40,532,328 shares, which represented 10% of the issued share capital of the Company.

At 31 December 2019, the Directors and employees of the Group had the following interests in options to subscribe for shares in the Company (market value per share is HK$1.1 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:

				Number of shares				
	Date of grant	Period during which options exercisable	Exercise price	Outstanding at 1.1.2019	Lapsed during the year	Reclassification	Outstanding at 31.12.2019	Market value per share at date of grant
			HK$					*HK$*
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	—	(1,200,000)	1,000,000	1.12
	13.04.2017	13.04.2018–12.04.2027	1.534	8,000,000	—	—	8,000,000	1.50
				17,200,000	(7,000,000)	(1,200,000)	9,000,000	
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	—	1,200,000	10,030,000	1.12
	13.04.2017	13.04.2018–12.04.2027	1.534	11,370,000	—	—	11,370,000	1.50
				27,000,000	(4,900,000)	1,200,000	23,300,000	

Apart from the foregoing, at no time during the year was the Company, its subsidiaries, its parent company or its associated corporations a party to any arrangement to enable the Directors and chief executives of the Company (including their spouses or children under eighteen years of age) to hold any interests or short positions in the shares or underlying shares in, or debentures, of the Company or its specified undertakings or other associated corporation.

Report of the Directors

Substantial shareholders' interests and/or short positions in the shares, underlying shares of the Company

So far as is known to the Directors or chief executives of the Company, as at 31 December 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:

		Number of shares				
Name	Capacity	Personal interest	Other interest	Underlying shares	Total	Percentage of interest
Madam Ngan Po Ling, Pauline, *BBS, JP*	Beneficial owner	37,808,000	—	—	37,808,000	9.33%
	Interest of a controlled corporation *(note 1)*	—	183,700,000	—	183,700,000	45.32%
					219,952,000	54.65%
Successful Years International Co., Ltd. *(note 1)*	Beneficial owner	183,700,000	—	—	183,700,000	45.32%
Mr. Christopher Koch *(note 2)*	Interest of a controlled corporation	—	79,601,000	—	79,601,000	19.64%
NEHK *(note 2)*	Interest of a controlled corporation	79,601,000	—	—	79,601,000	19.64%

Notes:

1. Successful Years International Co., Ltd. is owned by Mr. Ngan Hei Keung and Madam Ngan Po Ling, Pauline, *BBS, JP* as to 40% and 60% respectively. The interests of Mr. Ngan Hei Keung and Madam Ngan Po Ling, Pauline, *BBS, JP* in Successful Years International Co., Ltd. are also disclosed in the section headed "Directors' and Chief Executives Interests in Shares and Underlying Shares and Debentures of the Company or Any Specified Undertaking of the Company or Any other Associated Corporation" above.

2. Mr. Christopher Koch owns 75% of the issued share capital of NEHK. As such, Mr. Christopher Koch is deemed to be interested in the 79,601,000 shares.

Short positions in the underlying shares:

Name	Number of underlying shares	Percentage of interest
Mr. Christopher Koch	39,800,000 *(note)*	9.82%
NEHK	39,800,000 *(note)*	9.82%

Note:

Pursuant to the contingent purchase deed renewed on 22 November 2019 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.

Report of the Directors

Save as disclosed above, as at 31 December 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.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws and there was no restriction against such rights under the laws of Bermuda which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

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

During the year ended 31 December 2019, the Company has not redeemed any of its shares. Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

SUFFICIENCY OF PUBLIC FLOAT

The Directors confirm that, based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has sufficient public float of at least 25% of the Company's issued shares as at 30 March 2020, being the date of this report.

AUDITORS

The financial statements have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

Ngan Hei Keung
Chairman

Hong Kong, 30 March 2020

Environmental, Social and Governance Report

ABOUT THE REPORT

The Environmental, Social and Governance Report ("ESG Report") provide an annual update on sustainability performance of Mainland Headwear Holdings Limited for the year ended 31 December 2019 covered the manufacturing and trading business of the Group which are the major revenue sources.

The report is prepared under the Environmental, Social and Governance Reporting Guide of Hong Kong Exchanges and Clearing Limited ("Hong Kong Exchange"). Our Board of Directors are responsible for supervising the strategies, policies and measures while our managements are responsible for effective implementation of strategies and providing materials for information disclosure.

The Group has set up a normalized stakeholder communication mechanism (e.g. regular customer meetings, site visit, press release, media interview, annual reports, annual members meetings, email channel, company website, intranet and employees meetings) to ensure stakeholders are timely informed of the Group's operation status. We actively listen and respond to stakeholders' appeal and suggestions, to cement the relations of mutual help and trust with our stakeholders and jointly attain the vision of sustainable development.

Vision

To be the world's leader and premier provider in the headwear industry.

Mission

To create value for customers, generate opportunities for employees and benefit the community by designing, manufacturing and promoting a wide variety of headwear products .

Core values

Customers come first

With customers' interests as our first priority, we are committed to providing them with quality products and excellent services.

Aggressive and innovative

We take a proactive approach in all our undertakings: aggressive in times of opportunity; positive in times of difficulty; and innovative in times of mediocrity.

People-oriented

We consider our staff as our most valuable asset. Caring, communication and motivation are the essential cornerstones for building a great team.

Serving the community

We believe the greatest value of our Group lies in the benefits we can create for the community at large. Apart from contributing our best in the industry, we also devote our time, energy and resources to help those who are less fortunate in our society.

Environmental, Social and Governance Report

COMPANY INTRODUCTION

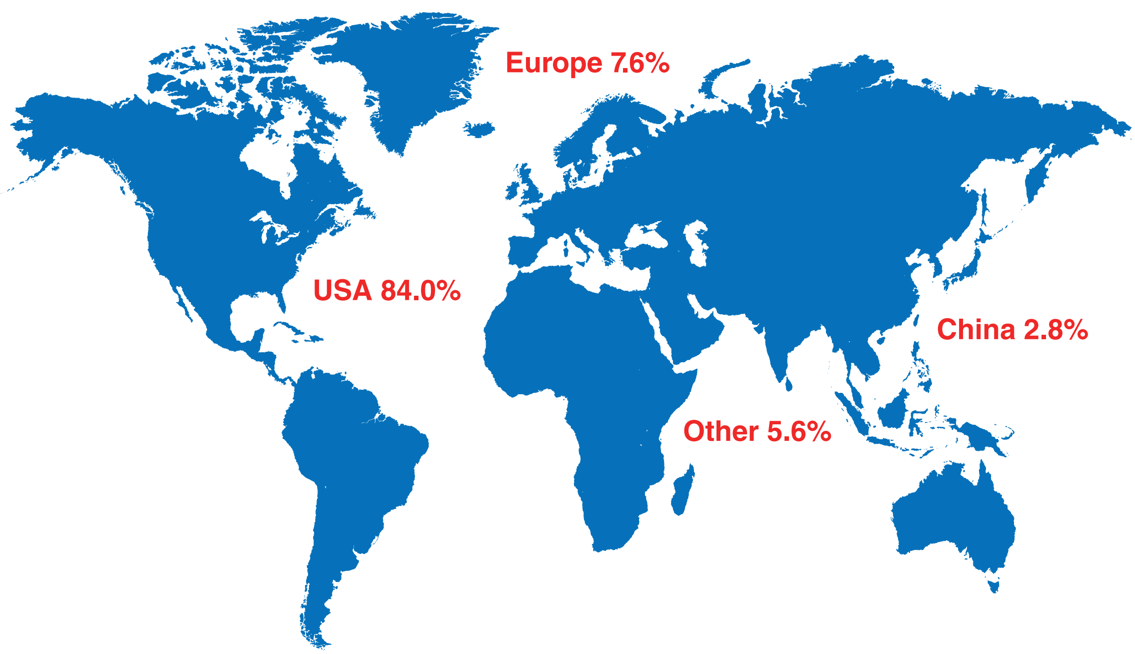
Mainland Headwear Holdings Limited was established in 1986 and became listed on the Main Board of the Hong Kong Stock Exchange in 2000. It is thus far the only publicly-listed headwear manufacturer in the world.

Headquartered in Hong Kong, the Group has two production strongholds — one in Shenzhen, PRC and the other in Bangladesh. The Group manufactures a wide and exclusive range of licensed casual headwear products, which are mainly sold overseas with the US as the largest market, followed by the European market.

The Group operates Trading business in Europe and the US through four subsidiaries, namely Drew Pearson International (Europe) Limited ("DPI"), H3 Sportgear LLC ("H3 Sportgear"), San Diego Hat Company ("SDHC") and Aquarius Ltd (AQ).

Production site information

Factory total area	
Bangladesh Factory	64,484 sq.m.
Shenzhen Factory	80,000 sq.m.
Production area	
Bangladesh Factory	34,787 sq.m.
Shenzhen Factory	19,000 sq.m.
Total production capacity	4,480,000 pcs/month



Revenue by geographical areas

Environmental, Social and Governance Report

ENVIRONMENTAL

As a responsible headwear business participant, the Group seeks to ensure our business operations are environmentally friendly, making every effort to reduce waste and emissions from daily operation and supporting service. We has formulated standards on environmental protection for its factory areas, and established a management system for independent factory with reference to ISO 14001 Environmental Management System.

Environmental management policies

To balance production with environmental protection, the Group strives to implement the following measures to protect the environment:

Environmental protection measures

Introducing an environmental management system with effective operation, preventing environmental pollution, minimizing environmental impact, and make continuous improvement for the sustainability of natural resources.

Optimizing production process, promoting clean production, reducing the emission of pollutants, and carrying out pollution control and management, with regular detection and inspection. Formulating environmental friendly policies for saving energy.

Reducing consumption of hazardous substances, and promoting the measures for industrial waste reduction, resource recycling, energy conservation and carbon reduction, so as to continuously improve the performance of environmental protection.

Providing education and training, to improve the environmental consciousness of all the staff and thoroughly fulfill the environmental protection responsibilities.

During the reporting period, the Group has complied with all relevant laws and regulations that have a significant impact on the Group relating to environmental protection and emissions of gas, wastewater and solid waste.

General Principles for Waste Management

Environmental, Social and Governance Report

General waste
(household waste)

General industrial waste
(industrial waste)

Statutory hazardous waste
(hazardous waste)

Recyclable waste
(reuseable waste)

1. Emission

Considering the nature of business, our main activities include cutting, embroidering, printing, flocking, ironing and packaging, and delivering of the finished products. Factory wastes are classified into four main categories: household waste, general industrial waste, statutory hazardous waste, recyclable waste. All the factory waste emissions complied with local applicable environmental laws, rules and regulations. Environmental impacts are insignificant.

During the reporting period, the Group generated around 30 tonnes of household waste, our factories generated around 382 tonnes industrial waste. The amount of statutory hazardous waste and recyclable waste is insignificant. The waste management strategy of our factories focuses on the lawful waste removal, disposal, reduction and recycling. All the wastes shall be removed and disposed by the qualified contractor recognized by the government in accordance with the local regulations.

The sources of greenhouse gas (GHG) emissions generated in our headwear production include carbon dioxide, methane and nitrous oxide, which are mainly created from purchased electricity, supplementary electricity generator, motor vehicles and septic tanks. All emissions complied with local applicable environmental laws, rules and regulations. The amount of greenhouse gas emission is not material.

2. Use of resources

As a responsible global citizen, we encourage cautious use resources. The following table summarized the amount of energy and resources used of the Group excluded newly acquired Aquarius Ltd.

Resources consumption

Energy and Resources	Units	Consumed
Electricity	kWh	11,265,559
Natural Gas	M^3	222,341
Gasoline	Litre	13,178
Diesel	Litre	11,200
Water	M^3	291,905
Packing Paper and plastics	Tonnes	53

**Remark: Figure excluded newly acquired Aquarius Ltd.*

Environmental, Social and Governance Report

- ***Energy***

The energy used by the Group was mainly in general lighting, electrical equipment, backup electricity generator and motor vehicles. Meanwhile, electric boilers and natural gas boilers are being used to supply steam in factory. We strive to reduce our energy consumption across the Group through energy efficient activities and formulate the relevant programs. We will continue to promote energy saving awareness through internal training and staff education.

- ***Water resources***

In the headwear plants, most of the polluted water is from daily activities of employees, washing procedures,softening of headwear products, and processing of cotton cloth. The Group undertakes strict water management aimed at reducing water consumption and maximizing the use of recycled water.

The factories are equipped with special sewage treatment station to process the industrial wastewater and domestic water for repeated utilization according to the water quality and treatment demands. The inspection institution recognized by the local competent authority has been engaged to conduct the sampling and detection of the discharged water according to the laws, and the wastewater is discharged upon conformity with standards. The proportion of the recycled water of Shenzhen factories were approximately 24% in the year of 2019.

In response to “The Sponge City” project of Shenzhen government, our Shenzhen factory completed 50 water-permeable parking spaces, 4 rainwater collection wells and 4 kilometers of green belts in 2019. The greening area increases 800 m^3. Cost of the project was funded by local government. Moreover, the Group cooperated with Shenzhen environmental department in a water improvement project to expand a total of 5 kilometers of rainwater pipelines and 3.5 kilometers of sewage pipelines. Rainwater and sewage are directed to the municipal pipeline network for treatment and reuse. Through the reconstruction of Sponge City project, rainwater is absorbed, stored, purified and releases when needed making the city more tolerance to flood, while effectively mitigating the urban heat island effect. Rainwater and sewage in our factory were collected into municipal pipelines to prevent water bodies from pollution.

In addition, the Group also promotes water saving through internal training and education; implement proper maintenance to prevent leakages; monitor the usage regularly.

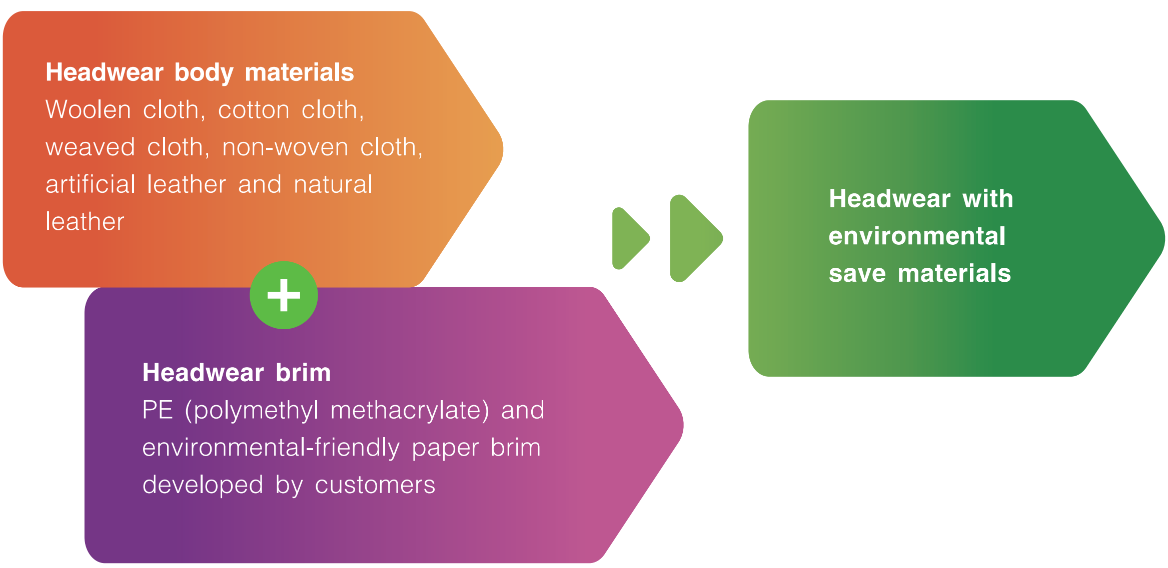
Environmental, Social and Governance Report

- ***Usage of raw materials and packing materials***

  The raw materials used for the headwear industry are divided into headwear body materials and headwear brim materials. The factory keeps close communication with brand customers and suppliers for selection of raw materials, chooses materials according to the quality standards required by brand customers. In addition, materials shall be inspected free from the list of substance prohibited and limited by customers, and relevant standards of American Society for Testing and Materials and countries to which customers are applied, and jointly explore the application of environmental save materials, in headwear with customers.

  The packaging materials used in our operations are primarily carton boxes, paper tags and packing plastics. We continue to make efforts to ensure our packaging materials are kept to the minimum to reduce waste generation. During the reported period, around 53 tonnes of packaging materials were consumed.

The Group advocates an environmental-friendly practice in daily operation.



3. Natural Resource

The Group's principal operation do not involve soil pollution, water contamination, forest destroy. We place great emphasis on protecting the environment and natural resources; strengthening environmental management while pursuing business development; taking into account the environmental impact of our activities and decisions. The Group continually develop environmental awareness though staff education, earnestly shouldering the social responsibility for environmental protection.

During the reporting period, the Group was not aware of any non-compliance of laws and regulations that has a significant impact on the Group relating to environmental protection.

Environmental, Social and Governance Report

4. Climate Change

In review of increasing call for action to address matters of climate change which may impact our operations, the Group recognized our shared responsibility for combatting the effects of climate change and strides to reduce our overall carbon footprint. During the reporting period, none of our services and production was suspended by extreme weather effects, such as typhoon, flooding, heat wave and tsunami. Still, the group will closely monitor the possible situations that may threaten to our business and strengthen our risk management system of natural disasters.

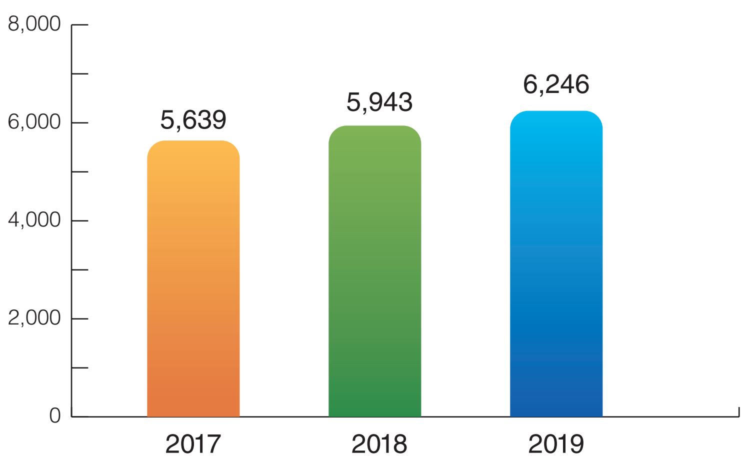
SOCIAL

The Group follows a sustainable development strategy by providing the employees with safe and healthy working environment as well as talent training and development, promoting and implementing supply chain management policies. We administrate a set of comprehensive policies, mechanisms and measures for staffs protection, and encourage community involvement and participation, with the objective to carry through sustainable development and operation.

1. Employment

As a world leading headwear manufacturer, our business network spreads across Asia, US and Europe. During the year, the Group acquired Aquarius Ltd and seized retail business, as at 31 December 2019 our total full time staffs number were 6,240 and part-time staffs were 6 (Total employees excluding Aquarius Ltd is 6,142).

Number of Employees



Region	Gender		Employment type		Age		
	Male	Female	Full time	Part time	Under 30	30–50	Above 50
Hong Kong	17	34	50	1	2	38	11
Mainland China	355	413	768	0	41	555	172
Bangladesh	3,040	2,225	5,265	0	4,009	1,226	30
USA	25	24	47	2	14	26	9
UK	8	1	9	0	0	3	6

Environmental, Social and Governance Report

Employee category

	Hong Kong	Mainland China	Bangladesh	US	UK
Executive Staff	48	94	232	1	2
Technical Staff	0	30	18	32	6
Manufacturing Staff	0	583	4,711	14	1
Other	3	61	304	2	0

**Remark: The newly acquired subsidiary Aquarius Ltd is not included this year.*

Turnover rate according to gender, age, and region

	Hong Kong	Mainland China	Bangladesh	US	UK
Male	11.1%	27.6%	7.7%	18.8%	0%
Female	27.0%	26.5%	5.3%	27%	0%

	Hong Kong	Mainland China	Bangladesh	US	UK
Under 30	66.2%	36.4%	7.4%	37.5%	0%
30–40	23.4%	45.7%	4.7%	15.2%	0%
Above 50	0%	9.6%	0%	42.9%	0%

**Remark: Figure excluded retail business and Aquarius Ltd.*

Employment Policy

The Group believes that its long-term success depends on the contribution of each and every individual in the organization. A series of policies, handbooks and protocols are in place to help build a workplace where our staffs are treated fairly and equally, with their rights and interests being protected. During the reporting period, the Group was not aware of any non-compliance with laws and regulations that have a significant impact on the Group relating to employment, occupational health and safety, or labour standards.

- *Equal opportunity*

  The Group acts as an equal opportunity employer to protect staff's working rights. No member of staff would be subject to employment discrimination over gender, race, religion, age, disability, sexual orientation, nationality, political view, social community or ethnic background. We hire on the basis of ability and merit, reward and promote on the basis of performance.

Environmental, Social and Governance Report

- *Labor standards*

  The Group is committed to act in the principle of fairness and promoting human right policies, in accordance with relevant laws to each workplace and the International Covenant on Human Rights. The Group adopts and implements the recruitment regulations and conditions that respect workers and protects their labour rights and interests.

- *Child labour*

  The Group will not recruit child labor under the age stipulated by local regulations and strives to ensure no child labor employed during our course of business. Any child labor found working at our properties would be immediately sent back to their hometown or native place, followed by our submission of necessary documents to local authorities and our discussion with the child custodian over the resumption of schooling.

- *No forced labor*

  In respect of the staff's working hours, the Group strictly observes relevant national decrees or agreement provisions with brand customers, respects the staff with their working hours, and offers leaves to staff according to the law. As the operational need, the Group has a computer-based attendance system for human resources record, to effectively manage the staff's working hours and leaves, ensure the physical and mental balance of the staff. The Group arranges overtime work of employees out of their own accord to prevent forced overtime work, with overtime work and payment in compliance with domestic rules and regulations in different region.

- *Remuneration*

  The Group provides the staff with reasonable remuneration and welfare under the law of the place where it operates its business. Salary is calculated under an integrated working hour system, with the basic salary not lower than the standard minimum wage in the place of our business operations to ensure that the staff's basic needs are met. Performance-based bonuses tailored to different levels of staff, in order to reward and retain a high-caliber leadership team.

- *Employee-employer communication mechanism*

  The staff's right to freely form associations for collective negotiation. Staff members are free to join in the trade union and other organizations of staff representatives, exercise their rights according to the Articles of Association, conduct sincere and constructive negotiations on a free and voluntary basis and in the principle of good faith, and try to reach collective contracts and agreements.

Environmental, Social and Governance Report

To encourage communication between the management and the staff, different channels have been established, including "Company Mailbox", "Trade Union Mailbox" and "Compliance Hotline" to understand and resolve the staff's issues, listen to their voices, adopt improvement suggestions, and ultimately achieve a harmonious relationship between the staff and the employer.

To respond to the staff's suggestions and complaints, the Group establishes the following three complaint and reporting channels according to the "Working Principle":

2. Health and safety

The Group believes that the safety of its customers and staff remains the highest priority. Our Shenzhen and Bangladesh factories have taken all the possible measures of improving production safety and labor protection, to ensure the safety of customers, staff and company properties. "Safety first and prevention utmost" is our principle for safe production.

The Shenzhen and Bangladesh factories offer a complete set of labor protection facilities to create a safe and healthy working environment for better health and performance of staffs. Moreover, the factories continue to raise awareness of safety, occupational health, fire and disaster prevention, and environmental protection. Our factories applies such concepts as well as safety-related rules and regulations to all aspects such as research and development (R&D), design, production, inspection, quality control and service.

For the past three years, the Group had no work-related fatality or loss of working days due to work-related issues.

3. Development and training

The Group continuously improves the level of knowledge; ability and initiative of the staff through training thus facilitate our staff to achieve their goals and self-success. Trainings include in-house job training programs, workshops, regular experience sharing meetings, online learning resources, external seminars, courses, team building activities that aim to provide the Group with qualified management personnel, experienced technicians and workers, so as to ensure that each staff is suitable for its post.

Environmental, Social and Governance Report

Training hour of employees

131,871	21
Total training hour of employees	Average training hours of Full time employees

Percentage of employee trained by category

100%	100%	100%
Senior management	Middle management	General Staffs

**Remark: The newly acquired subsidiary Aquarius Ltd is not included this year.*

4. Supply chain management

The Group addresses supply chain challenges through risk management, responsible sourcing, supplier engagement and oversight. The Group's procurement activities follow a set of fair and transparent tendering process.

With regard to the selection of suppliers, the Group first selects potential suppliers according to its screening process, followed by on-site audits by the internal auditor, competitiveness analyses by the purchasers, and finally the voting by a committee. The strict screening mechanism ensures that the shortlisted suppliers meet the Group's performance demands, develop long-term strategic partnerships and help the Group to build a high-quality system for supply chain management. Tenderers are required to declare any conflict of interest and take a firm stance against fraud and misconduct. Supplier relationships will be suspended or terminated if contravention is found.

Suppliers by region

China	Hong Kong	Taiwan	Oversea
123	48	10	41

**Remark: The newly acquired subsidiary Aquarius Ltd is not included this year.*

In addition to the requirement that suppliers should strict comply with regulations and norms on labor safety and health, human rights and environmental protection, the Group conducts regular appraisals on its suppliers, with quarterly review over the performance in all aspects. The indicators of such regular appraisals cover five aspects, namely, quality, price (cost), delivery, service and environmental protection. The appraisal results can help suppliers to continuously improve their operation performance.

Environmental, Social and Governance Report

5. Product Liability

The Group put our customers' interests on top of endeavors to provide them with quality products and excellent services. During the year, the Group was not aware of any incidents of non-compliance with laws and regulations that have a significant impact on the Group concerning product responsibility. No product has been recalled due to product safety. The number of product complains is insignificant compare to production volume.

- ***Product responsibility***

  The products manufactured and supplied by the Group shall pass the standard quality inspection required by customers, and have reasonable packaging and detailed product label according to the customers' requirements and the exporting countries' laws and regulations. All products are examined and tested according to standardized inspection procedures before they are stored in the warehouse and can be used for production. In order to meet our customers' requirements, our overall production processes are subject to the monitoring and auditing from customers. Immediate actions are taken and results are reverted to customers when customers raise any issues needed to adjustment and improvement.

- ***Intellectual property rights***

  As a headwear manufacturer, the Group respects the intellectual property rights of the brand customers and strictly follows the brand protection policies of its customers. The intellectual property rights (such as trade marks) are only applied to products according to the scopes authorized by the brand customers, and would not be used for any other unauthorized purposes.

- ***Personal data protection***

  The Group is committed to protecting the privacy of personal data. We ensure the policies and practices in relation to the collection, use, retention, transfer and access of personal data comply with the requirements of the Personal Data (Privacy) Ordinance of Hong Kong. The purpose for collecting and retaining customers' records is to provide services, facilities and goods to customers, process payments and billings, research and develop products, conduct customer surveys and direct marketing and for other operating purposes. Appropriate security measures are taken to protect the personal data against loss and from unauthorized access, use, modification or disclosure.

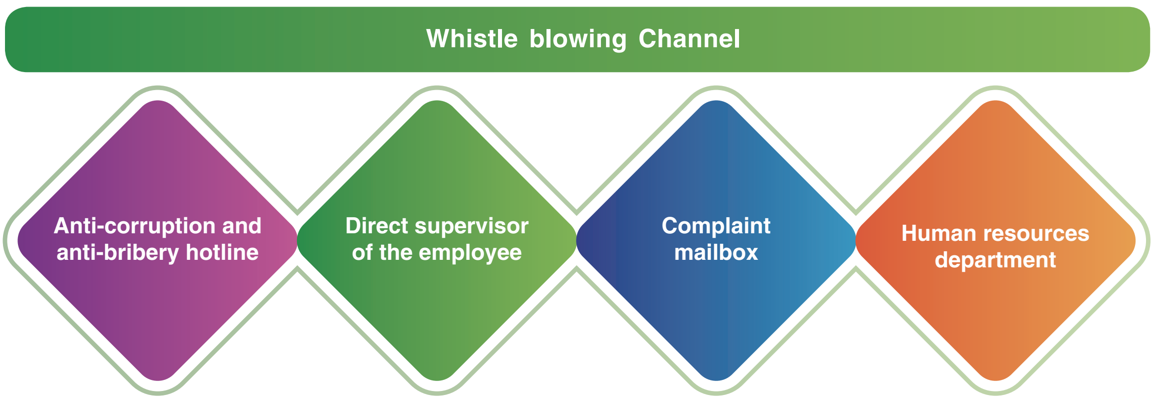
Environmental, Social and Governance Report

6. Anti-corruption

The Group strictly adheres to relevant local laws and regulations. All employees are prohibited from, directly or indirectly, offering, promising to offer, requesting or receiving any improper benefits of any sort, or taking any other actions without sincerity and integrity, in any illegal way, or in breach of fiduciary duty when conducting business with counterparties. The Group provides anti-corruption trainings to all level of staff, promote business ethics and integrity culture. For example invite local police officers to our factories to explain the laws and regulations and the consequences of violations.

The Group discloses its business integrity policies on its internal website to ensure our employees, suppliers, customers or personnel of other organizations relevant to the business clearly understand the Group's philosophy and standards on business integrity. During the course of business engagement, the Group's employees are required to explain to business counterparties the Group's policies and regulations on business integrity, and should explicitly reject any direct or indirect provisions in whatever manner or form.

During the year, the Group was not aware of any breach of laws and regulations that have a significant impact on the Group relating to anti-corruption.



7. Community investment

We believe the greatest value of our Group lies in the benefits we can create for the community at large. Apart from contributing our best in the industry, we also devote our time and resources to help those who are less fortunate in our society. Elderly service, education and public health are our focusing areas. In 2019, our Hong Kong voluntary team contributed 96 volunteer hours to community services. Our top management, the Ngan's family, donated millions of Hong Kong Dollars to the mainland China, Hong Kong and Bangladesh to support the well being of communities. Beneficiaries include: Po Leung Kuk, Heung Yee Kuk, Community Chest, Red Cross, Hubei province, Fujian province, etc.

Environmental, Social and Governance Report

Faced with a sudden coronavirus epidemic in early 2020, our top managements used their global network to purchase masks and preventive suits for Hong Kong, Hubei, Fujian and Shenzhen. In addition, the Group allocated part of the production capacity of Shenzhen factory to produce protective suits and donated to major medical institutions in Shenzhen.

AWARDS AND RECOGNITION

The effort of the Group in social and environmental aspects is recognized by the public. In 2019, the Group won the following awards:

Independent Auditor's Report

pwc 羅兵咸永道

To the Shareholders of
Mainland Headwear Holdings Limited
(incorporated in Bermuda with limited liability)

Opinion

What we have audited

The consolidated financial statements of Mainland Headwear Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 62 to 149, which comprise:

- the consolidated balance sheet as at 31 December 2019;
- the consolidated statement of profit or loss for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated cash flow statement for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

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T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

Independent Auditor's Report

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters identified in our audit are summarised as follows:

- Provision for inventories
- Impairment of goodwill
- Income taxes

Independent Auditor's Report

Key Audit Matter	How our audit addressed the Key Audit Matter
Provision for inventories Refer to note 4 (critical accounting estimates and judgements) and note 20 (inventories) to the consolidated financial statements for the related disclosures. As disclosed in note 2(n) to the consolidated financial statements, inventories are carried at the lower of cost and net realisable value ("NRV"). As at 31 December 2019, the Group held inventories of HK$275.4 million, net of provision for inventories of HK$29.9 million. Management determines the lower of cost and NRV of inventories by considering the aging profile, inventory obsolescence and estimated selling price of individual inventory items. Significant judgement is required in determining the estimated selling price of individual series of products including historical experience of selling products of similar nature and expectation of future sales based on current market conditions. We focused on this area due to significant judgement involved in determining the provision for inventories.	Our audit procedures in relation to management's assessment on NRV and obsolescence of inventories included: — Understood and tested the control procedures performed by management in estimating the NRV of the inventories and conducting periodic review on inventory obsolescence; — Observed client's inventory counts to identify where there is any damaged or obsolete inventories; — Tested, on a sample basis, the accuracy of the ageing profile of individual inventory items by checking to the underlying procurement correspondence and invoices; and — Tested, on a sample basis, the NRV of selected inventory items, by comparing the latest selling price against the carrying values of these individual finished goods. Based on the procedures described, we found the judgement made by management in relation to the provision for inventories was supportable by available evidence.

Independent Auditor's Report

Key Audit Matter	**How our audit addressed the Key Audit Matter**
Impairment of goodwill	
Refer to note 4 (critical accounting estimates and judgement) and note 17 (goodwill) to the consolidated financial statements for related disclosure. As at 31 December 2019, the Group had goodwill arising from the acquisition of Aquarius Ltd ("AQ"), H3 Sportgear LLC ("H3") and San Diego Hat Company ("SDHC") of HK$0.23 million, HK$22.5 million and HK$11.3 million, respectively, before impairment. An impairment of goodwill of HK$11.3 million was recognised during the year ended 31 December 2019 arising from the acquisition of SDHC. Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the cash-generating units ("CGU") containing the goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Significant judgement is required in relation to the assumptions made in such discounted cash flow model including: • Sales growth rate; • Gross profit margin; and • Discount rate. We focused on this area due to significant judgement is required in the estimations of the recoverable amounts of goodwill.	Our audit procedures in relation to management's assessment on the recoverable amounts of goodwill included: — Understood and assessed the appropriateness of the valuation methodologies used by the management; — Compared the current year actual results with prior year forecast to consider the accuracy of historical forecasts and understood the explanation for deviation of the actual results compared with prior year forecast. In addition, we performed the following procedures over management's key assumptions used in the discounted cash flow model: — Discussed with management about sales growth rates and gross profit margin, and compared these assumptions against approved budgets; — Benchmarked the discount rate against our research on the discount rates for comparable companies; — Performed sensitivity analysis to assess the potential impact of reasonably changes to the key assumptions. Based on the procedures described, we found the judgement made by management in relation to the recoverable amounts of goodwill was supportable by available evidence.

Independent Auditor's Report

Key Audit Matter	How our audit addressed the Key Audit Matter
Income taxes	
Refer to note 4 (critical accounting estimates and judgement) and note 11 (income tax expenses) to the consolidated financial statements for related disclosure. For the year ended 31 December 2019, income tax provision of the Group amounted to HK$9.3 million. The Group is subject to taxation in a few jurisdictions and, in many cases, the non-taxable position and the ultimate tax treatment is uncertain until the subject matter is assessed by the relevant tax authority. Consequently, the management makes judgements over the tax liabilities which are subject to the future outcome of assessments by the relevant tax authorities. We focused on this area due to the significant judgement by management in respect of the application of relevant law and regulations.	Our audit procedures in relation to management's assessment on income tax provision included: — Discussed with the management to understand their interpretation of the relevant tax rules and regulations and the basis of determining the tax provision; — Evaluated the judgements made by the management with the involvement of our tax specialists based on our understanding of the relevant tax rules and regulations; and — Examined the correspondences between the Group and the tax authorities and between the Group and its external tax advisers, where applicable. Based on the procedures described, we found the judgement made by management in relation to income tax provision was supportable by available evidence.

Other Information

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Independent Auditor's Report

Responsibilities of Directors and Audit Committee for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The audit committee are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, in accordance with Section 90 of the Companies Act 1981 of Bermuda and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

Independent Auditor's Report

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the audit committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Independent Auditor's Report

We also provide the audit committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the audit committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Chan Tak Wai, Daniel.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 30 March 2020

Consolidated Statement of Profit or Loss

For the year ended 31 December 2019

	Note	**2019** **HK$'000**	2018 HK$'000 (Restated) (Note 2(a))
Revenue	5	**1,146,834**	885,933
Cost of sales	8	**(800,622)**	(619,642)
Gross profit		**346,212**	266,291
Other income	6	**10,842**	11,300
Other gains — net	7	**7,678**	949
Selling and distribution costs	8	**(120,248)**	(77,236)
Administration expenses	8	**(163,745)**	(117,016)
Net impairment losses on financial assets	8	**(2,743)**	(1,126)
Profit from operations		**77,996**	83,162
Finance income	9	**1,860**	1,444
Finance costs	9	**(8,883)**	(251)
Finance (costs)/income – net		**(7,023)**	1,193
Profit before income tax		**70,973**	84,355
Income tax expense	11	**(9,302)**	(3,390)
Profit from continuing operations		**61,671**	80,965
Discontinued operations			
Profit/(loss) from discontinued operations (attributable to owners of the Company)		**1,172**	(13,619)
Profit for the year		**62,843**	67,346
Profit attributable to:			
Owners of the Company		**58,213**	62,513
Non-controlling interests		**4,630**	4,833
		62,843	67,346

Consolidated Statement of Profit or Loss

For the year ended 31 December 2019

	Note	2019	2018 (Restated) (Note 2(a))
Earnings per share for the profit attributable to owners of the Company	12		
From continuing and discontinued operations			
Basic (HK cents per share)		**14.36**	15.42
Diluted (HK cents per share)		**14.35**	15.27
From continuing operations			
Basic (HK cents per share)		**14.07**	18.78
Diluted (HK cents per share)		**14.06**	18.60

The notes on pages 70 to 149 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2019

	Note	2019 HK$'000	2018 HK$'000 (Restated) (Note 2(a))
Profit for the year		**62,843**	67,346
Other comprehensive loss, net of tax			
Items that has been or may be subsequently reclassified to profit or loss:			
Exchange differences on translation of financial statements of foreign operations		**(724)**	(9,550)
Release of exchange reserve upon disposal of a subsidiary	35	**(2,173)**	—
Total comprehensive income for the year, net of tax		**59,946**	57,796
Total comprehensive income attributable to:			
Owners of the Company		**55,363**	53,658
Non-controlling interests		**4,583**	4,138
Total comprehensive income for the year		**59,946**	57,796
Attributable to:			
Continuing operations		**59,172**	71,699
Discontinued operations		**774**	(13,903)
		59,946	57,796

The notes on pages 70 to 149 are an integral part of these consolidated financial statements.

Consolidated Balance Sheet

As at 31 December 2019

	Note	2019 HK$'000	2018 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment	14	**425,480**	376,838
Right-of-use assets	33	**23,861**	—
Investment properties	15	**42,375**	41,061
Goodwill	17	**22,511**	33,798
Other intangible assets	18	**27,538**	11,980
Deferred income tax assets	19	**2,404**	2,189
Financial assets at fair value through profit or loss	23	**7,513**	21,746
Other financial assets at amortised cost	21	**821**	81
		552,503	487,693
Current assets			
Inventories	20	**275,402**	208,656
Other current assets	22	**10,637**	29,174
Other financial assets at amortised cost	21	**26,102**	17,662
Trade receivables	21	**319,553**	215,401
Financial assets at fair value through profit or loss	23	**31,348**	11,078
Tax recoverable		**—**	823
Short-term bank deposits	24	**—**	3,852
Cash and cash equivalents	24	**112,549**	97,254
		775,591	583,900
Total assets		**1,328,094**	1,071,593
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company			
Share capital	25	**40,532**	40,532
Other reserves		**221,523**	226,938
Retained earnings		**480,128**	437,856
		742,183	705,326
Non-controlling interests		**13,751**	9,168
Total equity		**755,934**	714,494

Consolidated Balance Sheet

As at 31 December 2019

	Note	2019 HK$'000	2018 HK$'000
LIABILITIES			
Non-current liabilities			
Other payables	27	**13,096**	2,572
Borrowings	29	**—**	609
Lease liabilities	33	**15,584**	—
Deferred income tax liabilities	19	**4,221**	3,892
		32,901	7,073
Current liabilities			
Trade and other payables	27	**244,717**	183,787
Amount due to a non-controlling interest	28	**537**	713
Borrowings	29	**272,919**	149,412
Lease liabilities	33	**8,899**	—
Current income tax liabilities		**12,187**	16,114
		539,259	350,026
Total liabilities		**572,160**	357,099
Total equity and liabilities		**1,328,094**	1,071,593
Net current assets		**236,332**	233,874
Total assets less current liabilities		**788,835**	721,567

The financial statements on pages 62 to 149 were approved by the Board of Directors on 30 March 2020 and were signed on its behalf.

Ngan Hei Keung
Director

Ngan Po Ling, Pauline, *BBS, JP*
Director

The notes on pages 70 to 149 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2019

	Attributable to owners of the Company									
	Share capital HK$'000	**Share premium** HK$'000	**Capital reserve** HK$'000	**Share based compensation reserve** HK$'000	**Other reserve** HK$'000	**Exchange reserve** HK$'000	**Retained earnings** HK$'000	**Total** HK$'000	**Non-controlling interests** HK$'000	**Total equity** HK$'000
Balance as 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 year	—	—	—	—	—	—	58,213	58,213	4,630	62,843
Other comprehensive loss:										
— Exchange differences on translation of financial statements of foreign operations	—	—	—	—	—	(677)	—	(677)	(47)	(724)
— Release of exchange reserve upon disposal of a subsidiary as part of the discontinued operations	—	—	—	—	—	(2,173)	—	(2,173)	—	(2,173)
Total comprehensive (loss)/income for the year, net of tax	—	—	—	—	—	(2,850)	58,213	55,363	4,583	59,946
2018 final dividend paid	—	—	—	—	—	—	(12,160)	(12,160)	—	(12,160)
2019 interim dividend paid	—	—	—	—	—	—	(8,106)	(8,106)	—	(8,106)
Share options scheme:										
— Value of services provided	—	—	—	1,760	—	—	—	1,760	—	1,760
— Share options lapsed	—	—	—	(4,325)	—	—	4,325	—	—	—
Total contribution by and distribution to owners of the Company	—	—	—	(2,565)	—	—	(15,941)	(18,506)	—	(18,506)
Balance at 31 December 2019	40,532	167,016	25,878	9,385	8,042	11,202	480,128	742,183	13,751	755,934

Consolidated Statement of Changes in Equity

For the year ended 31 December 2019

	Attributable to owners of the Company									
	Share capital HK$'000	Share premium HK$'000	Capital reserve HK$'000	Share based compensation reserve HK$'000	Other reserve HK$'000	Exchange reserve HK$'000	Retained earnings HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
Balance as 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 year	—	—	—	—	—	—	62,513	62,513	4,833	67,346
Other comprehensive loss:										
— Exchange differences on translation of financial statements of foreign operations	—	—	—	—	—	(8,855)	—	(8,855)	(695)	(9,550)
Total comprehensive (loss)/income for the year, net of tax	—	—	—	—	—	(8,855)	62,513	53,658	4,138	57,796
2017 final dividend paid	—	—	—	—	—	—	(12,160)	(12,160)	—	(12,160)
2018 interim dividend paid	—	—	—	—	—	—	(8,106)	(8,106)	—	(8,106)
Share options scheme:										
— Value of services provided	—	—	—	3,050	—	—	—	3,050	—	3,050
— Share options exercised	15	180	—	(49)	—	—	—	146	—	146
— Share options lapsed	—	—	—	(522)	—	—	522	—	—	—
Total contribution by and distribution to owners of the Company	15	180	—	2,479	—	—	(19,744)	(17,070)	—	(17,070)
Balance at 31 December 2018	40,532	167,016	25,878	11,950	8,042	14,052	437,856	705,326	9,168	714,494

The capital reserve of the Group represents the difference between the nominal value of the share capital of the subsidiaries acquired pursuant to the Group's reorganisation for the purpose of the listing of the Company's shares on the Stock Exchange in 2000 over the nominal value of the share capital of the Company issued in exchange therefor.

The notes on pages 70 to 149 are integral part of these consolidated financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2019

	Note	2019 HK$'000	2018 HK$'000
Cash flows from operating activities			
Cash generated from operations	30	**107,491**	32,055
Income tax paid		**(11,983)**	(6,344)
Income tax refunded		**—**	381
Interest paid		**(11,141)**	(3,944)
Net cash generated from operating activities		**84,367**	22,148
Cash flows from investing activities			
Interest received		**1,860**	1,527
Purchase of property, plant and equipment		**(67,317)**	(134,076)
Purchase of financial assets at fair value through profit or loss		**(9,593)**	—
Proceed from disposal of a financial asset at fair value through profit or loss		**9,674**	8,110
Acquisition of a subsidiary, net of cash acquired	34	**(67,905)**	—
Net cash outflow from disposal of a subsidiary	35	**(138)**	—
Short-term bank deposits		**3,852**	55
Net cash used in investing activities		**(129,567)**	(124,384)
Cash flows from financing activities			
Repayment of bank borrowings		**(96,461)**	(57,454)
Proceeds from bank borrowings		**191,754**	94,947
Proceeds from exercise of share options		**—**	146
Principal elements of lease payments		**(14,041)**	—
Dividends paid		**(20,266)**	(20,266)
Net cash generated from financing activities		**60,986**	17,373
Net decrease in cash and cash equivalents		**15,786**	(84,863)
Cash and cash equivalents at beginning of year		**97,254**	182,843
Effect of foreign exchange rate changes		**(491)**	(726)
Cash and cash equivalents at end of year	24	**112,549**	97,254

The notes on pages 70 to 149 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

1. GENERAL INFORMATION

Mainland Headwear Holdings Limited (the "Company") is a 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 set out in note 16 to the financial statements.

These financial statements are presented in thousands of units of Hong Kong dollars ("HK$'000"), unless otherwise stated.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of preparation

The consolidated financial statements of the Company and its subsidiaries (together the "Group") have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs") and requirements of the Hong Kong Companies Ordinance Cap. 622. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss ("FVPL") and investment properties which are measured at fair values.

During year ended 31 December 2019, the Group disposed its entire issued share capital of Shanghai CYF Company Limited ("Shanghai CYF") to an independent third party, at a total consideration of RMB11,045,000 (equivalent to approximately HK$12,401,000), (the "Disposal").

Shanghai CYF is engaged in the retail business of selling Sanrio products in the People's Republic of China (the "PRC"). In addition to the Disposal, the Group also closed all its headwear stores operated under the Hatworld brand ("Hatworld") in Hong Kong during the current year. Accordingly, the financial results of the Shanghai CYF and Hatworld are presented in the consolidated statement of profit or loss for the year ended 31 December 2019, as discontinued operations of the Group in accordance with HKFRS 5 "Non-current Assets Held for Sales and Discontinued Operation" issued by the Hong Kong Institute of Certified Public Accountants. Comparative figures for the year ended 31 December 2018 have also been restated to conform with the presentation for the current year (note 35).

The preparation of financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 4.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

Changes in accounting policy and disclosures

(i) New and amended standards adopted by the Group

A number of new or amended standards became applicable for the current reporting period, and the Group had changed its accounting policies as a result of adopting HKFRS 16 Leases ("HKFRS 16").

The Group elected to adopt the new rules retrospectively but recognised the cumulative effect of initially applying the new standards on 1 January 2019.

The impact of the adoption of the HKFRS 16 is disclosed below. The other standards did not have material impact on the Group's accounting policies and did not require any adjustments.

Accounting policy applied from 1 January 2019

From 1 January 2019, leases are recognised as right-of-use assets and corresponding liabilities at the date at which the leased assets are available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the 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 assets are depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis and stated at initially recognised amount less depreciation and impairment losses.

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.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

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

— the amount of the initial measurement of lease liability

— prepayment, and

— any initial direct costs

Notes to the Consolidated Financial Statements

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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 of the 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:

— applying a single discount rate to a portfolio of lease with reasonably similar characteristics; and

— 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%.

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 properties held as lessor as a result of adopting the new leasing standard.

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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 consolidated balance sheet as at 1 January 2019 (date of initial application of HKFRS 16) is as follows:

	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 borrowings	792
Less:	
Short-term leases recognised on a straight-line basis as expense	(1,148)
Lease liabilities recognised as at 1 January 2019	14,462
Of which are:	
— Non-current lease liabilities	10,237
— Current lease liabilities	4,225
	14,462

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 right-of-use assets in the opening of the consolidated balance sheet on 1 January 2019 by HK$14,527,000, including reclassification of property, plant and equipment held under finance lease of HK$857,000 and lease liabilities of HK$14,462,000 excluding finance lease liability already recognised as at 31 December 2018 of HK$792,000. The recognised right-of-use assets of HK$14,527,000 are related to properties and a motor vehicle. The Group did not need to make any adjustments to the accounting for the assets held as lessor as a result of adopting HKFRS 16.

(ii) 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.

Notes to the Consolidated Financial Statements

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(b) Principles of consolidation

(i) Subsidiaries

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated balance sheet respectively.

(ii) Changes in ownership interests

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in equity attributable to owners of the Company.

When the Group ceases to consolidate or equity account for an investment because of a loss of control or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in consolidated statement of profit or loss. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associated company, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss or transferred to another category of equity as specified/ permitted by applicable HKFRSs.

If the ownership interest in an associated company is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

(c) Business combinations

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the:

- fair values of the assets transferred
- liabilities incurred to the former owners of the acquired business
- equity interests issued by the Group
- fair value of any asset or liability resulting from a contingent consideration arrangement, and
- fair value of any pre-existing equity interest in the subsidiary.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

Acquisition-related costs are expensed as incurred. The excess of the

- consideration transferred,
- amount of any non-controlling interest in the acquired entity, and
- acquisition-date fair value of any previous equity interest in the acquired entity

over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognised directly in consolidated statement of profit or loss as a bargain purchase.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in consolidated statement of profit or loss.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date. Any gains or losses arising from such remeasurement are recognised in consolidated statement of profit or loss.

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(d) Discontinued operations

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 consolidated statement of profit or loss.

(e) Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

(f) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive directors that make strategic decisions.

(g) Foreign currencies translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in HK$, which is the Company's functional and the Group's presentation currency.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognised in consolidated statement of profit or loss. Foreign exchange gains and losses are presented in the consolidated statement of profit or loss on a net basis within other gains, net.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair values are reported as part of the fair value gain or loss. For example, translation differences on non-monetary assets and liabilities such as equities held at FVPL are recognised in consolidated statement of profit or loss as part of the fair value gain or loss and translation differences on non-monetary asset such as equity classified as financial asset at fair value through other comprehensive income ("FVOCI") are recognised in other comprehensive income.

(iii) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(a) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(b) income and expenses for each statement of profit or loss are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

(c) all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, are recognised in other comprehensive income. When a foreign operation is sold, the associated exchange differences are reclassified to consolidated statement of profit or loss, as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate. Current translation differences arising are recognised in other comprehensive income.

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For the year ended 31 December 2019

(iv) Disposal of foreign operation and partial disposal

On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation), all of the currency translation differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to consolidated statement of profit or loss.

In the case of a partial disposal that does not result in the Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in consolidated statement of profit or loss.

(h) Property, plant and equipment

Except for freehold land with indefinite useful life, all other property, plant and equipment are stated at historical cost less depreciation. Freehold land with indefinite useful life is stated at historical cost less impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the consolidated statement of profit or loss during the financial period in which they are incurred.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate cost to their residual values over their estimated useful lives, as follows:

Buildings	3.33% to 10%
Furniture and equipment	20% to 33%
Leasehold improvements	10% to 50%
Machinery	10%
Motor vehicles	12.5% to 20%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within "other gains — net" in the consolidated statement of profit or loss.

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Construction in progress represents property, plant and equipment under construction or pending installation, and is stated at cost less impairment losses. Cost comprises direct costs of construction including borrowing costs attributable to the construction during the period of construction. No provision for depreciation is made on construction in progress until such time as the relevant assets are completed and ready for intended use.

(i) Investment properties

Investment properties, principally comprising land and buildings, are held for long-term rental yields or for capital appreciation or both, and that is not occupied by the Group. Land held under operating leases are accounted for as investment properties when the rest of the definition of an investment property is met. In such cases, the operating leases concerned are accounted for as if they were finance leases. Investment property is initially measured at cost, including related transaction costs and where applicable borrowing costs. After initial recognition, investment properties are carried at fair values, representing open market value determined at each reporting date by external valuers. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If the information is not available, the Group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. Changes in fair values are recorded in the consolidated statement of profit or loss as part of a valuation gain or loss in "other gains — net".

(j) Intangible assets

(i) Goodwill

Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is not amortised but it is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units ("CGUs") for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of CGUs that are expected to benefit from the business combination in which the goodwill arose. The units or groups of units are identified at the lowest level at which goodwill is monitored for internal management purposes, being the operating segments.

(ii) Contractual customer relationships

Contractual customer relationships acquired in a business combination are recognised at fair values at the acquisition date. The contractual customer relations have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated on straight-line basis over their estimated useful life (5–10 years).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

(iii) Trademarks and licensing rights

Separately acquired trademarks and licensing rights are shown at historical cost. Trademarks and licensing rights acquired in a business combination are recognised at fair values at the acquisition date. Trademarks and licensing rights have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated on a straight line basis over their estimated useful life (2–10 years).

(k) Impairment of non-financial assets

Goodwill is not subject to amortisation is tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Assets that are subjected to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (CGUs). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(l) Financial assets and liabilities

(i) Classification

The Group classifies its financial assets in the following measurement categories:

— those to be measured subsequently at fair values, and

— those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair values, gains and losses will either be recorded in the profit or loss or other comprehensive income. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at FVOCI.

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

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For the year ended 31 December 2019

(ii) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

(iii) Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at FVPL, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial asset carried at FVPL are expensed in the consolidated statement of profit or loss.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories to classify the debt instruments:

(1) Amortised cost

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in the consolidated statement of profit or loss. Impairment losses are presented as separate line item in the consolidated statement of profit or loss.

(2) Fair value through other comprehensive income

Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in the consolidated statement of profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss. Interest income from these financial assets is included in finance income using the effective interest rate method. Impairment expenses are presented as separate line item in the consolidated statement of profit or loss.

Notes to the Consolidated Financial Statements

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(3) Fair value through profit or loss

Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in the consolidated statement of profit or loss in the period in which it arises.

Equity instruments

The Group subsequently measures all equity investments at fair values. Where the Group's management has elected to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in the consolidated statement of profit or loss when the Group's right to receive payments is established.

Changes in the fair value of financial asset at FVPL are recognised in 'other gains — net' in the consolidated statement of profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

(iv) Impairment

The Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by HKFRS 9 Financial Instruments ("HKFRS 9"), which requires expected lifetime losses to be recognised from initial recognition of the receivables.

(m) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the consolidated balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or the counterparty.

Notes to the Consolidated Financial Statements

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(n) Inventories

Raw materials, work in progress and finished goods are stated at the lower of cost and net realisable value. Cost comprises direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Costs are assigned to individual items of inventory on the basis of weighted average costs. Costs of purchased inventory are determined after deducting rebates and discounts. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

(o) Trade and other receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. Trade receivables are generally due for settlement within 30–180 days and therefore are all classified as current.

Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Group holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method less provision for impairment.

When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against 'net impairment losses on financial assets' in the consolidated statement of profit or loss.

(p) Cash and cash equivalents

For the purpose of presentation in the consolidated statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(q) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

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(r) Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade and other payables are recognised initially at fair values and subsequently measured at amortised cost using the effective interest method.

(s) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are removed from the consolidated balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in consolidated statement of profit or loss as finance costs.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

General and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

Other borrowing costs are expensed in the period in which they are incurred.

Notes to the Consolidated Financial Statements

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(t) Current and deferred income tax

The income tax expense for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

(i) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(ii) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

The deferred tax liability in relation to investment property that is measured at fair value is determined assuming the property will be recovered entirely through sale.

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

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Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

(u) Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision, where appropriate, is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(ii) Pension obligations

Group companies operate various defined contribution pension schemes. The schemes are generally funded through payments to insurance companies or trustee-administered funds, determined by periodic actuarial calculations. The Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis.

The Group also operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "Pension Scheme") set up pursuant to the Mandatory Provident Fund Schemes Ordinance, for all of its employees in Hong Kong. Contributions are made based on a percentage of the employees' basic salaries and are charged to the consolidated statement of profit or loss as they become payable in accordance with the rules of the Pension Scheme. The assets of the Pension Scheme are held separately from those of the Group in an independently administrated fund. The Group's employer contributions vest fully with the employees when contributed to the Pension Scheme, except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to vesting fully in the contributions, in accordance with the rules of the Pension Scheme. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

In addition, pursuant to the government regulations in the PRC, the Group is required to contribute an amount to certain retirement benefit schemes based on approximately 7% to 20% of the wages for the year of those employees in the PRC. The local municipal government undertakes to assume the retirement benefits obligations of those employees of the Group. Contributions to these retirement benefits schemes are charged to the consolidated statement of profit or loss as incurred.

(iii) Profit-sharing and bonus plans

The Group recognises a liability and an expense for bonuses and profit-sharing, based on a formula that takes into consideration the profit attributable to the Company's shareholders after certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

(v) Share-based payments

The Group operates an equity-settled, share-based compensation plans, under which the entity receives services from employees as consideration for equity instruments (options) of the Group. The fair values of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair values of the options granted:

- including any market performance conditions (for example, an entity's share price);
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and
- including the impact of any non-vesting conditions (for example, the requirement for employees to save or hold shares for a specified period of time).

The total expense is recognised over the vesting period which is the period over which all of the specified vesting conditions are to be satisfied.

At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-marketing performance and service conditions. It recognises the impact of the revision to original estimates, if any, in the consolidated statement of profit or loss, with a corresponding adjustment to equity.

When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital and share premium.

The grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity.

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For the year ended 31 December 2019

(w) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

(x) Revenue recognition

(i) Sales of goods

The Group principally engaged in the manufacturing, distribution and retailing of headwear products and other accessories. Sales are recognised when control of the products has been transferred, being when the products are delivered to the customers, the customer has accepted the products and there is no unfulfilled obligation that could affect the customer's acceptance of the products.

A receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

A contract liability is recognised when a customer pays consideration, or is contractually required to pay consideration and the amount is already due, before the Group recognises the related revenue. The Group recognised its contract liabilities under other payables and accruals in the consolidated balance sheet.

(ii) Rental income

Rental income from investment property is recognised in the consolidated statement of profit or loss on a straight-line basis over the term of the lease.

(iii) Interest income

Interest income on financial assets at amortised cost, calculated using the effective interest method is recognised in the consolidated statement of profit or loss.

Interest income from financial assets at FVPL is included in the net fair gain/(loss) on these assets.

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For the year ended 31 December 2019

(y) Leases (as the lessee for operating leases)

As explained in note 2(a)(i), the Group has changed its accounting policy for leases where the Group is the lessee. The new policy is described below and the impact of the change in note 2(a)(i).

Until 31 December 2018, leases of property, plant and equipment where the Group, as lessee, had substantially all the risks and rewards of ownership were classified as finance leases. Finance leases were capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, were included in other short-term and long-term payables. Each lease payment was allocated between the liability and finance cost. The finance cost was charged to 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 property, plant and equipment acquired under finance leases was depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the Group will obtain ownership at the end of the lease term.

Leases in which a significant portion of the risks and rewards of ownership were not transferred to the Group as lessee were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

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.

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. Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions. To determine the incremental borrowing rate, the Group, where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received and makes any adjustments specific to the lease, e.g. term, country, currency and security.

Lease payments are allocated between principal and finance cost. The finance cost is charged to 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.

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For the year ended 31 December 2019

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

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

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Payments associated with short-term leases of premises and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

Lease income from operating leases where the Group is a lessor is recognised in income on a straight-line basis over the lease term. Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognised as expense over the lease term on the same basis as lease income. The respective leased assets are included in the balance sheet based on their nature. The Group did not need to make any adjustments to the accounting for assets held as lessor as a result of adopting the new leasing standard.

(z) Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's and the Company's financial statements in the period in which the dividends are approved by the Company's shareholders.

(aa) Government grants

Grants from the government are recognised in "other income" in the consolidated statements of profit or loss at their fair values where there is a reasonable assurance that the grant will be received and the Group will comply with all the attached conditions.

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For the year ended 31 December 2019

3. FINANCIAL RISK MANAGEMENT

(a) Categories of financial instruments

	2019 HK$'000	2018 HK$'000
Financial assets		
Financial assets at amortised cost		
— Trade receivables	**319,553**	215,401
— Other financial assets at amortised costs	**26,923**	17,743
— Short-term bank deposits	**—**	3,852
— Cash and cash equivalents	**112,549**	97,254
	459,025	334,250
Financial assets at fair value through profit or loss	**38,861**	32,824
	497,886	367,074
Financial liabilities		
Financial liabilities at amortised cost:		
— Trade and other payables	**221,287**	171,571
— Amount due to a non-controlling interest	**537**	713
— Lease liabilities	**24,483**	—
— Borrowings	**272,919**	150,021
	519,226	322,305

(b) Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk, and liquidity risk. The Group's overall risk management objectives focus on the unpredictability of financial markets and seek to minimise potential adverse effects on the Group's financial performance.

In light of the simplicity of the structure, the risk management of the Group is carried out by the Board of Directors directly. The Board discusses both formally and informally principles for overall risk management, as well as policies covering specific areas, such as foreign currency exchange risk, interest rate risk, credit risk, liquidity risk and use of financial instruments.

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For the year ended 31 December 2019

(i) Market risk

(a) Foreign currency risk

The Group is exposed to foreign currency risk primarily through sales and purchases that are denominated in a currency other than the functional currency of the operations to which they relate. The currencies giving rise to this risk are primarily United States dollars ("US$"), Renminbi ("RMB"), Great British Pound ("GBP") and Bangladesh Taka ("BDT"), and there are no significant assets and liabilities denominated in other currencies. The Group is subject to foreign exchange rate risk arising from future commercial transactions and recognised assets and liabilities which are denominated in a currency other than HK$, US$, RMB or GBP, which are the functional currencies of the major operating companies within the Group. The Group currently does not hedge its foreign currency exposure.

For the companies with HK$ as their functional currency

The exchange rate of RMB to HK$ is subject to the rules and regulations of foreign exchange control promulgated by the PRC government. The Group manages its foreign currency risk by closely monitoring the movement of the foreign currency rates.

As HK$ is pegged to US$, management believes that the exchange rate risk for translations between HK$ and US$ do not have material impact to the Group.

At 31 December 2019, if RMB had weakened/strengthened by 5% against the HK$ with all other variables held constant, post-tax profit for the year would have been approximately HK$1,088,000 (2018: HK$509,000) lower/higher, mainly as a result of the foreign exchange difference on translation of RMB denominated current account with group companies.

As at 31 December 2019, if GBP had weakened/strengthened by 5% against HK$ with all other variables held constant, post-tax profit for the year would have been approximately HK$393,000 (2018: HK$404,000) lower/higher, mainly as a result of the foreign exchange difference on translation of GBP denominated current amount with group companies.

For the companies with US$ as their functional currency

At 31 December 2019, if BDT had weakened/strengthened by 5% against the US$ with all other variables held constant, post-tax profit for the year would have been approximately HK$893,000 (2018: HK$1,050,000) higher/lower, mainly as a result of the foreign exchange difference on translation of BDT denominated accrued charges and other payables.

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For the companies with GBP as their functional currency

At 31 December 2019, if US$ had weakened/strengthened by 5% against the GBP with all other variables held constant, post-tax profit for the year would have been approximately HK$204,000 (2018: HK$249,000) higher/lower, mainly as a result of the foreign exchange difference on translation of US$ denominated current account with group companies.

(b) Cash flow and fair value interest rate risk

The Group's interest rate risk primarily arises from bank deposits and bank borrowings. The Group has not used any derivative contracts to hedge its exposure to interest rate risk.

At 31 December 2019, it is estimated that a general increase/decrease of 50 basis points (2018: 50 basis points) in bank deposits and bank borrowings interest rates, with all other variables held constant, would decrease/increase the Group's post-tax profit for the year by approximately HK$670,000 (2018: HK$217,000). The 50 basis points increase/decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next annual balance sheet date.

(c) Price risk

The Group is exposed to equity price risk through its investments in listed securities in Hong Kong classified as financial assets at FVPL. If the market bid prices of the investments had been 10% higher/lower, with all other variables held constants, the Group's post-tax profit for the year would increase/decrease by approximately HK$1,523,000 (2018: HK$1,108,000). A 10% change is used when reporting the price risk internally to the management.

Management constantly reviews the portfolio of investments and maintains the Group's exposures to price risk within an acceptable level.

(ii) Credit risk

The Group's credit risk is primarily attributable to trade receivables, other financial assets at amortised cost, financial assets at FVPL, short-term bank deposits and cash and cash equivalents. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

The carrying amount of these balances in the consolidated balance sheet represents the Group's maximum exposure to credit risk in relation to its financial assets.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

(a) *Risk management*

Majority of the Group's short-term bank deposits and cash and cash equivalents are placed in those banks and financial institutions with a sound credit rating. Management does not expect any losses from non-performance by these banks and financial institutions as they have no default history in the past.

Trade receivables are due within 30 to 180 days from the date of billing depending on the trading relationship. Debtors of the Group may be affected by the unfavorable economic conditions and the lower liquidity situation, which could in turn impact their ability to repay the amounts owed. Deteriorating operating conditions for debtors may also have an impact on management's cash flow forecasts and assessment of the impairment of receivables. To the extent that information is available, management has properly reflected revised estimate of expected future cash flows in their impairment assessments.

The credit quality of the customers is assessed based on its financial position, past experience and other factors.

At the balance sheet date, the Group has certain concentration of credit risk as 45% (2018: 61%) and 63% (2018: 75%) of the total trade receivables was due from the Group's largest customer and the five largest customers respectively.

(b) *Impairment of financial assets*

Trade receivables for sales of goods of the Group are subject to the expected credit loss model. While other financial assets at amortised cost, short-term bank deposits and cash and cash equivalents are also subject to the impairment requirements of HKFRS 9, the identified impairment loss was immaterial.

<u>Trade receivables</u>

The Group applies the HKFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. The Group measures the expected credit losses on a combination of both individual and collective basis.

To measure the expected credit losses, the trade receivables relating to customers with known financial difficulties or significant doubt on collection of receivables are assessed individually for provision for impairment allowance. Expected credit losses are estimated by grouping the remaining trade receivables based on shared credit risk characteristics and collectively assessed for likelihood of recovery, taking into account the nature of the customer and its ageing category, and applying expected credit loss rates to the respective gross carrying amounts of the receivables.

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For the year ended 31 December 2019

The expected credit loss rates are determined based on historical credit losses experienced up to past 3 years and are adjusted to reflect current and forward-looking information such as macroeconomic factors affecting the ability of the customers to settle the receivables.

As at 31 December 2019, the balance of loss allowance in respect of these collectively assessed receivables was HK$5,405,000 (2018: HK$2,545,000) based on expected credit loss rates up to 5.5% (2018: up to 4.1%) applied on different groupings.

Impairment losses on receivables are presented as 'net impairment loss on financial assets' in the consolidated statement of profit or loss. When a receivable is uncollectible, it is written off against the allowance account for receivables. Subsequent recoveries of amounts previously written off are credited against the same line item.

Other financial assets at amortised cost, short-term bank deposits and cash and cash equivalents

There is no significant loss allowance for other financial assets at amortised cost, short-term bank deposits and cash and cash equivalents as at 31 December 2019 (2018: same).

(iii) Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants by reviewing each operating entity's cash flow forecast, to ensure that the Group maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

As at 31 December 2019, the Group's total available banking facilities, amounted to approximately HK$581,341,000 (2018: HK$381,271,000), of which approximately HK$275,062,000 (2018: HK$161,888,000) has been utilised.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

The table below analyses the Group's non-derivative financial liabilities into relevant maturity 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. Balances due within 12 months equal their carrying values, as the impact of discounting is not significant.

31 December 2019

	Repayable on demand HK$'000	Within one year HK$'000	In the second to fifth years inclusive HK$'000	Over five years HK$'000	Total HK$'000
Trade and other payables	—	208,703	12,584	—	221,287
Amount due to a non-controlling interest	537	—	—	—	537
Lease liabilities	—	9,638	12,116	5,116	26,870
Borrowings	272,919	—	—	—	272,919
Total	273,456	218,341	24,700	5,116	521,613

31 December 2018

	Repayable on demand HK$'000	Within one year HK$'000	In the second to fifth years inclusive HK$'000	Total HK$'000
Trade and other payables	—	169,511	2,060	171,571
Amounts due to non-controlling interests	713	—	—	713
Borrowings	149,229	183	609	150,021
Total	149,942	169,694	2,669	322,305

Specifically, for term loans which contain a repayment on demand clause which can be exercised at the bank's sole discretion, the analysis shows the cash outflow based on the earliest period in which the entity can be required to pay, that is if the lenders were to invoke their unconditional rights to call the loans with immediate effect. The maturity analysis for other bank borrowings is prepared based on the scheduled repayment dates.

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The table that follows summaries the maturity analysis of term loans with a repayment on demand clause based on agreed scheduled repayments set out in the loan agreements. The amounts include interest payments computed using contractual rates. As a result, these amounts were greater than the amounts disclosed in the "on demand" time band in the maturity analysis above. Taking into account the Group's financial position, the directors do not consider that it is probable that the bank will exercise its discretion to immediate repayment. The directors believe that such term loans will be repaid in accordance with the scheduled repayment dates set out in the loan agreements.

	Due on demand or within 1 year HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 5 years HK$'000	Total HK$'000
31 December 2019				
Principal	**132,704**	**62,563**	**77,652**	**272,919**
Interest	**10,750**	**5,352**	**4,399**	**20,501**
	143,454	**67,915**	**82,051**	**293,420**
31 December 2018				
Principal	41,379	41,379	66,471	149,229
Interest	3,770	2,729	2,652	9,151
	45,149	44,108	69,123	158,380

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(c) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk, and to support the Group's sustainable growth and to provide capital for the purpose of potential mergers and acquisitions.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings, and makes adjustments to the capital structure in light of changes in economic conditions. The Group monitors capital on the basis of the gearing ratio and the Group will have sufficient financial resources and banking facilities to meet its commitments and working capital requirements. The Group's gearing ratio (being the Group's total borrowings and lease liabilities over total equity) is as follows.

	2019 **HK$'000**	2018 HK$'000
Borrowings *(note 29)*	**272,919**	150,021
Lease liabilities *(note 33)*	**24,483**	—
Net debt	**297,402**	150,021
Equity	**755,934**	714,494
Gearing ratio (%)	**39.3**	21.0

The gearing ratio increased from 21.0% to 39.3% following the adoption of HKFRS 16, in which net debt increased following the recognition of lease liabilities on 1 January 2019 (Note 2(a)(i)).

(d) Fair value estimation

(i) Fair value hierarchy

The table below analyses the Group's financial instruments carried at fair values as at 31 December 2019 by level of the inputs to valuation techniques used to measure fair values. Such inputs are categorised into three levels within a fair value hierarchy 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).

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- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

See note 15 for disclosures of investment properties that are measured at fair values. The following tables present the Group's financial assets that are measured at fair values:

	2019			
	Level 1	**Level 2**	**Level 3**	**Total**
	HK$'000	**HK$'000**	**HK$'000**	**HK$'000**
Assets				
Financial assets at fair value through profit or loss				
— Unlisted convertible bonds in Hong Kong	**—**	**—**	**16,117**	**16,117**
— Unlisted equity investment in the USA	**—**	**—**	**7,513**	**7,513**
— Listed securities in Hong Kong	**15,231**	**—**	**—**	**15,231**
Total financial assets	**15,231**	**—**	**23,630**	**38,861**

	2018			
	Level 1	Level 2	Level 3	Total
	HK$'000	HK$'000	HK$'000	HK$'000
Assets				
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

There were no transfers of financial assets between the fair value hierarchy classifications during the year (2018: same).

There were no other changes in valuation techniques during the year (2018: same).

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Financial instruments in level 1

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and equity securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

Financial instruments in level 2

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques which maximise the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

Financial instruments in level 3

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for unlisted equity investment in the United States of America (the "USA") and unlisted convertible bonds in Hong Kong.

(ii) Valuation techniques used to determine fair values

Specific valuation techniques used to value level 3 financial instruments include techniques such as discounted cash flow analysis and net asset value model. There are no changes in valuation techniques during the year.

The Group's finance department reviews the valuations of financial assets required for financial reporting purposes, including level 3 fair values. As part of the valuation process, this team reports directly to the chief financial officer (CFO) and external valuers will be engaged, if necessary.

In applying the discounted cash flow technique, management has taken into account the estimated amount that the Group would receive to sell the instrument at the balance sheet date, taking into account current interest rates and the current credit worthiness of the counterparties. Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate for a similar instrument at the balance sheet date.

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For the year ended 31 December 2019

(iii) Fair value measurements using significant unobservable inputs (Level 3)

The following table presents the changes in level 3 financial instruments for the year ended 31 December 2019:

	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
Addition	1,556	—	1,556
Fair value gains on revaluation recognised in the consolidated statement of profit or loss	127	201	328
As at 31 December 2019	7,513	16,117	23,630
Unrealised gain recognised in the consolidated statement of profit or loss attributable to balances held at the balance sheet date	127	201	328

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The following table presents the changes in level 3 financial instruments for the year ended 31 December 2018:

	Financial asset at fair value through profit or loss			
	Unlisted equity investment in the USA HK$'000	Unlisted fund investment in Hong Kong HK$'000	Unlisted convertible bonds in Hong Kong HK$'000	Total HK$'000
At 1 January 2018	5,985	8,110	15,944	30,039
Disposals	—	(8,110)	—	(8,110)
Fair value losses on revaluation recognised in consolidated statement of profit or loss	(155)	—	(28)	(183)
At 31 December 2018	5,830	—	15,916	21,746
Unrealised gain recognised in the consolidated statement of profit or loss attributable to balances held at the balance sheet date	(155)	—	(28)	(183)

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

As at 31 December 2019, the fair value of the unlisted equity investment is determined based on the net assets value of the company after adjusting the carrying amounts of the underlying investment properties to their fair values, which are reference to recent transaction prices with certain adjustments to reflect the differences between the properties and the recent transactions (2018: same).

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The unlisted convertible bonds classified as financial asset 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 valuation of the investment is based on the valuation carried out by independent professionally qualified valuer, Stirling Appraisals Limited, who holds a recognised relevant professional qualification and has relevant experience. The fair value gains are included in "other gains — net" in the consolidated statement of profit or loss.

The key unobservable assumption used in the valuation of the unlisted convertible bonds as at 31 December 2019 and 31 December 2018 is:

Valuation technique	**Unobservable input**	**As at 31 December 2019**	**As at 31 December 2018**
Binomial option pricing model	Discount rate	5.08%	6.23%

As at 31 December 2019, the pre-tax discount rate used to compute the fair value is 5.08% (2018: 6.23%). If the discount rate shifted upward by 1%, the impact on profit or loss would be approximately HK$71,000 (2018: HK$186,000). The higher the pre-tax discount rate, the lower the fair value.

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4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in Note 2(j). The recoverable amounts of CGUs have been determined based on value in use calculations. These calculations require the use of estimates. During the year ended 31 December 2019, an impairment of goodwill of HK$11,310,000 was recognised in the consolidated statement of profit or loss.

Estimating the value in use requires an estimate of the expected future cash flows from the cash-generating unit and also a suitable discount rate in order to calculate the present value of those cash flows. Judgement is required to determine key assumptions adopted in the cash flow projections and changes to key assumptions could affect these cash flow projections and therefore the results of the impairment review.

(b) Provision for inventories

Inventories are carried at the lower of cost and net realisable value. The cost of inventories is written down to net realisable value when there is an objective evidence that the cost of inventories may not be recoverable. The cost of inventories may not be recoverable if those inventories are aged and damaged, if they have become wholly or partially obsolete, or if their selling prices have declined. The cost of inventories may also not be recoverable if the estimated costs to be incurred to make the sales have increased.

The amount written off to the consolidated statement of profit or loss is the difference between the carrying value and net realisable value of the inventories. In determining whether the inventories can be recoverable, significant judgement is required. In making this judgement, the Group evaluates, among other factors, the duration and extent by all means to which the amount will be recovered.

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(c) Income taxes

The Group is subject to income taxes in several jurisdictions. Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be required. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

5. 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 reportable segment profit/(loss) excluding fair value gains/(loss) and interest income on financial assets at FVPL, gain on disposal of a financial asset at FVPL, fair value gains on investment properties, share-based payment expense, finance income and costs and income tax expense.

The executive directors consider 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 PRC. Customers are mainly located in the USA and Europe.

(ii) Trading Business: The trading and distribution of headwear, appeal, small leather goods, bags and accessories of the Group is operating through Drew Pearson International (Europe) Ltd., ("DPI Europe") which focuses on the Europe market, and H3 Sportgear LLC ("H3"), San Diego Hat Company ("SDHC") and Aquarius Ltd ("AQ") which focus on the USA market.

Discontinued operations (note 35):

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

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

	Continuing operations (Restated) (note (2(a))						Discontinued operations (Restated) (note (2(a))	
	Manufacturing		**Trading**		**Total**		**Retail**	
	2019	2018	**2019**	2018	**2019**	2018	**2019**	2018
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Revenue from external customers	**670,327**	672,790	**476,507**	213,143	**1,146,834**	885,933	**32,399**	55,560
Inter-segment revenue	**72,834**	56,144	**—**	—	**72,834**	56,144	**—**	—
Reportable segment revenue	**743,161**	728,934	**476,507**	213,143	**1,219,668**	942,077	**32,399**	55,560
Reportable segment profit/(loss)	**104,951**	108,673	**(21,986)**	(19,218)	**82,965**	89,455	**(1,661)**	(13,677)
Gain on disposal of a subsidiary *(note 35)*					**—**	—	**2,857**	—
Financial assets at fair value through profit or loss *(note 7)*								
— fair value gains/(losses)					**806**	(1,375)	**—**	—
— interest income					**643**	830	**—**	—
Gain on disposal of a financial asset at fair value through profit or loss					**5,312**	—	**—**	—
Fair value gains on investment properties					**1,314**	290	**—**	—
Share-based payment expense					**(1,760)**	(3,050)	**—**	—
Unallocated corporate income					**9,944**	10,155	**—**	—
Unallocated corporate expenses					**(21,228)**	(13,143)	**—**	—
Profit/(loss) from operations					**77,996**	83,162	**1,196**	(13,677)
Finance income					**1,860**	1,444	**—**	83
Finance costs					**(8,883)**	(251)	**(25)**	(25)
Income tax (expense)/credit					**(9,302)**	(3,390)	**1**	—
Profit/(loss) for the year					**61,671**	80,965	**1,172**	(13,619)
Depreciation of property, plant and equipment	**16,765**	17,521	**9,664**	5,433	**26,429**	22,954	**778**	1,263
Depreciation of right-of-use assets	**11,128**	—	**3,206**	—	**14,334**	—	**398**	—
Amortisation of other intangible assets	**—**	—	**12,675**	7,464	**12,675**	7,464	**—**	—
Impairment of goodwill *(note 17)*	**—**	—	**(11,310)**	—	**(11,310)**	—	**—**	—

	Manufacturing		**Trading**		**Retail**		**Total**	
	2019	2018	**2019**	2018	**2019**	2018	**2019**	2018
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Reportable segment assets	**579,949**	501,729	**540,119**	371,842	**—**	20,019	**1,120,068**	893,590
Investment properties							**42,375**	41,061
Deferred income tax assets							**2,404**	2,189
Financial assets at fair value through profit or loss							**38,861**	32,824
Tax recoverable							**—**	823
Short-term bank deposits							**—**	3,852
Cash and cash equivalents							**112,549**	97,254
Other corporate assets							**11,837**	—
Total assets							**1,328,094**	1,071,593
Reportable segment liabilities	**192,305**	144,724	**76,998**	18,519	**—**	21,255	**269,303**	184,498
Deferred income tax liabilities							**4,221**	3,892
Current income tax liabilities							**12,187**	16,114
Borrowings							**272,919**	150,021
Other corporate liabilities							**13,530**	2,574
Total liabilities							**572,160**	357,099
Capital expenditure incurred during the year	**91,969**	63,412	**39,811**	80,177	**—**	313	**131,780**	143,902

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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.

Capital expenditure incurred during the year comprises additions to property, plant and equipment, intangible assets and right-of-use assets, including additions resulting from acquisition through business combinations.

(i) Revenue from external customers

The Group's revenue from external customers is divided into the following geographical areas based on the location at which the goods were delivered. The revenue is recognised at a point in time when control of the products has been transferred (note 2(x)).

	2019	2018
	HK$'000	HK$'000
		(Restated)
		(Note 2(a))
Continuing operations:		
USA	**962,842**	685,307
Europe	**87,345**	101,762
PRC	**16,469**	15,545
Hong Kong	**15,841**	12,376
Others	**64,337**	70,943
	1,146,834	885,933
Discontinued operations:		
PRC	**31,711**	47,718
Hong Kong	**688**	7,842
	32,399	55,560
Total	**1,179,233**	941,493

During the year ended 31 December 2019, revenue derived from the Group's largest customer (who is a group of affiliated companies of a shareholder) amounted to HK$427,138,000 or 37.2% of the Group's revenue from continuing operations (2018: HK$447,405,000 or 50.5%). These revenues were attributable to the Manufacturing Business.

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(ii) Non-current assets

The geographical location of the non-current assets is based on the location of operations and physical location of the asset:

	2019 HK$'000	2018 HK$'000
USA	**248,413**	260,007
Bangladesh	**202,287**	143,146
PRC	**49,229**	37,592
Europe	**7,164**	7,603
Hong Kong	**7,955**	3,430
	515,048	451,778
Other intangible assets	**27,538**	11,980
Deferred income tax assets	**2,404**	2,189
Financial assets at fair value through profit or loss	**7,513**	21,746
	552,503	487,693

6. OTHER INCOME

	2019 HK$'000	2018 HK$'000 (Restated) (Note 2(a))
Rental income	**9,596**	9,245
Sundry income	**1,246**	2,055
	10,842	11,300

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7. OTHER GAINS — NET

	2019 HK$'000	2018 HK$'000 (Restated) (Note 2(a))
Financial assets at fair value through profit or loss		
— fair value gain/(loss)	**806**	(1,375)
— interest income of unlisted convertible bonds in Hong Kong	**643**	830
Gain on disposal of a financial asset at fair value through profit or loss	**5,312**	—
Net foreign exchange (loss)/gain	**(397)**	1,204
Fair value gains on investment properties *(note 15)*	**1,314**	290
	7,678	949

8. EXPENSES BY NATURE

Expenses included in cost of sales, selling and distribution costs and net impairment losses on financial assets from the continuing operations are analysed as follows:

	2019 HK$'000	2018 HK$'000 (Restated) (Note 2(a))
Employee benefit expense *(note 10)*	**288,687**	232,214
Cost of inventories *(note 20)*	**512,937**	368,521
Auditors' remuneration		
— Audit services	**3,711**	2,658
— Non-audit services	**242**	117
Licence fees	**8,723**	2,176
Depreciation of property, plant and equipment *(note 14)*	**26,429**	22,954
Depreciation of right-of-use assets *(note 33)*	**14,334**	—
Amortisation of other intangible assets *(note 18)*	**12,675**	7,464
Operating lease charges in respect of office premises, factories and warehouses	**—**	12,557
Short-term lease expenses *(note 33)*	**505**	—
Net impairment losses on financial assets		
— Net impairment losses on trade receivables *(note 21)*	**2,743**	1,126
Net provision for inventories *(note 20)*	**597**	3,752
Claim expenses	**5,090**	2,542
Advertising expenses	**19,431**	11,326
Delivery expenses	**35,597**	34,072
Impairment loss on goodwill *(note 17)*	**11,310**	—
Others	**144,347**	113,541
Total	**1,087,358**	815,020

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9. FINANCE (COSTS)/INCOME — NET

	2019 HK$'000	2018 HK$'000 (Restated) (Note 2(a))
Interest on bank loans, overdrafts and other borrowings	**(9,325)**	(3,699)
Interest on lease liabilities *(note 33)*	**(1,094)**	—
Interest accretion on licence fee payables	**(697)**	(220)
	(11,116)	(3,919)
Amount capitalised *(note)*	**2,233**	3,668
Interest costs	**(8,883)**	(251)
Interest income	**1,860**	1,444
Finance (costs)/income — net	**(7,023)**	1,193

Note:

During 31 December 2019, interest expenses on bank borrowings were capitalised at the weighted average rate of its general borrowings of approximately 3.94% (2018: 2.62%).

10. EMPLOYEE BENEFIT EXPENSE

	2019 HK$'000	2018 HK$'000 (Restated) (Note 2(a))
Employee remuneration (including directors' emoluments and retirement benefit costs)		
— Salaries and allowances	**280,799**	221,994
— Contribution to retirement scheme	**6,128**	7,170
— Share-based payments expenses	**1,760**	3,050
	288,687	232,214

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(a) Five highest paid individuals

The five highest paid individuals included three (2018: three) directors whose emoluments are reflected in the analysis shown in note 39. The details of the emoluments of the remaining two (2018: two) highest paid individuals are as follows:

	2019	2018
	HK$'000	HK$'000
Basic salaries, housing allowances, other allowances and benefits in kind	**4,756**	4,754
Discretionary bonuses	**225**	435
Contributions to retirement scheme	**18**	18
	4,999	5,207

The emoluments of these two (2018: two) employees are within the following bands:

	2019	2018
HK$2,000,001 — HK$2,500,000	**1**	—
HK$2,500,001 — HK$3,000,000	**1**	2

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11. INCOME TAX EXPENSE

	2019	2018
	HK$'000	HK$'000
Current year		
— Hong Kong profits tax	**1,440**	700
— Overseas tax	**9,990**	7,828
	11,430	8,528
Over-provision in prior years		
— Hong Kong profits tax	**(1,973)**	(2,240)
— Overseas tax	**(1,308)**	(2,406)
	(3,281)	(4,646)
Deferred income tax *(note 19)*	**1,152**	(492)
	9,301	3,390
Income tax expense/(credit) is attributable to:		
Profit from continuing operations	**9,302**	3,390
Loss from discontinued operations	**(1)**	–
	9,301	3,390

Hong Kong profits tax has been provided at the rate of 16.5% (2018: 16.5%) on the estimated assessable profits for the year.

Taxation on overseas profits has been calculated on the estimated assessable profits for the year at the rates of taxation prevailing in the countries in which the Group operates.

Unimas Sportswear Ltd. ("Unimas"), a subsidiary of the Group, operates in Bangladesh. Pursuant to the sixth schedule of the Income Tax Ordinance, Unimas is entitled to a reduction of the corporate income tax from 35% to 17.5% for income from its export business for the year ended 31 December 2019 (2018: same).

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The tax on the Group's profit before tax differs from the theoretical amount that would arise using the tax rate of the home country of the Company as follows:

	2019 HK$'000	2018 HK$'000 (Restated) (Note 2(a))
Profit before income tax from continuing operations	**70,973**	84,355
Profit/(loss) before income tax from discontinued operations	**1,171**	(13,619)
Profit before income tax	**72,144**	70,736
Calculated at a taxation rate of 16.5% (2018: 16.5%)	**11,904**	11,671
Effect of different taxation rates in other countries	**(12,006)**	(11,759)
Expenses not deductible for tax purposes	**11,758**	5,143
Income not subject to tax	**(2,153)**	(3,444)
Tax losses for which no deferred income tax assets was recognised	**3,079**	6,425
Over-provision in prior years	**(3,281)**	(4,646)
Income tax expense	**9,301**	3,390

12. 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 year.

	2019	2018 (Restated) (Note 2(a))
Profit attributable to owners of the Company *(HK$'000)*		
— Continuing and discontinued operations	**58,213**	62,513
— Continuing operations	**57,041**	76,132
Weighted average number of ordinary shares in issue	**405,323,284**	405,297,942
Basic earnings per share *(HK cents)*		
— Continuing and discontinued operations	**14.36**	15.42
— Continuing operations	**14.07**	18.78

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(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.

	2019	2018 (Restated) (Note 2(a))
Profit attributable to owners of the Company *(HK$'000)*		
— Continuing and discontinued operations	**58,213**	62,513
— Continuing operations	**57,041**	76,132
Weighted average number of ordinary shares in issue	**405,323,284**	405,297,942
Adjustment for share options	**356,469**	4,090,282
Weighted average number of ordinary shares for diluted earnings per share	**405,679,753**	409,388,224
Diluted earnings per share *(HK cents)*		
— Continuing and discontinued operations	**14.35**	15.27
— Continuing operations	**14.06**	18.60

13. DIVIDENDS

A final dividend in respect of the year ended 31 December 2019 of 3 HK cents per share, amounting to a total dividend of HK$12,160,000, is to be proposed at the upcoming annual general meeting. These financial statements do not reflect this dividend payable. The amount of proposed final dividend for 2019 was based on 405,323,284 (2018: 405,323,284) shares in issue as at 31 December 2019.

	2019 HK$'000	2018 HK$'000
Interim dividend of 2 HK cents (2018: 2 HK cents) per share	**8,106**	8,106
Proposed final dividend of 3 HK cents (2018: 3 HK cents) per share	**12,160**	12,160
	20,266	20,266

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14. PROPERTY, PLANT AND EQUIPMENT

	Construction in progress HK$'000	Land and buildings HK$'000	Furniture and equipment HK$'000	Leasehold improvements HK$'000	Machinery HK$'000	Motor vehicles HK$'000	Total HK$'000
At 1 January 2018							
Cost	34,555	185,386	61,655	39,888	239,858	12,528	573,870
Accumulated depreciation and impairment	—	(17,092)	(46,595)	(34,369)	(193,623)	(11,383)	(303,062)
Net book amount	34,555	168,294	15,060	5,519	46,235	1,145	270,808
Year ended 31 December 2018							
Opening net book amount	34,555	168,294	15,060	5,519	46,235	1,145	270,808
Additions	109,306	1,519	9,423	295	16,082	1,119	137,744
Transfers	(84,723)	84,723	—	—	—	—	—
Disposals	—	—	(29)	—	—	—	(29)
Depreciation	—	(6,118)	(5,871)	(1,995)	(9,566)	(667)	(24,217)
Exchange differences	(151)	(2,868)	(493)	(44)	(3,896)	(16)	(7,468)
Closing net book amount	58,987	245,550	18,090	3,775	48,855	1,581	376,838
At 31 December 2018							
Cost	58,987	267,677	69,225	39,611	248,604	11,746	695,850
Accumulated depreciation and impairment	—	(22,127)	(51,135)	(35,836)	(199,749)	(10,165)	(319,012)
Net book amount	58,987	245,550	18,090	3,775	48,855	1,581	376,838
Year ended 31 December 2019							
Opening net book amount	58,987	245,550	18,090	3,775	48,855	1,581	376,838
Adoption of HKFRS 16 *(note)*	—	—	—	—	—	(857)	(857)
Net book amount at 1 January 2019, restated	58,987	245,550	18,090	3,775	48,855	724	375,981
Additions	34,734	373	13,468	—	28,904	168	77,647
Acquisition of a subsidiary *(note 34)*	—	—	364	59	—	517	940
Disposal of a subsidiary as part of the discontinued operations *(note 35)*	—	—	(1,144)	(437)	—	(83)	(1,664)
Depreciation	—	(8,333)	(6,840)	(1,419)	(10,336)	(279)	(27,207)
Exchange differences	—	(209)	(2)	(6)	—	—	(217)
Closing net book amount	93,721	237,381	23,936	1,972	67,423	1,047	425,480
At 31 December 2019							
Cost	93,721	267,830	73,266	29,340	270,687	10,382	745,226
Accumulated depreciation and impairment	—	(30,449)	(49,330)	(27,368)	(203,264)	(9,335)	(319,746)
Net book amount	93,721	237,381	23,936	1,972	67,423	1,047	425,480

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Depreciation expenses have been charged as below:

	2019 HK$'000	2018 HK$'000 (Restated) (note 2(a))
Continuing operations		
Cost of sales	**16,082**	16,681
Selling and distribution costs	**14**	—
Administration expenses	**10,333**	6,273
	26,429	22,954
Discontinued operations		
Selling and distribution costs	**509**	771
Administration expenses	**269**	492
	778	1,263
Total depreciation expenses	**27,207**	24,217

The Group's land is freehold and located outside Hong Kong.

	2018 HK$'000
Leased motor vehicle under finance lease	
Cost	952
Accumulated depreciation	(95)
Net book amount	857

From 1 January 2019, leased assets are presented as a separate line item in the consolidated balance sheet as right-of-use assets (note 33). Refer to note 2(a)(i) for details about the changes in accounting policy.

15. INVESTMENT PROPERTIES

	2019 HK$'000	2018 HK$'000
At fair value		
Opening balance at 1 January	**41,061**	42,139
Net gains from fair value adjustment	**1,314**	290
Exchange differences	**—**	(1,368)
Closing balance at 31 December	**42,375**	41,061

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The following amounts have been recognised in the consolidated statement of profit or loss:

	2019	2018
	HK$'000	HK$'000
Rental income	**3,767**	3,872
Direct operating expenses arising from investment property that generated rental income	**(1,426)**	(1,671)

The period of leases whereby the Group leases out its investment properties under operating leases ranged from 1 to 5 years.

At 31 December 2019 and 2018, the future aggregate minimum rentals receivables under non-cancellable operating leases are as follows:

	2019	2018
	HK$'000	HK$'000
No later than 1 year	**3,989**	3,748
Later than 1 year and not later than 5 years	**4,097**	6,942
	8,086	10,690

The valuation of the investment properties is based on the valuation carried out by independent professionally qualified valuer, Stirling Appraisals Limited, who holds a recognised relevant professional qualification and has recent experience in the locations and segments of the investment properties valued. The revaluation gains are included in "other gains — net" in the consolidated statement of profit or loss. The following table analyses the investment properties carried at fair value, by level of inputs to valuation techniques used to measure fair value. Such inputs are categorised into three levels within a fair value hierarchy as follows:

- Quoted prices (unadjusted) in active markets for identical assets (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset that are not based on observable market data (that is, unobservable inputs) (level 3).

The Group's policy is to recognise transfers into and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer. There were no transfers among levels 1, 2 and 3 during the year (2018: same).

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	Fair value measurements at 31 December 2019 using			
Description	**Quoted prices in active markets for identical assets (Level 1) HK$'000**	**Significant other observable inputs (Level 2) HK$'000**	**Significant unobservable inputs (Level 3) HK$'000**	**Total HK$'000**
Investment properties:				
Production facilities in the PRC	**—**	**—**	**17,978**	**17,978**
Residential building units in the PRC	**—**	**5,258**	**—**	**5,258**
Residential building units in the USA	**—**	**19,139**	**—**	**19,139**
	—	**24,397**	**17,978**	**42,375**

	Fair value measurements at 31 December 2018 using			
Description	Quoted prices in active markets for identical assets (Level 1) HK$'000	Significant other observable inputs (Level 2) HK$'000	Significant unobservable inputs (Level 3) HK$'000	Total HK$'000
Investment properties:				
Production facilities in the PRC	—	—	18,090	18,090
Residential building units in the PRC	—	4,921	—	4,921
Residential building units in the USA	—	18,050	—	18,050
	—	22,971	18,090	41,061

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

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

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

These significant unobservable inputs include:

Description	Fair values at 31-Dec-19 (HK$'000)	Valuation technique	Unobservable inputs	Range of unobservable inputs (probability-weighted average)	Relationship of unobservable inputs to fair value
Production facilities in the PRC	17,978	Income approach	Term rent	RMB14–RMB20 per month per square metre	The higher the rent, the higher the fair value
			Market rent	RMB17 per month per square metre	The higher the rent, the higher the fair value
			Term yield	6%	The higher the yield, the lower the fair value
			Market yield	8%	The higher the yield, the lower the fair value

Description	Fair values at 31-Dec-18 (HK$'000)	Valuation technique	Unobservable inputs	Range of unobservable inputs (probability-weighted average)	Relationship of unobservable inputs to fair value
Production facilities in the PRC	18,090	Income approach	Term rent	RMB15–RMB19 per month per square metre	The higher the rent, the higher the fair value
			Market rent	RMB17 per month per square metre	The higher the rent, the higher the fair value
			Term yield	6%	The higher the yield, the lower the fair value
			Market yield	8%	The higher the yield, the lower the fair value

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16. SUBSIDIARIES

The following is a list of the principal subsidiaries at 31 December 2019 and 2018:

Name of company	Place of incorporation/ registration	Principal place of operation	Nominal value of issued ordinary share capital/ registered capital	Interest held by the Group 2019	2018	Principal activities
Aquarius Ltd	USA	USA	US$361,630 common	**100%** *(Note 34)*	0%	Trading of headwear, small leather goods, bags and accessories
China Wintax Trading (Shenzhen) Co. Ltd.	PRC *(note b)*	PRC	HK$1,000,000 registered paid-up capital	**100%**	100%	Trading of machineries, fabric and accessory materials
Drew Pearson International (Europe) Ltd. *(note a)*	The United Kingdom	The United Kingdom	£10,000 ordinary	**90%**	90%	Trading of headwear and accessories
Exquisite Property Limited	The United Kingdom	The United Kingdom	£1 ordinary	**100%**	100%	Property holding
Famewell Corp	USA	USA	US$100 common	**100%**	100%	Property holding
Guang Zhou Jian Hao Headwear Manufacturing Ltd.	PRC *(note b)*	PRC	£3,500,000 registered paid-up capital	**100%**	100%	Property holding
H3 Sportgear LLC	USA	USA	US$3,649,700 common	**100%**	100%	Trading of headwear, apparel and accessories
Hatworld (Hong Kong) Ltd.	Hong Kong	Hong Kong	HK$1 ordinary	**100%**	100%	Retailing
Mainland Development (BD) Co. Ltd.	Bangladesh	Bangladesh	BDT90,000,000 ordinary	**100%**	100%	Property holding
Mainland Sewing Headwear Manufacturing Limited	Hong Kong	Hong Kong	HK$10,000 ordinary	**100%**	100%	Trading of headwear
Profit Longest Limited	Hong Kong	Hong Kong	HK$100 ordinary	**100%**	100%	Sourcing and trading of headwear and accessories
Rhys Trading Ltd.	The British Virgin Islands	Hong Kong	US$10,000 ordinary	**100%**	100%	Investment holding
San Diego Hat Company	USA	USA	US$10,000 common	**100%**	100%	Trading of headwear and accessories
SDHC Property LLC	USA	USA	US$1 common	**100%**	100%	Property holding
SDH3 Whiptail LLC	USA	USA	US$1 common	**100%**	100%	Property holding
Simplylife LLC	USA	USA	US$1 common	**100%**	100%	E-commerce business
SMS FBA LLC	USA	USA	US$1 common	**100%**	100%	E-commerce business
Raise Your Game LLC	USA	USA	US$1 common	**100%**	100%	E-commerce business

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Name of company	Place of incorporation/ registration	Principal place of operation	Nominal value of issued ordinary share capital/ registered capital	Interest held by the Group 2019	2018	Principal activities
Medone LLC	USA	USA	US$1 common	**100%**	100%	E-commerce business
Sky Trade Global Limited *(note a)*	The British Virgin Islands	Bangladesh	US$1 ordinary	**90%**	90%	Trading of headwear
Top Super Sportswear (Shenzhen) Co., Ltd.	PRC *(note b)*	PRC	HK$52,000,000 registered paid-up capital	**100%**	100%	Manufacture and sale of headwear
Unimas Sportswear Ltd. *(note a)*	Bangladesh	Bangladesh	BDT84,109,700 ordinary	**90%**	90%	Manufacture and sale of headwear
Wintax Caps (Shenzhen) Co., Ltd.	PRC *(note b)*	PRC	HK$20,000,000 registered paid-up capital	**100%**	100%	Manufacture and sale of headwear
Wintax Trading Limited	Macau	Macau	MOP$100,000 ordinary	**100%**	100%	Trading of headwear and provision of digitizing services
Wintax Macao Commercial Offshore Co Ltd	Macau	Macau	MOP$50,000 ordinary	**100%**	100%	Provision of research and development, quality control and administrative services
上海成顏豐商貿有限公司	PRC *(note b)*	PRC	RMB10,000,000 registered paid-up capital	**0%** *(Note 35)*	75%	Retailing and wholesales

Other than Rhys Trading Ltd. which is held directly by the Company, all subsidiaries are held by the Company indirectly.

note a:

The non-controlling interests in respect of these companies are not material.

note b:

These companies are registered in the PRC in the form of wholly foreign-owned enterprises.

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17. GOODWILL

	2019	2018
	HK$'000	HK$'000
Opening net book amount	**33,798**	33,798
Acquisition of a subsidiary *(note 34)*	**23**	—
Impairment *(note 8)*	**(11,310)**	—
Closing net book amount	**22,511**	33,798
Cost	**33,821**	38,756
Accumulated impairment	**(11,310)**	(4,958)
Net book amount	**22,511**	33,798

The carrying amount of goodwill, net of impairment loss, is allocated to the following CGUs:

	2019	2018
	HK$'000	HK$'000
Trading Business — H3	**22,488**	22,488
Trading Business — SDHC	**—**	11,310
Trading Business — AQ	**23**	—
	22,511	33,798

The relevant goodwill is allocated to the respective groups of CGUs, which represent the lowest level within the Group at which the relevant goodwill is monitored for internal management purposes, and not larger than an operating segment.

The recoverable amount of a CGU is determined based on the higher of the fair values less costs to sell and value in use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates not exceeding the long-term average growth rate of the countries in which CGU operated.

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The key assumptions used are as follows:

	2019	2018
Trading Business — H3		
Sales growth rate	**14%**	15%
Gross profit margin	**28%**	25%
Discount rate	**16%**	16%
Trading Business — SDHC		
Sales growth rate	**3%**	9%
Gross profit margin	**55%**	57%
Discount rate	**16%**	16%

The budgeted sales and gross profit margin of the CGUs were determined by the management based on past performance and their expectations for market development. The discount rate used is pre-tax and reflect specific risks relating to the segment.

For trading business, H3, the recoverable amount of H3 is calculated based on value in use and exceeded carrying value as at 31 December 2019 (2018: same). Management believes that any reasonably foreseeable change in any of the above key assumptions would not result in impairment of goodwill.

SDHC is mainly engaged in the trading of headwear and related accessories in the USA. Its customers are mainly retailers, whose operation was significantly challenged by the macro environment during the year ended 31 December 2019. In addition, SDHC mainly sources its products from China, the increased tariff on import products arising from the China-USA trade war added another cost burden to its operation. Despite the SDHC placed a significant amount of effort on marketing and advertising activities, its actual results fell short of expectation, and SDHC suffered from an operational loss during the year ended 31 December 2019. In view of the loss suffered by SDHC, the uncertainties over the future profitability of its business model as well as the Group's resources to place on this operation, the management considers an impairment indicator existed as at 31 December 2019. For the purpose of goodwill impairment assessment, the Group revised its cash flow forecasts of this CGU. The management has assessed the recoverable amount of SDHC as at 31 December 2019 based on the value in use. The recoverable amount is lower than the carrying amount of this CGU and this shortfall leads to full impairment of goodwill of approximately HK$11,310,000 for the year ended 31 December 2019. The impairment of goodwill has been included in administration expenses in the consolidated statement of profit or loss.

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18. OTHER INTANGIBLE ASSETS

	Trademark	Licensing rights	Acquired customer relationship	Total
	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2018				
Cost	6,495	10,309	15,083	31,887
Accumulated amortisation	(5,497)	(5,047)	(8,124)	(18,668)
Net book amount	998	5,262	6,959	13,219
Year ended 31 December 2018				
Opening net book amount	998	5,262	6,959	13,219
Additions	—	6,158	—	6,158
Amortisation	(998)	(4,875)	(1,591)	(7,464)
Exchange differences	—	67	—	67
Closing net book amount	—	6,612	5,368	11,980
At 31 December 2018				
Cost	6,495	13,193	15,083	34,771
Accumulated amortisation	(6,495)	(6,581)	(9,715)	(22,791)
Net book amount	—	6,612	5,368	11,980
Year ended 31 December 2019				
Opening net book amount	—	6,612	5,368	11,980
Additions	—	3,891	—	3,891
Acquisition of a subsidiary *(note 34)*	—	24,328	47	24,375
Amortisation	—	(11,161)	(1,514)	(12,675)
Exchange differences	—	(33)	—	(33)
Closing net book amount	—	23,637	3,901	27,538
At 31 December 2019				
Cost	6,495	40,570	15,130	62,195
Accumulated amortisation	(6,495)	(16,933)	(11,229)	(34,657)
Net book amount	—	23,637	3,901	27,538

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19. DEFERRED INCOME TAXATION

At the balance sheet date, components of the deferred income tax assets and liabilities of the Group provided are as follows:

	Assets		Liabilities	
	2019	2018	**2019**	2018
	HK$'000	HK$'000	**HK$'000**	HK$'000
Depreciation allowances	**322**	—	**—**	—
Net revaluation surplus on investment properties	**—**	—	**(4,221)**	(3,892)
Right-of-use assets	**—**	—	**(5,088)**	—
Leases liabilities	**5,240**	—	**—**	—
Others	**1,930**	2,189	**—**	—
Deferred income tax assets/ (liabilities), gross	**7,492**	2,189	**(9,309)**	(3,892)
Set-off deferred tax (liabilities)/ assets	**(5,088)**	—	**5,088**	—
Deferred income tax assets/ (liabilities), net	**2,404**	2,189	**(4,221)**	(3,892)

The movement in deferred income tax assets and liabilities during the year is as follows:

	Assets				Liabilities			
Deferred income tax assets/(liabilities)	Depreciation allowances HK$'000	Lease liabilities HK$'000	Others HK$'000	Sub total HK$'000	Net revaluation surplus on investment properties HK$'000	Right-of-use assets HK$'000	Sub total HK$'000	Total HK$'000
At 1 January 2018	—	—	1,616	1,616	(3,959)	—	(3,959)	(2,343)
Charged to the consolidated statement of profit or loss	—	—	564	564	(72)	—	(72)	492
Exchange differences	—		9	9	139	—	139	148
At 31 December 2018	—	—	2,189	2,189	(3,892)	—	(3,892)	(1,703)
Adjustment on adoption of HKFRS 16 *(note 2(a)(i))*	—	3,202	—	3,202	—	(3,202)	(3,202)	—
At 1 January 2019, after adoption of HKFRS 16	—	3,202	2,189	5,391	(3,892)	(3,202)	(7,094)	(1,703)
Acquisition of a subsidiary	288	928	753	1,969	—	(928)	(928)	1,041
Additions of right-of-use assets and lease liabilities	—	4,620	—	4,620	—	(4,620)	(4,620)	—
Credit/(charged) to the consolidated statement of profit or loss	34	(3,310)	(1,010)	(4,286)	(329)	3,463	3,134	(1,152)
Exchange differences	—	—	(2)	(2)	—	—	—	(2)
Disposal of a subsidiary as part of discontinued operations	—	(200)	—	(200)	—	199	199	(1)
At 31 December 2019	322	5,240	1,930	7,492	(4,221)	(5,088)	(9,309)	(1,817)
Set-off deferred tax (liabilities)/assets	—	(5,088)	—	(5,088)	—	5,088	5,088	—
At 31 December 2019, net	322	152	1,930	2,404	(4,221)	—	(4,221)	(1,817)

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The Group did not recognise deferred income tax assets in respect of cumulative tax losses of HK$127,504,000 (2018: HK$126,033,000) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. These tax losses have no expiry date except HK$89,987,000 (2018: HK$90,627,805) which will expire in 5 years to 20 years (2018: 5 years to 20 years).

20. INVENTORIES

	2019 **HK$'000**	2018 HK$'000
Raw materials	**103,243**	95,089
Work-in-progress	**21,343**	24,452
Finished goods	**150,816**	89,115
	275,402	208,656

The cost of inventories recognised as expense and included in cost of sales amounted to HK$512,937,000 (2018: HK$368,521,000).

Provision for inventories of HK$597,000 has been recognised to cost of sales (2018: HK$3,752,000).

The gross amount of inventories carried at net realisable value amounted to approximately HK$29,858,000 (2018: HK$44,759,000) as at 31 December 2019. Full provision has been made with regards to these balances.

21. TRADE RECEIVABLES AND OTHER FINANCIAL ASSETS AT AMORTISED COST

	2019 **HK$'000**	2018 HK$'000
Trade receivables	**324,841**	217,946
Less: provision for impairment losses	**(5,288)**	(2,545)
Trade receivables, net	**319,553**	215,401
Other financial assets at amortised cost	**26,923**	17,743
	346,476	233,144
Less: non-current portion of other financial assets at amortised cost	**(821)**	(81)
Current portion	**345,655**	233,063

The carrying amounts approximate their fair values.

Notes to the Consolidated Financial Statements

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(a) The majority of the Group's sales are with credit terms of 30–180 days. The ageing analysis of trade receivables based on invoice date is as follows:

	2019 HK$'000	2018 HK$'000
0 – 30 days	**109,326**	74,305
31 – 60 days	**82,083**	58,945
61 – 90 days	**59,834**	38,412
91 – 120 days	**31,525**	19,842
Over 121 days	**42,073**	26,442
	324,841	217,946

(b) Impairment and risk exposure

Trade receivables

The Group applies the HKFRS 9 simplified approach to measure expected credit loss which uses a lifetime expected loss allowance for all trade receivables. To measure the expected credit loss, trade receivables relating to customers with known financial difficulties or significant doubt on collection of receivables are assessed individually for provision for impairment allowance, the remaining trade receivables have been grouped based on shared credit risk characteristics. Future cash flows for each group receivables are estimated on the basis of historical loss experience, adjusted to reflect the effects of current conditions as well as forward looking information.

During the year ended 31 December 2019, based on management's assessment, the Group recorded impairment loss for trade receivables of HK$2,743,000 (2018: HK$1,126,000) in the consolidated statement of profit or loss.

The movement in provision for impairment loss of trade receivables during the year is as follows:

	2019 HK$'000	2018 HK$'000
At 1 January	**2,545**	4,515
Net provision for impairment loss for the year *(Note 8)*	**2,743**	1,126
Uncollectible amounts written off	**—**	(3,074)
Exchange difference	**—**	(22)
At 31 December	**5,288**	2,545

Trade receivables of HK$3,074,000, which are still subject to enforcement activity, were determined as uncollectible and were written off against trade receivables during the year ended 31 December 2018. There is no trade receivable written off during the year ended 31 December 2019.

The Group does not hold any collateral over the impaired receivables.

Other financial assets at amortised cost

As at 31 December 2019, the impact of expected loss is immaterial to the Group (2018: same).

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22. OTHER CURRENT ASSETS

	2019 HK$'000	2018 HK$'000
Prepayments	**7,702**	24,083
Others	**2,935**	5,091
	10,637	29,174

23. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets at fair value through profit or loss

As at 31 December 2019, the Group's financial assets at FVPL represent investment in unlisted convertible bonds, listed securities and unlisted equity investment (2018: same). The investment in unlisted convertible bonds, listed securities are mandatory measured at FVPL, while the Group does not elect to classify the unlisted equity investment as financial asset at fair value through other comprehensive income. The financial assets measured at FVPL are with the following details:

	2019 HK$'000	2018 HK$'000
At 1 January	**32,824**	42,309
Additions	**9,593**	—
Disposals	**(4,362)**	(8,110)
Fair value gain/(loss) on revaluation recognised in consolidated statement of profit or loss	**806**	(1,375)
	38,861	32,824
Non-current		
Unlisted convertible bonds in Hong Kong	**—**	15,916
Unlisted equity investment in the USA	**7,513**	5,830
	7,513	21,746
Current		
Listed securities in Hong Kong	**15,231**	11,078
Unlisted convertible bonds in Hong Kong	**16,117**	—
	31,348	11,078
	38,861	32,824

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On 28 June 2017, the Company entered into a guaranteed convertible bonds subscription agreement ("Subscription Agreement") with an unlisted company, Living Design Limited (the "Issuer"), pursuant to which, the Group agreed to subscribe a three-year convertible bonds ("CB") in principal amount of US$2,000,000 (equivalent to HK$15,560,000). The CB carries an interest of LIBOR plus 2%, which is payable semi-annually. The Issuer is ultimately owned by Mr. Ngan Shun On, a brother of Madam Ngan Po Ling, Executive Director of the Company. The Issuer is principally engaged in the business of trading in electronic commerce platforms.

The Group, as a holder of the CB, has the option to convert the CB into ordinary shares at the conversion price initially set at US$20,000 per share, subject to certain adjustments as detailed in the Subscription Agreement, at any time falling 7 days prior to the maturity date. The Issuer also has the option to redeem the CB at the redemption price equals the principal amount, at any time prior to the maturity date.

The carrying amounts of the Group's financial assets at FVPL are denominated in the following currencies:

	2019	2018
	HK$'000	HK$'000
US$	**23,630**	21,746
HK$	**15,231**	11,078
	38,861	32,824

24. CASH AND CASH EQUIVALENTS AND SHORT-TERM BANK DEPOSITS

	2019	2018
	HK$'000	HK$'000
Cash at bank and on hand	**112,549**	97,254
Cash and cash equivalents	**112,549**	97,254
Short-term bank deposits	**—**	3,852

Funds of the Group amounting HK$49,462,000 (2018: HK$42,200,000) and HK$4,507,000 (2018: HK$5,794,000) are kept in the bank accounts opened with banks in the PRC and Bangladesh, respectively, where the remittance of funds is subject to foreign exchange control.

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25. SHARE CAPITAL

	Number of shares of HK$0.10 each	HK$'000
Authorised:		
At 1 January 2018, 31 December 2018, 1 January 2019 and 31 December 2019	1,000,000,000	100,000
Issued and fully paid:		
At 31 December 2017, 1 January 2018	405,173,284	40,517
Share option scheme:		
— Exercise of share option *(note 26)*	150,000	15
At 31 December 2018, 1 January 2019 and 31 December 2019	405,323,284	40,532

26. EQUITY SETTLED SHARE-BASED PAYMENT TRANSACTIONS

(1) On 23 May 2002, a share option scheme (the "Old Scheme") was adopted whereby the Board of Directors may, at their absolute discretion, grant options to any eligible employee including directors of the Company or 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 invested entity to subscribe for shares in the Company.

On 29 December 2011, the Old Scheme was terminated and a new share option scheme (the "New Scheme") was adopted whereby the Board of Directors, may, at their absolute discretion, grant options to any eligible employee, including directors of the Company or 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.

On 15 July 2015 and 13 April 2017, a total of 11,900,000 and 20,370,000 share options were granted to certain directors and employees of the Group, respectively. The share option period shall be ten years from the date of grant and the share option shall lapse at the expiry of the option period. 20% of the options shall vest on the first to fifth anniversary dates of the date of grant each year.

The total number of shares which may be issued upon exercise of all options to be granted under the New Scheme and any other share option schemes of the Group may not in aggregate exceed 39,858,328, being 10% of the shares in issue of the Company as at 29 December 2011, the date of adoption of the New Scheme. Upon refreshing of the scheme mandate limit, the Company may grant options entitling holders thereof to subscribe for up to a maximum of 40,532,328 shares, representing 10% of the shares in issue of the Company as at 16 May 2018.

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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.

(a) Movements in share options

	2019		2018	
	Number of share options	**Weighted average exercise price HK$**	Number of share options	Weighted average exercise price HK$
At 1 January	**44,200,000**	**1.243**	45,350,000	1.241
Lapsed	**(11,900,000)**	**0.946**	—	—
Exercised	**—**	**—**	(150,000)	0.969
Forfeited	**—**	**—**	(1,000,000)	1.190
At 31 December	**32,300,000**	**1.353**	44,200,000	1.243
Options vested at 31 December	**18,208,000**	**1.270**	23,764,000	1.081

At the balance sheet date, the options have a weighted average contractual terms of 6.4 years (2018: 5.5 years).

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

		Number of share options	
Expiry date	**Exercise price HK$**	**2019 '000**	2018 '000
22 June 2019	**0.946**	**—**	11,900
7 November 2020	**0.920**	**900**	900
29 December 2021	**0.800**	**1,000**	1,000
14 July 2025	**1.120**	**11,030**	11,030
12 April 2027	**1.534**	**19,370**	19,370
		32,300	44,200

Out of the total 32,300,000 (2018: 44,200,000) outstanding options, 18,208,000 options (2018: 23,764,000) are exercisable. No share options was exercised during the year ended 31 December 2019 (2018: 150,000).

Under this share option scheme, HK$1,760,000 (2018: HK$3,050,000) of share-based payment expense has been included in the consolidated statement of profit or loss for 2019 and a corresponding amount has been credited to share based compensation reserve.

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27. TRADE AND OTHER PAYABLES

	2019 HK$'000	2018 HK$'000
Trade payables	126,146	77,276
Bill payables	1,534	11,867
Accrued charges and other payables	130,133	97,216
	257,813	186,359
Less: other non-current payables	(13,096)	(2,572)
Current portion	244,717	183,787

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

	2019 HK$'000	2018 HK$'000
0 – 30 days	65,867	38,432
31 – 60 days	35,568	21,336
61 – 90 days	17,884	12,429
Over 90 days	6,827	5,079
	126,146	77,276

Contract liabilities of HK$165,000 (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.

Revenue recognised during the year ended 31 December 2019 that was included in the contract liability at the beginning of the year amounted to HK$2,612,000 (2018: HK$2,512,000). The decrease is due to the decrease in payments from customers as a result of the discontinued operations.

28. AMOUNT DUE TO A NON-CONTROLLING INTEREST

The amount is unsecured, non-interest bearing and repayable on demand.

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29. BORROWINGS

	2019	2018
	HK$'000	HK$'000
Non-current:		
Finance lease liability *(note)*	**—**	609
Current:		
Bank borrowings	**272,919**	149,229
Finance lease liability *(note)*	**—**	183
	272,919	149,412
	272,919	150,021

As at 31 December 2019, the bank borrowings would mature from 1 to 5 years but repayable on demand (2018: same).

The weighted average effective interest rate per annum for borrowings was 3.94% (2018: 2.62%).

As at 31 December 2019, bank borrowings of HK$235,186,000 (2018: HK$149,229,000), were guaranteed by the Company and a subsidiary of the Company.

As at December 2019, bank borrowings of HK$37,733,000 (2018: nil) were secured by inventories, trade receivables and plant and equipment of a subsidiary of the Company amounted to HK$69,590,000, HK$68,272,000 and HK$915,000, respectively.

The carrying amounts of the borrowings approximate their fair values.

Note:

As at 31 December 2018, the Group leased a motor vehicle with a carrying amount of HK$792,000 under a finance lease expiring within 5 years. Finance lease liability was included in borrowings until 31 December 2018, but was reclassified to lease liabilities on 1 January 2019 as a result of adopting HKFRS 16. See note 2(a)(i) for further information about the change in accounting policy for leases.

Notes to the Consolidated Financial Statements

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30. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of profit before income tax to net cash generated from operations

	2019 **HK$'000**	2018 HK$'000
Profit before income tax from continuing operations	**70,973**	84,355
Profit/(loss) before incoming tax from discontinued operations	**1,171**	(13,619)
Profit before income tax including discontinued operations	**72,144**	70,736
Finance income	**(1,860)**	(1,527)
Finance cost	**8,908**	276
Losses on disposals of property, plant and equipment	**—**	29
Gain on disposal of a subsidiary as part of the discontinued operations	**(2,857)**	—
Gain on disposal of a financial asset through profit or loss	**(5,312)**	—
Fair value (gain)/loss on financial assets at fair value through profit or loss	**(806)**	1,375
Interest income of unlisted convertible bonds in Hong Kong	**(643)**	(830)
Fair value gain on investment properties	**(1,314)**	(290)
Depreciation of property, plant and equipment	**27,207**	24,217
Depreciation of right-of-use assets	**14,732**	—
Amortisation of other intangible assets	**12,675**	7,464
Net provision for inventories	**2,944**	7,781
Share-based payment expenses	**1,760**	3,050
Net impairment losses on financial assets	**2,743**	1,126
Impairment of goodwill	**11,310**	—
Changes in working capital:		
Inventories	**(40,113)**	(39,612)
Trade receivables and other financial assets at amortised cost	**(33,578)**	(64,158)
Other current assets	**19,762**	(18,641)
Trade and other payables	**19,965**	40,995
Amount due to a non-controlling interest	**(176)**	64
Cash generated from operations	**107,491**	32,055

(b) In the cash flow statement, proceeds from sale of property, plant and equipment comprise:

	2019 **HK$'000**	2018 HK$'000
Net book amount *(note 14)*	**—**	29
Losses on disposals of property, plant and equipment	**—**	(29)
Proceeds from disposals of property, plant and equipment	**—**	—

Notes to the Consolidated Financial Statements
For the year ended 31 December 2019

(c) Reconciliation of liabilities arising from financing activities

This section sets out the movement in liabilities arising from financing activities:

	Lease liabilities HK$'000	Borrowings HK$'000	Total HK$'000
As at 1 January 2018	—	112,528	112,528
Cash flows	—	37,493	37,493
As at 31 December 2018	—	150,021	150,021
As at 1 January 2019	—	150,021	150,021
Adjustment on adoption of HKFRS 16 *(note 2(a)(i))*	14,462	(792)	13,670
As at 1 January 2019, after adoption of HKFRS 16	14,462	149,229	163,691
Additions of lease *(note 33)*	20,431	—	20,431
Acquisition of a subsidiary *(note 34)*	4,431	28,397	32,828
Disposal of a subsidiary as part of the discontinued operations *(note 35)*	(800)	—	(800)
Cash flows	(14,041)	95,293	81,252
As at 31 December 2019	24,483	272,919	297,402

31. OPERATING LEASE COMMITMENTS

At 31 December 2018, the Group had total future minimum lease payments under non-cancellable operating leases of certain properties which are payable as follows:

	2018 HK$'000
Within one year	6,028
In the second to fifth years inclusive	7,994
Over five years	2,328
	16,350

Payment obligations in respect of operating lease on properties with rentals vary with gross revenues apart from base rental are not included as future minimum lease payments.

Upon adoption of HKFRS 16, the Group has recognised right-of-use and lease liabilities for these leases, except for short-term leases on 1 January (note 2(a)(i)).

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32. CAPITAL COMMITMENTS

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

	2019 HK$'000	2018 HK$'000
Contracted but not provided for	**1,219**	9,428

33. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

(i) Amounts recognised in the consolidated balance sheet

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

	At 31 December 2019 HK$'000	At 1 January 2019 HK$'000
Right-of-use assets		
Properties	**23,194**	13,670
Motor vehicle	**667**	857
	23,861	14,527
Lease liabilities		
Non-current	**15,584**	10,237
Current	**8,899**	4,225
	24,483	14,462

Lease liabilities as at 31 December 2019 of HK$609,000 of the Group was secured by a legal charge on a motor vehicle of the Group recognised as right-of-use assets with carrying amount of HK$667,000.

Additions of right-of-use assets during the year ended 31 December 2019 were HK$24,862,000.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

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

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

	2019 HK$'000
From continuing operations:	
Depreciation charge of right-of-use assets	
— Properties	14,144
— Motor vehicle	190
	14,334
Interest expenses (included in finance costs) *(note 9)*	1,094
Expenses relating to short-term leases *(note 8)*	505
From discontinued operations:	
Depreciation charge of right-of-use assets	
— Properties	398
Interest expenses (included in finance costs)	25
Expenses relating to short-term leases	1,843
From continuing operations:	
Cost of sales	7,540
Selling and distribution costs	981
Administration expenses	5,813
	14,334
From discontinued operations:	
Selling and distribution costs	398

The total cash outflow for leases during the year ended 31 December 2019 is HK$17,508,000.

(iii) The Group's lease activities and how these are accounted for

The Group leases various properties and a motor vehicle. Rental contracts are typically made for 2 to 10 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

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34. 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 AQ, Mainland Aquarius acquired the entire issued share capital of AQ at a cash consideration of ranging US$7,000,000 (equivalent to HK$54,460,000) to US$9,000,000 (equivalent to HK$70,020,000), depending on the profitability of AQ for the year ended 30 April 2019. The consideration was eventually determined to be US$8,751,000 (equivalent to approximately HK$68,086,000)

Upon completion of the acquisition on 30 May 2019, AQ became a wholly-owned subsidiary of the Group. Acquisition-related costs of HK$4,069,000 have been charged to administration expenses in the consolidated statement of profit or loss and in operating cash flows in the consolidated cash flow statement for the year ended 31 December 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.

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:

	HK$'000
Consideration	
Total cash consideration	68,086
Recognised amounts of identifiable assets acquired and liabilities assumed	
Property, plant and equipment *(note 14)*	940
Right-of-use assets	4,431
Intangible assets — customer relationships *(note 18)*	47
Intangible assets — licensing rights *(note 18)*	24,328
Deferred income tax assets *(note 19)*	1,041
Inventories	49,316
Other current assets	1,756
Other financial assets at amortised cost	2,388
Trade receivables	72,208
Cash and cash equivalents	181
Trade and other payables	(54,996)
Borrowings	(28,397)
Current income tax liabilities	(749)
Lease liabilities	(4,431)
Total identifiable net assets	68,063
Goodwill	23
Cash consideration paid	68,086
Less: cash and cash equivalents acquired	(181)
Net cash outflow on acquisition	67,905
Acquisition-related costs included in administration expenses in the consolidated statement of profit or loss for the year	4,069

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The gross contractual amount for trade receivables due is HK$72,208,000, of which the fair value is HK$72,208,000, and 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$10,000 have been provided in relation to the fair value adjustments of intangible assets arising from the acquisition.

The revenue included in the consolidated statement of profit or loss since 30 May 2019 contributed by AQ was HK$186,810,000. It had net profit of HK$5,657,000 over the same period.

Had AQ been consolidated from 1 January 2019, the consolidated statement of profit or loss would show pro-forma revenue and profit from continuing operations of HK$1,249,897,000 and HK$57,754,000 respectively.

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35. DISCONTINUED OPERATIONS

During the year ended 31 December 2019, the Company disposed of the entire issued share capital of Shanghai CYF to an independent third party, at a total cash consideration of RMB11,045,000 (equivalent to approximately HK$12,401,000). A gain on disposal of approximately HK$2,857,000 was recognised in the consolidated statement of profit or loss for the year ended 31 December 2019. Apart from the Disposal, the Group also closed all its Hatworld headwear stores in Hong Kong. This, together with the Disposal, were reclassified as discontinued operations of the Group during the year ended 31 December 2019 and 2018.

	2019	2018
	HK$'000	HK$'000
Results of the discontinued operations:		
Revenue	**32,399**	55,560
Cost of sales	**(12,126)**	(30,327)
Gross profit	**20,273**	25,233
Other income	**121**	687
Other losses	**—**	(95)
Selling and distribution expenses	**(14,733)**	(28,504)
Administration expenses	**(7,322)**	(10,998)
Operating losses	**(1,661)**	(13,677)
Finance income	**—**	83
Finance costs	**(25)**	(25)
Loss from discontinued operations	**(1,686)**	(13,619)
Income tax credit	**1**	—
	(1,685)	(13,619)
Gain on disposal of Shanghai CYF	**2,857**	—
Profit/(loss) for the year	**1,172**	(13,619)
Exchange difference arising on translation of discontinued operations	**(398)**	(284)
Other comprehensive income/(loss) from discontinued operations	**774**	(13,903)
Total comprehensive income from discontinued operations attributable to owners of the Company:	**774**	(13,903)
Cash flows from discontinued operations:		
Net cash outflow from operating activities	**(4,524)**	(4,067)
Net cash outflow from investing activities	**(138)**	83
Net cash outflow from financing activities	**(394)**	—

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Earnings/(losses) per share of the discontinued operation:

(a) Basic

Basic earnings/(losses) 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 year.

	2019	2018 (Restated) *(Note 1(a))*
Profit/(loss) attributable to owners of the Company *(HK$'000)*		
— Discontinued operations	**1,172**	(13,619)
Weighted average number of ordinary shares in issue	**405,323,284**	405,297,942
Basic earnings/(losses) per share *(HK cents)*		
— Discontinued operations	**0.29**	(3.36)

(b) Diluted

Diluted earnings/(losses) 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.

	2019
Profit attributable to owners of the Company *(HK$'000)*	
— Discontinued operations	**1,172**
Weighted average number of ordinary shares in issue	**405,323,284**
Adjustment for share options	**356,469**
Weighted average number of ordinary shares for diluted earnings per share	**405,679,753**
Diluted earnings per share *(HK cents)*	
— Discontinued operations	**0.29**

The diluted losses per share for the discontinued operations for the year ended 31 December 2018 is the same as the basic per share as the exercise of share options would have anti-dilutive effect to the losses per share.

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For the year ended 31 December 2019

The gain on disposal of Shanghai CYF is summarised as follows:

	HK$'000
Cash consideration received	637
Cash consideration receivable	11,764
Total cash consideration	12,401
Less: Net assets disposed of:	
Property, plant and equipment *(note 14)*	1,664
Right-of-use assets	796
Deferred income tax assets *(note 19)*	1
Inventories	19,739
Other financial assets at amortised cost	2,013
Other current assets	611
Trade receivables	2,413
Cash and cash equivalents	775
Trade and other payables	(15,495)
Lease liabilities	(800)
	11,717
	684
Add: Release of exchange reserve upon disposal	2,173
Gain on disposal of Shanghai CYF	2,857

An analysis of the net outflow of cash and cash equivalents in respect of the disposal of Shanghai CYF during the year ended 31 December 2019 is as follows:

	HK$'000
Cash consideration received	637
Cash and cash equivalents disposed of	(775)
Outflow from disposal of Shanghai CYF	(138)

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For the year ended 31 December 2019

36. SIGNIFICANT RELATED PARTY TRANSACTIONS

The ultimate holding company of the Company is Successful Years International Company Limited, a company incorporated in the British Virgin Islands. The ultimate controlling party of the Group is Mr. Ngan Hei Keung and Madam Ngan Po Ling, Pauline, *BBS, JP*.

In addition to the transactions and balances disclosed elsewhere in these financial statements, the Group entered into the following significant related party transactions.

(a) Sale and purchase of goods and services

	Note	**2019** **HK$'000**	2018 HK$'000
Sales of goods to affiliated companies of a shareholder	(i)	**427,138**	447,405
Rent paid in respect of office premises to directors and a company controlled by a director	(ii)	**1,752**	1,722
Claim charges paid to affiliated companies of a shareholder	(iii)	**1,360**	479

(i) Sales of goods to affiliated companies of a shareholder were transacted pursuant to the terms and conditions set out in the manufacturing agreement entered into by the Company and NEHK on 10 October 2017 and 22 November 2019. These transactions are continuing connected transactions as defined in Chapter 14A of the Listing Rules. The Company has complied with the applicable requirements in accordance with Chapter 14A of the Listing Rules as detailed in the section headed "Connected Transactions and Continuing Connected Transactions" in the Report of the Directors in respect of these transactions.

(ii) Rent paid in respect of office premises to directors and a company controlled by a director were charged at a fixed monthly fee mutually agreed between the two parties as set out in the tenancy agreements entered into by the Company, a company controlled by a director and the directors on 23 March 2016. These transactions are continuing connected transactions as defined in Chapter 14A of the Listing Rules.

The agreements were renewed on 21 March 2019. Pursuant to the adoption of HKFRS 16, these transactions are one-off connected transactions as defined in Chapter 14A of the Listing Rules. The Group recognised right-of-use assets and lease liabilities of HK$5,017,000 in relation to the leased office premises. The carrying amount of the right-of-use assets and lease liabilities as at 31 December 2019 are HK$3,661,000 and HK$3,789,000, respectively. The Company has complied with the applicable requirements in accordance with Chapter 14A of the Listing Rules as detailed in the section headed "Connected Transactions and Continuing Connected Transactions" in the Report of the Directors in respect of these transactions.

(iii) Claim charges were paid to affiliated companies of a shareholder at a fee mutually agreed between two parties.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

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

	2019 HK$'000	2018 HK$'000
Trade receivables from affiliated companies of a shareholder	**147,596**	132,207

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, including amounts paid to the Company's directors as disclosed in note 39 and certain of the highest paid employees as disclosed in note 10, is as follows:

	2019 HK$'000	2018 HK$'000
Short-term employee benefits	**35,216**	32,192
Retirement scheme contributions	**217**	204
	35,433	32,396

37. CONTINGENT LIABILITIES

As at 31 December 2019 and 2018, the Group had no contingent liabilities.

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38. BALANCE SHEET AND RESERVE OF THE COMPANY

	Note	**2019** **HK$'000**	2018 HK$'000
ASSETS			
Non-current assets			
Interests in subsidiaries		**756,989**	691,808
Financial asset at fair value through profit or loss		**—**	15,916
		756,989	707,724
Current assets			
Other financial assets at amortised cost		**1,075**	831
Financial asset at fair value through profit or loss		**16,117**	—
Cash and cash equivalents		**2,796**	2,061
		19,988	2,892
Total assets		**776,977**	710,616
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company			
Share capital		**40,532**	40,532
Other reserves	(a)	**275,832**	278,397
Retained earnings	(a)	**456,925**	390,321
		773,289	709,250
LIABILITIES			
Current liabilities			
Trade and other payables		**3,688**	1,366
		3,688	1,366
Total equity and liabilities		**776,977**	710,616

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Note (a) Reserve movement of the Company

	Share premium HK$'000	Contributed surplus HK$'000	Share based compensation reserve HK$'000	Retained earnings HK$'000	Total HK$'000
At 1 January 2018	166,836	99,431	9,471	324,073	599,811
Profit for the year	—	—	—	85,992	85,992
2017 final dividend paid	—	—	—	(12,160)	(12,160)
2018 interim dividend paid	—	—	—	(8,106)	(8,106)
Share option scheme:					
— Share options lapsed	—	—	(522)	522	—
— Value of services provided	—	—	3,050	—	3,050
— Share options exercised	180	—	(49)	—	131
At 31 December 2018	167,016	99,431	11,950	390,321	668,718
At 1 January 2019	167,016	99,431	11,950	390,321	668,718
Profit for the year	—	—	—	82,545	82,545
2018 final dividend paid	—	—	—	(12,160)	(12,160)
2019 interim dividend paid	—	—	—	(8,106)	(8,106)
Share option scheme:					
— Share options lapsed	—	—	(4,325)	4,325	—
— Value of services provided	—	—	1,760	—	1,760
At 31 December 2019	167,016	99,431	9,385	456,925	732,757

The contributed surplus of the Company represents the difference between the combined net asset value of the subsidiaries acquired over the nominal value of the share capital of the Company issued in exchange therefor pursuant to a Group reorganisation in 2000.

Under the Companies Act 1981 of Bermuda, contributed surplus is available for distribution to shareholders. However, a company cannot declare or pay a dividend, or make a distribution out of contributed surplus, if:

(i) the company is, or would after the payment be, unable to pay its liabilities as they become due; or

(ii) the realisable value of the company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

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39. BENEFITS AND INTERESTS OF DIRECTORS (DISCLOSURES REQUIRED BY SECTION 383 OF THE HONG KONG COMPANIES ORDINANCE (CAP. 622), COMPANIES (DISCLOSURE OF INFORMATION ABOUT BENEFITS OF DIRECTORS) REGULATION (CAP. 622G) AND HK LISTING RULES)

(a) Directors' emoluments

The remunerations of each director for the year are as follows:

For the year ended 31 December 2019

	Emoluments paid or receivable in respect of a person's services as a director, whether of the Company or its subsidiary undertaking						
	Year ended 31 December 2019						
	Fees HK$'000	Salaries HK$'000	Discretionary bonus HK$'000	Housing allowances HK$'000	Estimated monetary value of other benefits (Note (a)) HK$'000	Employer's contributions to a retirement benefit scheme HK$'000	Total HK$'000
Mr. Ngan Hei Keung	—	1,950	2,000	—	166	18	4,134
Madam Ngan Po Ling, Pauline, *BBS, JP* *(Managing Director)*	—	1,690	2,000	1,440	249	73	5,452
Mr. James S. Patterson	—	120	311	—	83	—	514
Ms. Maggie Gu (resigned on 27 December 2019)	—	2,448	225	—	98	18	2,789
Mr. Ngan Siu Hon, Alexander	—	899	200	—	96	18	1,213
Mr. Lai Man Sing (appointed on 27 December 2019)	—	—	—	—	—	—	—
Mr. Leung Shu Yin, William	120	—	—	—	—	—	120
Mr. Liu Tieh Ching, Brandon, *JP*	120	—	—	—	—	—	120
Mr. Gordon Ng	120	—	—	—	—	—	120
Total	360	7,107	4,736	1,440	692	127	14,462

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For the year ended 31 December 2019

For the year ended 31 December 2018

	Emoluments paid or receivable in respect of a person's services as a director, whether of the Company or its subsidiary undertaking						
	Year ended 31 December 2018						
	Fees	Salaries	Discretionary bonus	Housing allowances	Estimated monetary value of other benefits (Note (a))	Employer's contributions to a retirement benefit scheme	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Mr. Ngan Hei Keung	—	1,950	2,000	—	306	—	4,256
Madam Ngan Po Ling, Pauline, *BBS, JP* *(Managing Director)*	—	1,612	2,000	1,440	458	78	5,588
Mr. James S. Patterson	—	120	311	—	153	—	584
Ms. Maggie Gu	—	2,312	225	—	181	18	2,736
Mr. Ngan Siu Hon, Alexander	—	745	200	—	176	18	1,139
Mr. Leung Shu Yin, William	120	—	—	—	—	—	120
Mr. Liu Tieh Ching, Brandon, *JP*	120	—	—	—	—	—	120
Mr. Gordon Ng	120	—	—	—	—	—	120
Total	360	6,739	4,736	1,440	1,274	114	14,663

Note (a): Other benefits include leave pay, share option and insurance premium.

No director waived any emoluments in respect of the years ended 31 December 2019 and 2018.

(b) Directors' retirement benefits and termination benefits

None of the directors received or will receive any retirement benefits or termination benefits during the year (2018: Nil).

(c) Consideration provided to third parties for making available directors' services

The Group did not pay consideration to any third parties for making available directors' services during the year (2018: Nil).

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(d) Information about loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors

No loans, quasi-loans and other dealing were made available in favour of the directors, controlled body corporates and connected entities of such directors at the end of the year or at any time during the year (2018: Nil).

(e) Directors' material interests in transactions, arrangements or contracts

During the year, the Group entered into business transactions with related parties in the normal course of business. Details of the transactions are disclosed in note 36 to the consolidated financial statements.

Other than the above, no significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

40. EVENT OCCURRING AFTER THE REPORTING PERIOD

Impact of outbreak of Coronavirus Disease 2019

Since early 2020 the outbreak of Coronavirus Disease 2019 ("COVID 19") had resulted in suspension of work in certain regions in the PRC. The epidemic has continued to spread and impacted global business and economic activities. Following the COVID 19 outbreak, the People's Government of Guangdong Province of the PRC has postponed the time for resumption of work after the Chinese New Year holiday. The Group's production base in the PRC has resumed to work immediately follow the extended Chinese New Year. The production bases in the Bangladesh has also closed from 28 March to 4 April 2020 to follow the recommendation of the Bangladesh government. While the Group has implemented a series of precautionary and control measures to combat the impacts brought by the epidemic, it is expected that the Group's Business would be inevitably affected. This is mainly due to the unplanned deferments of orders from the customers in the USA and Europe. To minimise the negative impact of the outbreak to the Group, management will endeavor to fulfill the committed sales orders and liaise with customers about any necessary adjustment to the delivery schedule. The Board is of the view that the impact of the outbreak on the Group's business operations is temporary. It is confident that the Group's operations will recover quickly when the epidemic is under effective control.

Financial Summary

Results	Year ended 31 December				
	2015	2016	2017	2018	**2019**
	HK$'000	HK$'000	HK$'000	HK$'000 (Restated)	**HK$'000**
Turnover	870,998	870,291	890,707	885,933	**1,146,834**
Gross profit	265,112	288,017	287,794	266,291	**346,212**
Profit before income tax	56,050	83,822	85,578	84,355	**70,973**
Profit for the year attributable to:	51,376	75,192	81,223	67,346	**62,843**
Owners of the Company	52,554	71,586	77,228	62,513	**58,213**
Non-controlling interests	(1,178)	3,606	3,995	4,833	**4,630**
Basic earnings per share (HK cents)	13.2	17.9	19.1	15.4	**14.4**
Dividends	11,958	20,122	20,255	20,266	**20,266**

Assets and liabilities	As at 31 December				
	2015	2016	2017	2018	**2019**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
Non-current assets	269,386	265,217	383,934	487,693	**552,503**
Current assets	509,454	569,757	564,571	583,900	**775,591**
Current liabilities	(223,539)	(225,037)	(268,801)	(350,026)	**(539,259)**
Net current assets	285,915	344,720	295,770	233,874	**236,332**
Non-current liabilities	(4,591)	(4,630)	(5,936)	(7,073)	**(32,901)**
Net assets	550,710	605,307	673,768	714,494	**755,934**

Notes: The information of the financial summary for two years ended 31 December 2018 and 2019 have been extracted from the audited consolidated statement of profit or loss and consolidated balance sheet which are set out on page 62 to page 66 of the annual report.