# Mainland Headwear Holdings Limited

(Stock code: 1100)

# 2021
## 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
The Bank of East Asia, Limited
Citibank, N.A.

## REGISTERED OFFICE

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

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Rooms 2301–2305, 23rd Floor,
FTLife Tower,
18 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 2021.

## OVERVIEW

The novel coronavirus (COVID-19) pandemic continued to rage around the world and led to the implementation of control measures such as social-distancing restrictions as well as logistics bottlenecks, both of which hampered business activities. US retail sales showed signs of improvement since the beginning of the year and economic activity gradually returned to normal as government stimulus packages boosted consumer demand and business confidence. Likewise, the UK economy began to experience growth in the spring after suffering economic contractions amid the first wave of the pandemic. The majority of the Group's customers gradually adapted to the new normal of the late-pandemic era, and all major sports seasons were resumed. The turnaround in sentiment in these major economies paved the way for competitive market players to get ahead of their peers.

# Chairman's Statement

Leveraging its established manufacturing operations and seasoned product portfolio, the Group was able to grasp the opportunities presented by the market recovery during the year.

As one of only a few manufacturers with quick turnaround manufacturing capabilities in the headwear market, the Group's Manufacturing Business saw a surge in speed-to-market orders as soon as the market began to pick up. The strong business ties that we have developed with our customers adding our avant-garde designs further enabled us to benefit from this quick rebound in demands. With advanced automated machinery and a sufficient pool of highly skilled workers, the Group's factories were responsive and adaptable to customer demand. In particular, our Bangladesh factory attained outstanding production efficiency on the back of increased labour hours and pre-eminent project management during the year.

In regard to the Trading Business, the majority of the Group's subsidiaries, such as H3 Sportgear LLC, performed well and recorded significant growth in their revenues during the year. Backed by the Group's strong production capabilities, they remained competitive with edges in distribution and stable supply of products. The Group's comprehensive product portfolio, comprising both its own brands and licensed products, provided its subsidiaries with easier access to consumers.

## FINANCIAL REVIEW

Thanks to its agile manufacturing capabilities and effective marketing management, the Group Headwear saw an increase in its sales volume in both the Manufacturing and Trading business segments for the year.

Correspondingly, the Group's revenue surged to HK$1,600,255,000, a leap of 52.7% from the HK$1,048,006,000 recorded in 2020. Gross profit rose appreciably by 50.4% to HK$479,224,000 (2020: HK$318,689,000) and the gross profit margin maintained at 29.9% (2020: 30.4%). Profit attributable to shareholders soared by 179.1% to HK$128,076,000 (2020: HK$45,895,000).

The Board has resolved to recommend a final dividend of 4 HK cents per share (2020: 3 HK cents) for the year ended 31 December 2021. Given the Group's positive development and good profit in tough time, the Board has recommended the payment of a special dividend of 2 HK cents per share. The Directors also propose to make a bonus issue of one new share of HK$0.10 each credited as fully paid for every twenty shares held. Together with an interim dividend of 3 HK cents per share (2020 Interim: 2 HK cents), the total dividend for the year amounted to 9 HK cents (2020: 5 HK cents).

The Group remains in a healthy financial position, and has stable operating cash flows. It also held sufficient cash on hand and unutilised banking facilities amounting to approximately HK$198.9 million and HK$216.9 million, respectively, as of 31 December 2021 (31 December 2020: HK$219.5 million and HK$219.3 million, respectively).

# Chairman's Statement

## BUSINESS REVIEW

### Manufacturing Business

Revenue from the Manufacturing Business surged by 58.2% to HK$844,256,000 (2020: HK$533,728,000). The increase was mainly due to the rapid rebound in customer purchases, supported by the increased production capacity of its Bangladesh factory. Surging demand, reinforced by the increasing proportion of fast orders, resulted in the segment's operating profit doubling to HK$174,981,000 (2020: HK$87,625,000).

To meet the strong demand for fast orders with short production cycles, the Group not only actively stepped up the efficiency of its Bangladesh factory by implementing a higher level of automation and optimising its management, but also resumed recruitment. Our Shenzhen factory focused on design and development in addition to the production of high-end products.

We worked closely with customers to make necessary adjustments to delivery schedules. These efforts proved effective, as the retail customers that we had established strong business ties with placed more orders once their business had picked up.

As a result, the Manufacturing Business contributed around 52.8% of the Group's total revenue, up from 50.9% in 2020.

As of 31 December 2021, the Bangladesh and Shenzhen factories had more than 7,200 and 400 employees, respectively (31 December 2020: around 5,300 employees and 500 employees, respectively).

### Trading Business

Revenue from the Trading Business increased by 47.0% to HK$755,999,000 (2020: HK$514,278,000), accounting for 47.2% of the Group's total revenue. The surge was mainly attributable to significant sales growth in the Group's trading subsidiaries in the US and the UK, where the economies rebounded and consumer confidence recovered following the easing of pandemic restrictions.

In an effort to capture opportunities amid the market consolidation, the Group expanded its portfolio of licensed brands to propel the growth of the Trading Business. The investments in licensing, combined with the escalating transportation costs driven by logistics disruptions caused by insufficient shipping capacity amid the pandemic led to a sharp increase in cost of sales. The headwinds resulting from supply chain disruptions weighed heavily on the performance of the e-commerce unit. In the face of port congestion and a shortage of containers, the unit experienced substantial delays in seasonal categories. As a result, the operating loss of this segment amounted to HK$11,617,000 (2020 operating loss: HK$21,984,000).

# Chairman's Statement

## PROSPECTS

Looking ahead, the management believes the growth momentum will continue into the next few months as the market has adapted to the "new normal" of living with COVID-19 even though pandemic-related uncertainties persist. Specifically, European economies have enjoyed a strong recovery on the back of the rapid pace of vaccine rollouts and reduced restrictions on mobility and activity. The US, meanwhile, has launched one of the largest economic stimulus packages in its history to stabilise the economy through the pandemic, and, as a result, consumer demand and business confidence has remained at a high level. The resumption of all major sports seasons has also given rise to a new optimism in our markets.

In order to meet the keen demand from its customers, the Group will continue to improve the layout of its production capacity to enhance efficiency. In Bangladesh, the Group has pushed forward with an expansion plan involving the construction of a new production facility and relocation of a warehouse. The existing warehouse will be moved away from the plant to a nearby plot of land that the Group acquired in previous year and the new production facility will be built on the area where the original warehouse is situated. Approximately 3,000 workers will be hired. The new facility is expected to commence operation by the first half of 2023 and will enlarge the Group's production capacity by 20%.

The Group is mindful of shortages and the soaring prices of raw materials, and the rising freight costs and tightening of transportation capacity. To this end, the management is gradually implementing a local sourcing strategy in order to mitigate the impact of rising freight costs and save warehousing expenses, as well as reduce supply risks.

For the Trading Business, the Group expects the satisfactory growth experienced by its trading subsidiaries in the US and the UK to continue as they further benefit from the permanent shift to online shopping and gradual market recovery.

To improve resource allocation and operational efficiency, the Group will attach more importance to the optimisation of its product offerings in the Trading Business. The expansion of its licensed brand portfolio under the trading umbrella will continue, given that it allows the Group to stand out from its competitors and drive sales. The e-commerce unit will adjust its strategy to predominantly focus on our own brands and licensed products. The management believes that a streamlined product assortment is conducive to better inventory management and schedule reliability, resulting in a sustainable foundation for growth.

Over the past 35 years, the Group has ridden out various economic cycles and challenges and established itself as a market leader in the headwear manufacturing industry. With its leading market position, strengthened presence in Bangladesh, balanced product portfolio and shrewd business acumen, the Group remains confident in its ability to weather whatever conditions may come and create long-term value for its customers and shareholders.

# Chairman's Statement

## ACKNOWLEDGEMENTS

I would like to take this opportunity to extend my heartfelt gratitude to our shareholders, staff, customers and suppliers for their long-term support of the Group. Looking towards the future, we will move forward by further strengthening ties with all stakeholders to achieve mutual success.

**Ngan Hei Keung**
*Chairman*

Hong Kong
28 March 2022

# Management Discussion and Analysis

## LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2021, the Group had cash and cash equivalents, a portfolio of liquid investments totaling Hong Kong dollars ("HK$") 204.7 million (2020: HK$226.0 million). About 49.7%, 30.2% and 10.4% of these liquid funds were denominated in United States dollars, Renminbi and Hong Kong dollars respectively and the remaining were mainly in Pound Sterling and Bangladesh Taka.

As at 31 December 2021, the Group had banking facilities of HK$490.8 million (2020: HK$513.4 million), of which HK$216.9 million (2020: HK$219.3 million) was not utilised.

The bank borrowing over equity ratio of the Group was 30.5% (2020: 37.2%). 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 incurred approximately HK$45.0 million (2020: HK$16.6 million) on additions to plant and equipment to upgrade its manufacturing capability and expansion in the Bangladesh factory. The Group also incurred HK$1.6 million (2020: HK$2.9 million) on equipments and systems of Trading business. On 15 December 2021, the Group executed a capital contribution agreement in relation to a contribution of HK$36.6 million to a limited partnership established in the PRC (the "Fund"). The contribution by the Group represents about 2% of the targeted contribution of the Fund. A partnership agreement was signed for the purpose of the establishment of the partnership on 28 January 2022.

# Management Discussion and Analysis

The Group budgeted HK$95.5 million for capital expenditures of which HK$92.5 million is estimated to be used for the expansion in the Bangladesh under Manufacturing business. The Group also authorised a capital commitment of HK$3.0 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.

## 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 Bangladesh Taka is expected to reduce the gross margin of the Manufacturing Business by about 0.2%. As rental income in the PRC and domestic sales grow, the expected positive contribution provides a hedge against the adverse effect of any appreciation of Renminbi to the manufacturing costs.

## EMPLOYEES AND REMUNERATION POLICIES

At 31 December 2021, the Group employed 448 (2020: 558) employees in the PRC (include Hong Kong), 7,236 (2020: 5,328) employees in Bangladesh and a total of 161 (2020: 147) employees in the USA and the United Kingdom. The expenditures for employees during the year were approximately HK$340.2 million (2020: HK$251.8 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 66, 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 62, 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 51, 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 31, 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 54, 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 72, 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 76, 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 57, was appointed as an Independent Non-executive Director of the Company in September 2014. He 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 44, first joined the Company during May 2003 to May 2008 and rejoined in February 2009. Ms. Gu is the Chief Operating Officer of the Company. 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 34, 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. Shah S. Anam

aged 64, is the Managing Director of Unimas Sportswear Ltd. in Bangladesh. Mr. Anam graduated from the Sam Houston State University of Texas USA. Prior to joining his family business Pro Sports Limited in 2008, Mr. Anam has been employed for more than 10 years with PaineWebber & Co (now UBS) a US based company which is engaged in the Investment banking and stock brokerage.

### Mr. Omar Cantu

aged 51, is the Chief Executive Officer of H3 Sportgear, LLC and the Chief Executive Officer of Aquarius Ltd. 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.

# Biographical Details of Directors and Senior Management

**Mr. Bobby Fields**

aged 60, joined Aquarius Ltd in 1996. He is now the Chief Sales Officer of H3 Sportgear, LLC and Chief Executive Officer of San Diego Hat Company. 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 61, joined the Group in March 2005 when the Group set up its subsidiary in the UK. He 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.

**Mr. Michael Ball**

aged 53, 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. Randall Gross**

aged 66, 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.

**Mr. Courtney Bush**

aged 46, joined San Diego Hat Company in 1998. He is the Chief Operating Officer of San Diego Hat Company and H3 Sportgear, LLC. Mr. Bush has over 20 years experience in all aspects of the headwear and accessories business.

**Mr. Lau Ka Fai, Edward**

aged 55, 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 60, 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 2021 are as follows:

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

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 C.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. Nonexecutive 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 10 to 12 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 B.2.2 stipulates that all directors should be subject to retirement by rotation at least once every three years.

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 as set out in Code Provisions B.3.1 (a) to (d). 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 2021, one nomination committee meeting was held, which was attended by all members of the Committee.

# 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. The updated policy sets out the procedures, process and criteria for identifying and recommending candidates for election to the Board of Directors. No candidate was nominated for directorship in 2021.

## 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 2021.

## 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 E.1.2 (a) to (h) 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 2021, which was attended by all members of the Committee. 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 2021 are set out in note 37(a) to the financial statements. Details of the share option schemes of the Company are set out in the Report of the Director and note 27 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:

| | **2021** | 2020 |
|---|---|---|
| HK$1 — HK$500,000 | **—** | — |
| HK$500,001 — HK$1,000,000 | **4** | 4 |
| HK$1,000,001 — HK$1,500,000 | **2** | 4 |
| HK$1,500,001 — HK$2,000,000 | **2** | 1 |
| HK$2,000,001 — HK$2,500,000 | **—** | — |
| HK$2,500,001 — HK$3,000,000 | **1** | 2 |
| HK$3,000,001 — HK$3,500,000 | **1** | — |
| HK$3,500,001 — HK$4,000,000 | **1** | — |

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 2021, 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 59 to 67 of the annual report for the year ended 31 December 2021.

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 D.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 2021 which were attended by all members of the Committee. External auditor attended one meeting in 2021.

# 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 2021;

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 2022;

4. Reviewed and approved the Group's internal audit plan for 2022;

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 2020;

7. Reviewed the Interim Report and the interim results announcement for the six months ended 30 June 2021; 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 2022.

The remuneration of the Group's external auditor is HK$2,795,000 for audit fees and HK$336,000 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 D.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. Audit plan and internal audit report were reviewed and approved by the Audit Committee. No significant internal control weaknesses in 2021 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

## F. Delegation by the Board

### F.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.

### F.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.5), 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

## G. 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.

## H. Communication with shareholders

### H.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 2021 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 2022 Annual General Meeting to answer questions of shareholders.

### H.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.

### H.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 2021.

## 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 17 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 3 HK cents (2020: 2 HK cent) per share, totaling HK$12,160,000 was paid on 8 October 2021. The Directors recommend the payment of a final dividend of 4 HK cents (2020: 3 HK cents) per share and a special dividend of 2 HK cents (2020: nil) per share in respect of the year ended 31 December 2021. Subject to the approval at the forthcoming annual general meeting, the final dividend and special dividend will be payable on or after 24 June 2022 to the shareholders whose names appear on the register of members at the close of the business on 7 June 2022, being the record date for determination of entitlements to the final dividend and special dividend.

The Directors also propose to make a bonus issue of one new share of HK$0.1 each credited as fully paid for every twenty shares held to the shareholders whose names appear on the register of members at the close of the business on 7 June 2022. Subject to the approval at the forthcoming annual general meeting, share certificates for the bonus issue will be posted to the shareholders on or after 24 June 2022.

To determine the identity of members who are entitled to attend and vote at the forthcoming Annual General Meeting which will be held on 26 May 2022, the register of members of the Company will be closed from 23 May 2022 to 26 May 2022 (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 20 May 2022.

To determine the identity of members who are entitled to the final dividend, special dividend and bonus issue of the Company for the year ended 31 December 2021, the register of members of the Company will be closed from 1 June 2022 to 7 June 2022 (both dates inclusive). In order to qualify for the proposed final dividend, special dividend and bonus issue, 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 31 May 2022.

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

# Report of the Directors

## 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 150.

## 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 | — | 36.0% |
| Five largest customers in aggregate | — | 58.8% |
| The largest supplier | 16.0% | — |
| Five largest suppliers in aggregate | 53.0% | — |

As at 31 December 2021, New Era Cap, LCC (formerly called New Era Cap Co., Inc.) and, New Era Cap Company Ltd and affiliated companies, 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 15 to the financial statements.

## SHARE CAPITAL ISSUED IN THE YEAR

Details of the shares issued in the year ended 31 December 2021 are set out in note 26 to the financial statements.

## RESERVES

Details of movements in the reserves of the Company during the year are set out in note 36 to the financial statements.

As at 31 December 2021, the Company's reserves available for cash distribution amounted to HK$624,888,000 (2020: HK$544,438,000) as computed in accordance with the Companies Act 1981 of Bermuda. In addition, the Company's share premium account of HK$167,016,000 (2020: HK$167,016,000) as at 31 December 2021 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 27 of the financial statements and "Share Options" section in this Report of the Directors. No share was issued during the year.

## DONATIONS

The Group made nil charitable and other donations during the year (2020: HK$1,000,000).

## 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
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

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, Mr. Ngan Siu Hon, Alexander, Mr. Lai Man Sing and Mr. Leung Shu Yin, Willian shall retire by rotation at the forthcoming annual general meeting. 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 note 34 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 21 March 2019. These transactions are connected transactions as defined in Chapter 14A of the Listing Rules.

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 2021 are HK$46,000 and HK$50,000, 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 22 November 2019, 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 2024. 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 upto 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 27 December 2019, independent shareholders of the Company approved the Manufacturing Agreement and the maximum aggregate annual value of supply transactions for the three years ending 31 December 2022 are HK$583,500,000, HK$641,850,000 and HK$706,035,000 respectively.

During the year ended 31 December 2021, affiliated companies of NE purchased goods totalling HK$576,140,000 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 2021, 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 29 December 2011, a share option scheme (the "Share 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 Share 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 Share Schemes will remain in force for a period of 10 years from the date of its adoption. The purpose of the Share Scheme is to enable the Group to grant options to selected participants as incentive or rewards for their contributions to the Group.

Unless approved by shareholders in general meeting, the total number of shares issued and which may fall to be issued upon exercise of the options of the Share 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 Share Scheme at any time during the period (which may not expire later than 10 years from the date of offer of that option) to be determined and notified by the Directors to the grantee and in the absence of such determination, from the date of acceptance of the offer of such option to the earlier of the date on which such option lapses in accordance with the terms of the Share 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, no share is available for issue, save for those granted but yet to be exercised, under the Share Scheme.

At 31 December 2021, 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$1.61 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** *HK$* | **Outstanding at 1.1.2021** | **Lapsed during the year** | **Outstanding at 31.12.2020** | **Market value per share at date of grant** *HK$* |
| Director | 15.07.2015 | 15.07.2016–14.07.2025 | 1.120 | 1,000,000 | — | 1,000,000 | 1.12 |
| | 13.04.2017 | 13.04.2018–12.04.2027 | 1.534 | 8,000,000 | — | 8,000,000 | 1.50 |
| | | | | 9,000,000 | — | 9,000,000 | |
| Employees | 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 | 10,030,000 | — | 10,030,000 | 1.12 |
| | 13.04.2017 | 13.04.2018–12.04.2027 | 1.534 | 11,370,000 | — | 11,370,000 | 1.50 |
| | | | | 22,400,000 | (1,000,000) | 21,400,000 | |

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 2021, 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% |
| | | | | | 221,508,000 | 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 2021, 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 2021, 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 28 March 2022, 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, 28 March 2022

# Environmental, Social and Governance Report

## ABOUT THE REPORT

Mainland Headwear Holdings Limited and its subsidiaries (collectively, the "Group") operate a diverse range of businesses in USA, Europe, Bangladesh and the People's Republic of China, including trading, e-commerce, licensing, and manufacturing of headwear and other products such as bags and fashion accessories. While navigating the turbulent period between 2020 and 2021 caused by the COVID-19 pandemic (the "pandemic"), the economic downturn has been affecting global livelihoods, in addition to climate change-induced extreme weather events such as wildfires, storms, and floods in various parts of the world, all of which have posed a threat to global health. As we enter 2022, the Group remains optimistic about the market environment and committed to seizing opportunities that will contribute to the economy's recovery.

The report is prepared under the Environmental, Social and Governance Reporting Guide of Hong Kong Exchanges and Clearing Limited ("Hong Kong Exchange"), providing an annual update on sustainability performance of Mainland Headwear Holdings Limited for the year ended 31 December 2021 covered all the manufacturing and trading business of the Group which are the major revenue sources. 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.

### Board Inclusiveness

At Mainland Headwear Holdings Limited, the Board of Directors (the "Board") is ultimately responsible for supervising and the accountability of the company for its ESG strategy and reporting with assistance from the group's senior management. In accordance with the Board's ESG objectives, the senior management of the Group assists the Board in regularly assessing, evaluating, and reporting on ESG performance.

Throughout the Reporting Period, the senior management regularly review the Group's significant ESG issues from both strategic and operational perspectives.

### Statement Of The Board

The Board of Directors is accountable for ESG issues and their integration into the Group's strategies. It directs the management and monitoring of ESG issues identified as significant to the Group. To ensure the Group's ESG initiatives are implemented effectively, the Board requires the senior management and the team to provide regular updates. The Board will review the list of material ESG issues and risks and will ensure that appropriate risk mitigation measures are in place.

# Environmental, Social and Governance Report

## Stakeholder Engagement and Materiality Assessment

The Group has set up a normalized stakeholder communication mechanism 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. To determine the materiality of the selected ESG topics, the Group collected, analyzed the feedback of the stakeholder groups.

The topics of interest of the stakeholders and engagement channels are outlined below. After consulting the stakeholders and the discussions among senior management, the ESG aspects that considered as most critical to our stakeholders are also included and will be addressed in further details in the rest of this report.

| Key Stakeholders | Topics of interest | Engagement Channels | Critical interest |
|---|---|---|---|
| Employees | • Compensation and benefits<br>• Training and development<br>• Occupational health and safety<br>• Recruitment and promotion<br>• Working hours | • Performance management<br>• Training, seminars and briefing sessions<br>• Employee Assistance Program<br>• Staff communication<br>• Intranet | • Occupational health and safety<br>• Training and development<br>• Working hours |
| Customers | • Products and service quality<br>• Products safety and stability<br>• Protection of privacy<br>• Environmental friendly products | • Meetings and communications<br>• Quality assurance process<br>• Site visits<br>• Email channel | • Products and service quality<br>• Products safety and stability |
| Shareholders | • Business strategies and financial performance<br>• Corporate governance<br>• Business sustainability | • Annual General Meeting and other general meetings<br>• Investor and press conferences<br>• Corporate communications including announcements, circulars, interim and annual reports | • Business strategies and financial performance |

# Environmental, Social and Governance Report

| Key Stakeholders | Topics of interest | Engagement Channels | Critical interest |
|---|---|---|---|
| Suppliers | • Fair and open procurement | • Meetings and communications<br>• Regular supplier reviews | • Fair and open procurement<br>• Win-Win cooperation |
| Regulators | • Compliance with law and regulations<br>• Anti-corruption<br>• Environmental protection | • Regular meetings and communications<br>• On-site review<br>• Compliance reports<br>• Whistle-blowing procedures<br>• Waste & emission management | • Anti-corruption<br>• Environmental protection<br>• Labor standards, child and forced labor |
| Communities | • Fair employment opportunities<br>• Community involvement | • Volunteer activities<br>• Sponsorship and donations<br>• Community outreach | • Anti-discrimination<br>• Equal opportunity, diversity<br>• Community involvement |

We highly appreciate and welcome feedback from our stakeholders on this report so that we may meet their interests and expectations more accurately in our next report. For any questions or comments, please contact us at headoffice@mainland.com.hk

## COMPANY INTRODUCTION

Mainland Headwear Holdings Limited was founded in 1986 and listed on the Hong Kong Stock Exchange's Main Board in 2000. It is currently the only publicly-listed headwear manufacturer in the world.

# Environmental, Social and Governance Report

**Graph 1: Vision, mission, core value**

**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 | Aggressive and innovative | People-oriented | Serving the community |
|---|---|---|---|

The Group, which is headquartered in Hong Kong, has two manufacturing bases: one in Bangladesh and the other in Shenzhen, China. The Group produces a comprehensive and exclusive range of licensed casual headwear goods, which are primarily distributed with the United States being the largest market, followed by Europe.

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 Limited (AQ).

| **Production site information** | |
|---|---|
| **Manufacturing site area** | |
| Bangladesh Factory | 64,865 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** | 5,050,000 pcs/month |

# Environmental, Social and Governance Report

## ENVIRONMENTAL

As a responsible headwear business participant, the Group strives to guarantee that our company activities are environmentally friendly, making every effort to minimize waste and emissions generated by daily operations and supporting services. We have set environmental protection standards for its production sites and a management system for independent factories.

### Environmental management policies

To find the right balance between production and environmental conservation, the Group implemented the following environmental protection measures:

Establishing an effective environmental management system, preventing environmental pollution, mitigating environmental impact, and pursuing continual improvement to ensure natural resource sustainability.

Process optimization, promotion of clean production, reduction of pollutant emissions, and pollution control and management, with regular detection and inspection. Developing environmentally acceptable policies for energy conservation.

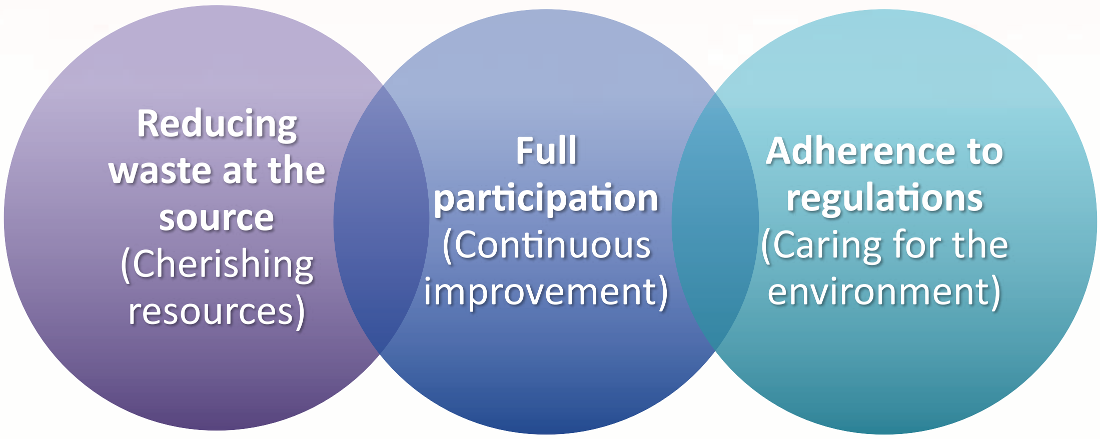
Reduce hazardous chemical consumption and promote industrial waste reduction, resource recycling, energy conservation, and carbon reduction measures in order to continually improve environmental protection performance.

Providing education and training in order to raise the environmental consciousness of all employees and to ensure that environmental protection duties are met completely.

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.

# Environmental, Social and Governance Report

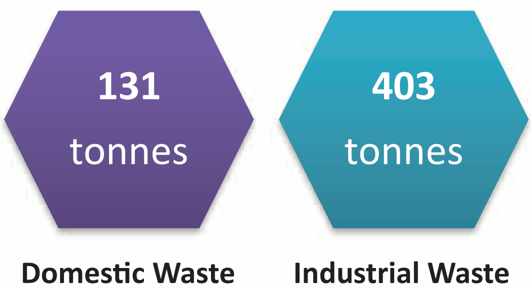
**Graph 3: The Group advocates an environmental-friendly practice in daily operation.**




As the biggest production plant of the group, the factory in Bangladesh expanded rapidly, the size of the workforce and the number of the machines have again scaled-up in 2021, causing to an increase in the use of energy and water. To control the proper usage of the natural resources, the group has set up a plan, aiming to establish environmentally sustainable management at all stages of the value chain and throughout the entire life cycles of our products by reducing harmful emissions and waste, prevent pollution and minimize consumption of resources. The strategies will be addressed in further details in each section below.

## 1. Emission

Due to the nature of our business, our primary activities include cutting, embroidering, printing, flocking, ironing, and packaging, as well as delivering the final products. Factory wastes are classified as follows: domestic waste, general industrial waste, statutory hazardous waste, and recyclable waste. All factory waste emissions followed applicable environmental laws, rules, and local regulations. Environmental consequences are deemed insignificant.




The Group generated around 131 tonnes of domestic waste during the reporting period, while our factory created approximately 403 tonnes of industrial waste, including 0.02 tonnes of hazardous waste produced from the factories.

# Environmental, Social and Governance Report

Our factories' waste management plan is focused on proper waste removal, disposal, reduction, and recycling. All wastes shall be removed and disposed by a certified contractor recognized by the government in line with local regulations. The Group especially focuses on reducing the waste in the Bangladesh factory in the future:

**Waste Reduction Strategies**

| Objective | Plan |
|---|---|
| Reduce Waste | 1. Training program to increase awareness on waste, Reduce waste generation (non- hazardous garbage)<br>2. By reusing waste (Electrical waste, Mechanical waste & some other reusable waste) |

Carbon dioxide, methane, and nitrous oxide are the primary sources of greenhouse gas (GHG) emissions in our headwear manufacturing. They are generated by purchased power, supplemental electricity generators, motor vehicles, and septic tanks. All emissions were in accordance with applicable environmental laws, rules, and local regulations.

In 2021, the group's total greenhouse gases emission is 10,822 tonnes $CO_2e$. The dominant contributors are the indirect emissions that stemmed from the use of electricity and transportation (84%). The others (16%) are direct emissions from the use of fuels and refrigerants.

The Greenhouse gases emission Reduction strategies for our Bangladesh factory are shown below, aiming to reduce the energy usage and greenhouse gases emission progressively:

**Greenhouse Gases Reduction Strategies**

| Objective | Plan |
|---|---|
| GHG reduction by reducing Natural gas consumption in Boiler | 1. Reuse condensate water at boiler feed tank<br>2. Descaling Boiler for better performance |
| GHG reduction by reducing Diesel consumption from Generator | 1. Regular maintenance of all Generator<br>2. Air and fuel ratio to be maintained<br>3. Regular conversion chamber monitoring |
| Reduce $SO_2$ emission from boiler | 1. Run the boiler in low fuel by using natural gas<br>2. Improvement to be confirmed through emissions testing |

The group is aiming to keep the GHG emission at a reasonable rate in the future. As we have set up a series of strategies to control our emission rate, we are optimistic that the GHG emission will not grow gradually in the next few years.

# Environmental, Social and Governance Report

## 2. Use of resources

As a responsible global citizen, we advocate for resource conservation. The Group's energy and resource consumption are summarized in the following.

| | | |
|---|---|---|
| **Electricity** 13,572,609 kWh | **Natural Gas** 317,015 $M^3$ | **Gasoline** 4,633 Litre |
| **Diesel** 9,359 Litre | **Water** 196,562 $m^3$ | **Packing Paper and plastics** 60.5 tonnes |

In 2021, the electricity consumption per product is 0.22 kWh and the water consumption per product is 0.003 $m^3$.

- ***Energy***

The Group used energy mostly for general lighting, electrical equipment, backup power generation, and motor vehicles. Meanwhile, steam is supplied to our factory by electric and natural gas boilers. We are committed to reducing our Group's energy usage through energy-efficient activities. For instance, the Group intends to implement a comprehensive energy monitoring system to assist factories in identifying abnormal energy consumption and identifying opportunities for energy conservation; we also included daylighting design into new factory construction to bring natural light into the office area via exterior glazing; and we will promote energy conservation awareness through ongoing staff education.

The Hong Kong office has adopted more eco-friendly practices in 2021 to reduce the excessive use of energy. The Hong Kong office moved to a new office with plenty of natural light, and the office is equipped with LED lighting instead of incandescent/CFL lighting that was used in the previous location, which reduce 50-75% of energy usage.

The group will keep on monitoring the use of energy and encourage the staff to follow eco-friendly practices in their working place. With regular educations on the staff, we believe that the energy usage can be reduced in the future.

# Environmental, Social and Governance Report

- ***Water***

The majority of polluted water in the facilities comes from employees' domestic water, industrial wastewater from washing and processing the soft and comfy headwear products, and preshrinking of cotton cloth. The Group employs rigorous water management practices with the goal of minimizing water use and increasing the usage of recycled water.

Our Shenzhen factory is equipped with specialized sewage treatment plants that handle industrial wastewater and residential water for future reuse depending on water quality and treatment requirements. The inspection institution designated by the local competent authority has been continued to conduct sampling and detection of discharged water in accordance with applicable laws, and wastewater is discharged in compliance with appropriate standards. In the year 2021, the proportion of recycled water used by Shenzhen factory was about 26%.

The Bangladesh factory has set up a Ground Water Reduction Strategies to reduce the use of ground water.

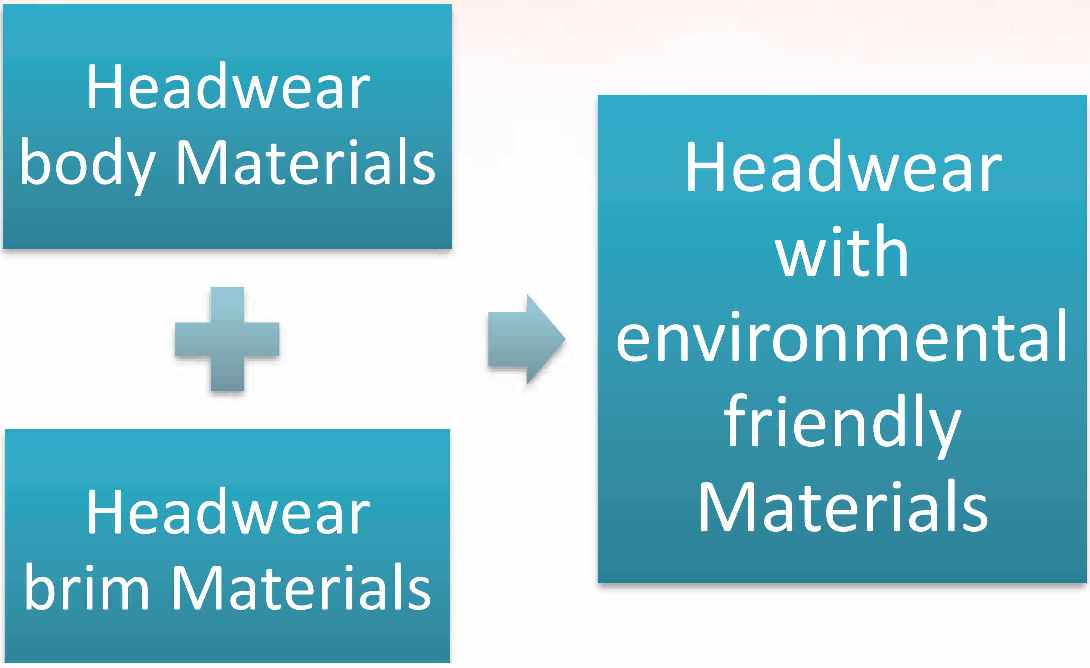
| Ground Water Reduction Strategies | |
|---|---|
| **Objective** | **Plan** |
| Reduce use of ground water | 1. Reduce Rinse<br>2. Remove all leakage & install new valve where needed<br>3. Training program to increase awareness of using water<br>4. By practicing good housekeeping<br>5. Using Trigger Nozzle on pipe head for cleaning<br>6. By installing low flow tap. |

The group will maintain its rigorous water management practices in the future and increasing the usage of recycled water next year, especially with the advanced equipment in Shenzhen factory, we believe that we can further increase the proportion of recycled water usage.

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

The headwear industry's raw materials are classified into two categories: headwear body materials and headwear brim materials. The factory maintains regular contact with brand customers and suppliers when it comes to raw material selection, ensuring that materials meet the quality standards specified by brand customers. Additionally, materials shall be inspected in accordance with the customer's list of prohibited and restricted substances, as well as relevant requirements of the American Society for Testing and Materials and the countries to which customers belong, and jointly explores the application of environmentally friendly materials in headwear with the customer.

# Environmental, Social and Governance Report




Our operations primarily utilize carton boxes, paper tags, and packing plastics. We continue to make efforts to keep our packaging materials to a minimum in order to minimize waste generation. Around 20.16 tonnes of packaging materials were used during the reporting period.

## 3. Natural Resource

The Group's main operations are devoid of soil contamination, water contamination, and forest destruction. We place a high value on environmental protection and natural resource management; we continue to strengthen environmental management while expanding our business; and we evaluate the environmental impact of our operations and choices. The Group is committed to raising environmental awareness through employee education and to take on a social responsibility for environmental conservation.

During the reporting period, the Group was unaware of any non-compliance with environmental laws and regulations that might have a serious impact on the Group.

## 4. Climate Change

Considering the growing urge for action on climate change issues that may affect our operations, the Group acknowledged our shared responsibility for minimizing the consequences of climate change and progress toward reducing our overall carbon footprint. Throughout the reporting period, none of our services or output were impacted by severe weather events such as typhoons, flooding, heat waves, or tsunami. Nonetheless, the group will continuously monitor potential threats to our business and improve our natural disaster risk management system.

# Environmental, Social and Governance Report

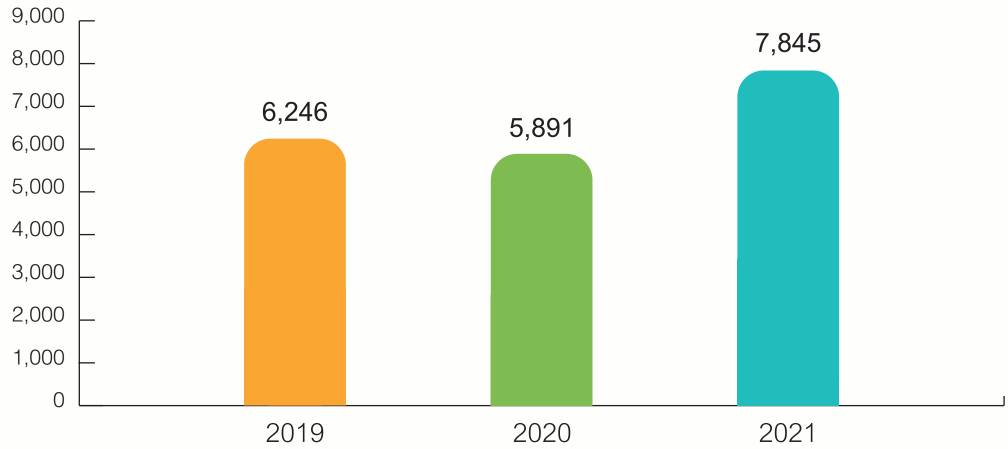
## SOCIAL

The Group pursues a strategy of sustainable development by providing a safe and healthy work environment, as well as talent development and training, as well as by promoting and executing supply chain management regulations. We also encourage community involvement and participation, with the goal of achieving sustainable development and operation.

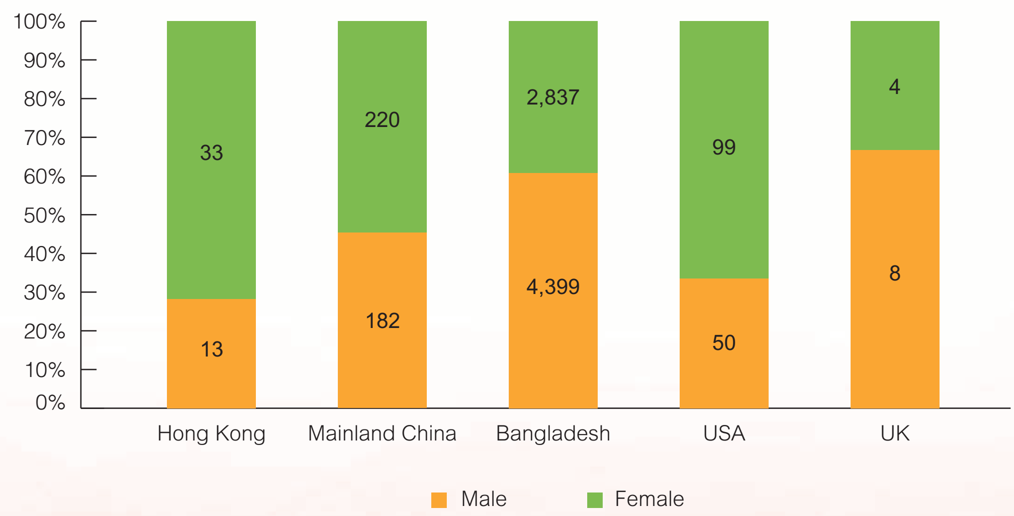
### 1. Employment

As a global leader in headwear manufacturing, our business network covers Asia, the United States, and Europe. As of 31 December 2021, we have a total of 7,843 full-time employees and 2 part-time employees.

**Number of Employees**

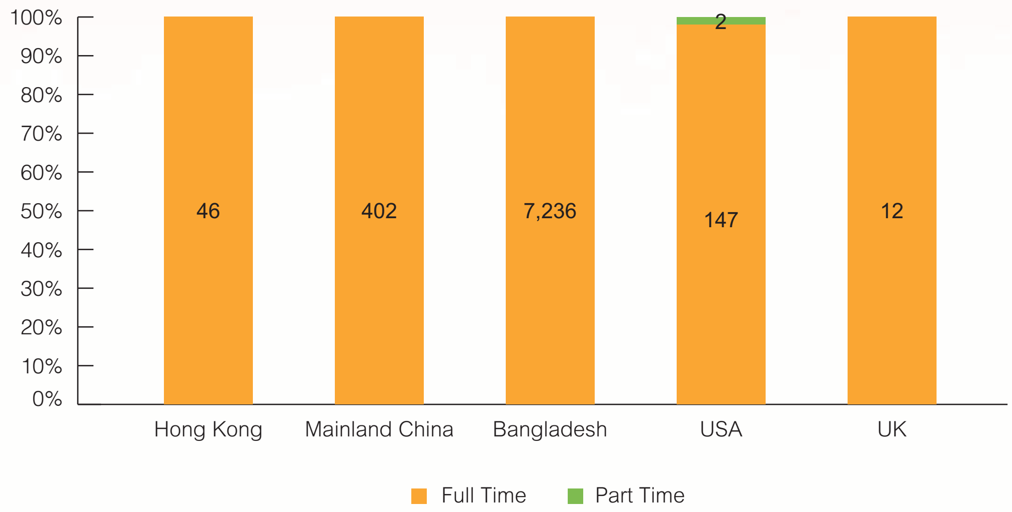



**Gender Distribution**

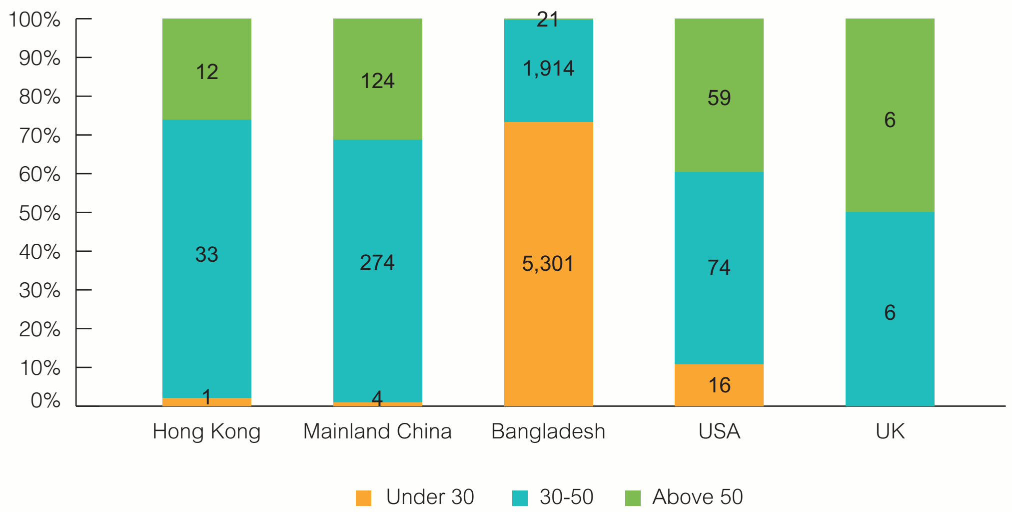


# Environmental, Social and Governance Report

### Employment Type

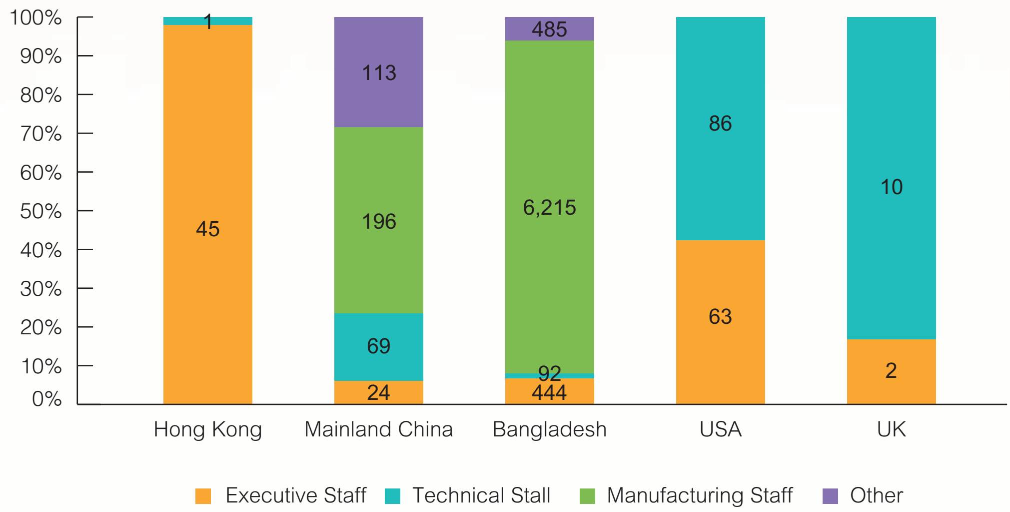



### Age Group Distribution



# Environmental, Social and Governance Report

**Employee Category**




**Turnover rate according to gender, age, and region**

| Region | Gender | | Age | | |
|---|---|---|---|---|---|
| | Male | Female | Under 30 | 30-50 | Above 50 |
| **Hong Kong** | 22.2% | 0% | 0% | 9.1% | 0% |
| **Mainland China** | 26.9% | 29.1% | 80.0% | 29.4% | 23.5% |
| **Bangladesh** | 15.3% | 11.9% | 16.8% | 6.8% | 0% |
| **USA** | 12.2% | 31.3% | 26.1% | 23.9% | 17.4% |
| **UK** | 0% | 0% | 0% | 0% | 0% |

***Employment Policy***

The Group believes that its long-term success is dependent on the contributions of each employee. A series of policies, handbooks, and protocols have been implemented to assist in the development of an environment in which our employees are treated fairly and equally, with their rights and interests being respected. Throughout the reporting period, the Group was unaware of any non-compliance with applicable laws and regulations affecting employment, occupational health and safety, or labor standards.

- ***Equal opportunity***

  The Group acts as an equal opportunity employer, protecting employees' rights to work. No member of staff would face discrimination in the workplace based on gender, race, religion, age, disability, sexual orientation, nationality, political views, social community or ethnic background. We make recruitment and promotion decisions based on aptitude and on the basis of performance.

# Environmental, Social and Governance Report

- ***Labor standards***

  The Group is dedicated to acting fairly and promoting human rights policies that are consistent with relevant local regulations and the International Covenant on Human Rights. The Group adopts and executes recruitment norms and policies that respect workers' rights and interests in the workplace.

- ***Child labour***

  The Group will not recruit child labor under the age specified by local regulations and will make every effort to avoid employing child labor during our course of business. Any child labor discovered on our facilities would be immediately returned to their hometown or native place, followed by our submission of relevant documentation to local authorities and discussion with the child's custodian regarding the child's return to school.

- ***No forced labor***

  In terms of working hours, the Group carefully complies to relevant national decrees or provisions of agreements with brand customers, respects the working hours of its employees, and provides leave to employees in compliance with the law. As operational need, the Group maintains a computer-based attendance system for human resource records to properly manage employees' working hours and leave, as well as to ensure employees' physical and emotional well-being. The Group arranges for employees to work overtime on their own initiative to avoid forced overtime, with extra labor and remuneration in accordance with domestic laws and regulations in each country. Our Group has adopted strictly on the precautions of any form of Forced Labour in our factories. We have written policy and procedures in place to ensure the effectiveness of its compliance. In case of the occurrence, we will take appropriate action to remediate the violation immediately and recognize the importance by providing training to all staffs at factory to ensure that this policy is understood and must be enforceable. In addition, there will be internal audits to trace the effectiveness of our Code of Conduct and social compliance system on regular basis.

- ***Remuneration***

  The Group provides reasonable remuneration and benefits to its employees in accordance with relevant law. Salary is determined using an integrated working hour system, with the base salary not being less than the standard minimum wage in the place of our business operations to meet the staff's basic necessities. Performance-based bonuses targeted to various staff levels to reward and retain a high-caliber leadership team.

# Environmental, Social and Governance Report

- ***Employee-employer communication mechanism***

  The right of employees to form associations for collective negotiation. Staff members are free to join a trade union or other organization of staff representatives, exercise their rights under the Articles of Association, engage in sincere and constructive negotiations on a voluntary basis and in good faith, and attempt to reach collective bargaining contracts and agreements.

  To improve communication between management and employees, various channels have been established, including a “Company Mailbox,” a “Trade Union Mailbox,” and a “Compliance Hotline,” with the goal of comprehending and resolving employee concerns, listening to their voices, adopting improvement suggestions, and ultimately achieving a harmonious relationship between employee and employer.

  To address employee suggestions and complaints, the Group develops the following three channels of communication and reporting in accordance with the “Working Principle”:


## 2. Health and safety

The Group believes that the safety of its customers and employees should always take precedence. Our factories in Shenzhen and Bangladesh have taken every precaution to ensure the safety of our customers, employees, and corporate property. “Safety first and prevention utmost” is our guiding approach for safe manufacturing.

The factories in Shenzhen and Bangladesh provide a comprehensive set of labor protection measures designed to foster a safe and healthy work environment favorable to employee health and performance. Additionally, the factories continue to promote safety, occupational health, fire and disaster prevention, and environmental responsibility. Our factories incorporate these concepts, as well as safety-related rules and regulations, into all aspects of their operations, including research and development (R&D), design, production, inspection, quality control, and service.

In Shenzhen factory, a “Stress Relief Counseling Session” is tailored to help the employees to relax and control their minds, and to learn how to relax and control their emotions.

The Group has not had a work-related fatality or day lost due to work-related problems in the last three years.

# Environmental, Social and Governance Report

## 3. Development and training

Through training, the Group consistently improves the level of knowledge, skill, and initiative of its employees, enabling them to accomplish their goals and self-success. Trainings include in-house job training programs, workshops, frequent experience sharing meetings, online learning resources, external seminars, courses, and team building activities designed to supply the Group with qualified management employees, experienced technicians, and workers.

| **Total training hour of employees** | | |
|---|---|---|
| 106,200 | | |
| **Average training hours of Full-time employees** | | |
| 18 | | |
| **Average training hours of employees by gender** | | |
| Male | Female | |
| 18 | 18 | |
| **Average training hours of employee by category** | | |
| Senior Management | Middle Management | General Staffs |
| 12 | 18 | 24 |
| **Percentage of employee trained by category** | | |
| Senior management | Middle management | General Staffs |
| 100% | 100% | 100% |

# Environmental, Social and Governance Report

## 4. Supply chain management

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

When it regards to supplier selection, the Group begins by screening prospective suppliers, followed by on-site audits by the internal auditor, competitive analysis by the purchasers, and lastly, committee vote. The rigorous screening process guarantees that shortlisted suppliers meet the Group's performance requirements, establish long-term strategic partnerships, and assist the Group in developing a high-quality supply chain management system. Tenderers must disclose any potential conflicts of interest and take a strong stand against fraud and misconduct. If a violation is discovered, supplier ties will be suspended or terminated.

**No. of supply chain by region**

| China | Hong Kong | Bangladesh | USA | UK |
|---|---|---|---|---|
| 93 | 30 | 10 | 30 | 5 |

In addition to requiring suppliers to adhere strictly to regulations and standards regarding labor safety and health, human rights, and environmental protection, the Group performs frequent evaluations of its suppliers, including a quarterly review of overall performance. Regular appraisals are based on five criteria: quality, pricing (cost), delivery, service, and environmental protection. Suppliers can use the appraisal results to continuously improve their operation performance.

## 5. Product Liability

The Group places a high value on our customers' interests and makes every effort to supply them with high-quality products and services. We believe that customer satisfaction is the largest single factor in driving our customer loyalty, market share and overall business success. As a market leader in headwear manufacturing, we offer consistent, new and better approaches based on customer needs. We use internal operational metrics, external benchmarking and customer feedback to measure our operational excellence. Throughout the year, the Group was unaware of any incidents of non-compliance with applicable laws and regulations having a significant impact on the Group's product responsibility. There have been no product recalls due to product safety concerns. The number of product complaints is negligible in comparison to the volume of manufacturing.

# Environmental, Social and Governance Report

- ***Product responsibility***

  The Group's products shall pass the standard quality inspection required by customers and shall be packaged and labeled in a manner consistent with customer requirements and exporting countries' laws and regulations. Before products are stored in the warehouse and available for production, they are inspected and tested according to standardized inspection processes. To ensure that we meet our clients' needs, our overall manufacturing processes are monitored and audited by customers. When customers raise any concerns that require correction or improvement, immediate action is conducted and the results are reverted to the customers.

- ***Intellectual property rights***

  As a manufacturer of headwear, the Group respects the intellectual property rights of its brand customers and adheres scrupulously to their brand protection regulations. Intellectual property rights (for example, trademarks) are only applied to products within the scopes authorized by brand customers and are not used for any other unauthorized uses.

- ***Personal data protection***

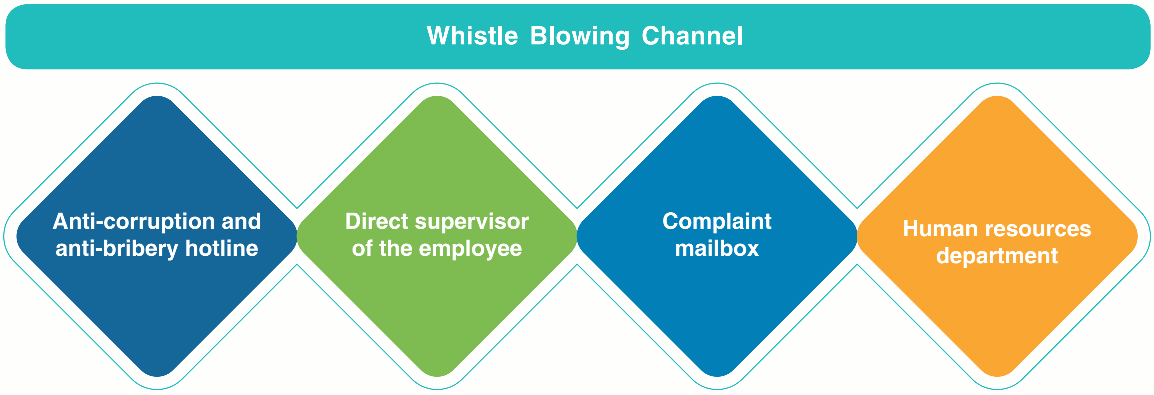
  We are committed to protecting the privacy of individuals' personal information. We ensure that our policies and practices regarding the collection, use, retention, transfer, and access to personal data adhere to the provisions of Hong Kong's Personal Data (Privacy) Ordinance and in accordance with applicable local regulations. The purpose for collecting and retaining customer records is to provide customers with services, facilities, and commodities, to process payments and billings, to conduct product research and development, to conduct customer surveys and direct marketing, and for other operational purposes. Appropriate security measures are in place to prevent loss and unauthorized access, use, modification, or disclosure of personal data.

# Environmental, Social and Governance Report

## 6. Anti-corruption

The Group adheres completely to all relevant local laws and regulations. When conducting business with counterparties, all employees are prohibited from directly or indirectly offering, promising to offer, requesting or receiving any improper benefits, or trying to take any other actions without sincerity and integrity, in any illegal way, or in breach of fiduciary duty. The Group conducts anti-corruption training for all levels of staff and actively promotes a culture of business ethics and integrity. For instance, bring local law enforcement officers to our factories to explain the applicable rules and regulations and the consequences of violations.

The Group discloses its business integrity policies on its internal website to ensure that our employees, suppliers, customers, and staff of other companies with whom we do business understand our attitude and standards of business integrity. Employees of the Group are obligated to explain the Group's rules and regulations on business integrity to business counterparties and to clearly reject any direct or indirect provisions in any manner or form.




Throughout the year, the Group was unaware of any violation of anticorruption laws or regulations that would have a significant impact on the Group.

## 7. Community investment

We believe that our Group's greatest value is derived from the benefits we can create for the community. Apart from giving our best in the industry, we also volunteer our time, energy, and resources to support those in our community who are less fortunate. Our major focus areas are on elderly services, education, and public health.

# Environmental, Social and Governance Report

In 2021, the social distancing measures for the COVID-19 made it very difficult to participate in volunteer service. However, we value every opportunity we have. Our Hong Kong volunteer team was still able to commit 48 volunteer hours to community services, and our top management, the Ngan family, made million dollars of charity donations. Po Leung Kuk, Heung Yee Kuk, the Community Chest, Overseas Chinese Association in Bangladesh are among the beneficiaries.

In the face of pandemic, the Shenzhen volunteer team also participated to help the community to fight the virus.

# Environmental, Social and Governance Report

## AWARDS AND RESPECT

The public recognizes the Group's efforts in social and environmental areas. The Group won the following honors in 2021:

# 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"), which are set out on pages 68 to 149, comprise:

- the consolidated balance sheet as at 31 December 2021;
- 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 significant accounting policies and other explanatory information.

## 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 2021, 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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# 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 21 (inventories) to the consolidated financial statements for the related disclosures. As disclosed in note 2(m) to the consolidated financial statements, inventories are carried at the lower of cost and net realisable value ("NRV").<br><br>As at 31 December 2021, the Group held inventories of HK$451.9 million, net of provision for inventories of HK$35.2 million.<br><br>Management determines the lower of cost and NRV of inventories by considering the ageing 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.<br><br>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:<br><br>— Understood and evaluated management's internal control and assessment process of estimating the NRV of the inventories and conducting periodic review on inventory obsolescence; and assessed the inherent risk of material misstatement by considering the degree of estimation uncertainty and level of other inherent risk factors such as subjectivity and susceptibility to management bias or fraud;<br><br>— Examined the basis of the methodology with respect to inventory provisions and evaluated amongst others, the outcome of prior period assessment to assess the effectiveness of management's estimation process; and the utilisation of inventories to identify the slow moving and obsolete inventories;<br><br>— Observed client's inventory counts to identify where there is any damaged or obsolete inventories;<br><br>— Tested, on a sample basis, the accuracy of the ageing profile of individual inventory items by checking to the underlying procurement correspondence and invoices;<br><br>— Tested, on a sample basis, the NRV of selected inventory items, by comparing the latest selling price against the carrying values of these individual inventory items; |

# Independent Auditor's Report

| Key Audit Matter | How our audit addressed the Key Audit Matter |
| --- | --- |
| | — Performed a recalculation of inventory provision based on the NRV and ageing profile of the inventory as at 31 December 2021; and<br><br>— Discussed with management in relation to specific provision on certain inventories which provision was made according to their view on current market conditions.<br><br>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<br><br>Refer to note 4 (critical accounting estimates and judgements) and note 18 (goodwill) to the consolidated financial statements for related disclosure.<br><br>As at 31 December 2021, the Group had goodwill arising from the acquisitions of subsidiaries totalling HK$22.5 million.<br><br>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:<br><br>• Sales growth rate;<br><br>• Gross profit margin; and<br><br>• Discount rate.<br><br>We focused on this area due to significant judgement 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:<br><br>— Understood and evaluated the management's internal control and assessment process of goodwill impairment and assessed the inherent risk of material misstatement by considering the degree of estimation uncertainty and level of other inherent risk factors such as complexity, subjectivity, changes and susceptibility to management bias or fraud;<br><br>— Understood and assessed the appropriateness of the valuation methodologies used by the management;<br><br>— 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 to assess the effectiveness of management's estimation process.<br><br>In addition, we performed the following procedures over management's key assumptions used in the discounted cash flow model:<br><br>— Discussed with management about sales growth rate and gross profit margin, and compared these assumptions against approved budgets;<br><br>— Benchmarked the discount rate against our research on the discount rates for comparable companies;<br><br>— Performed sensitivity analysis to assess the potential impact of reasonably changes to the key assumptions.<br><br>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 judgements) and note 12 (income tax expense) to the consolidated financial statements for related disclosure.<br><br>For the year ended 31 December 2021, income tax provision of the Group amounted to HK$35.9 million.<br><br>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.<br><br>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:<br><br>– Discussed with the management to understand their interpretation of the relevant tax rules and regulations and the basis of determining the tax provision;<br><br>– Understood and evaluated the management's internal control and assessment process of the income tax provision and assessed the inherent risk of material misstatement by considering the degree of estimation uncertainty and level of other inherent risk factors such as subjectivity and susceptibility to management bias or fraud;<br><br>– 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<br><br>– Examined the correspondences between the Group and the tax authorities and between the Group and its external tax advisers, where applicable.<br><br>Based on the procedures described, we found the judgement made by management in relation to income tax provision was supportable by available evidence. |

# Independent Auditor's Report

## 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.

## 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 is 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, actions taken to eliminate threats or safeguards applied.

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 Wong Ka Keung Johnny.

**PricewaterhouseCoopers**
*Certified Public Accountants*

Hong Kong, 28 March 2022

# Consolidated Statement of Profit or Loss

For the year ended 31 December 2021

| | Note | 2021<br>HK$'000 | 2020<br>HK$'000 |
|---|---|---|---|
| **Revenue** | 5 | **1,600,255** | 1,048,006 |
| Cost of sales | 8 | **(1,121,031)** | (729,317) |
| **Gross profit** | | **479,224** | 318,689 |
| Other income | 6 | **20,546** | 14,219 |
| Other gains — net | 7 | **11,151** | 746 |
| Selling and distribution costs | 8 | **(150,083)** | (108,482) |
| Administration expenses | 8 | **(176,292)** | (153,037) |
| Net impairment losses on financial assets | 22 | **(3,314)** | (8,286) |
| **Profit from operations** | | **181,232** | 63,849 |
| Finance income | 9 | **371** | 637 |
| Finance costs | 9 | **(7,691)** | (11,137) |
| **Finance costs – net** | | **(7,320)** | (10,500) |
| **Share of (loss)/profit from an investment accounted for using equity method** | 11 | **(799)** | 495 |
| **Profit before income tax** | | **173,113** | 53,844 |
| **Income tax expense** | 12 | **(35,902)** | (3,806) |
| **Profit for the year** | | **137,211** | 50,038 |
| **Profit attributable to:** | | | |
| Owners of the Company | | **128,076** | 45,895 |
| Non-controlling interests | | **9,135** | 4,143 |
| | | **137,211** | 50,038 |

# Consolidated Statement of Profit or Loss

For the year ended 31 December 2021

| | Note | 2021 | 2020 |
|---|---|---|---|
| **Earnings per share for the profit attributable to owners of the Company** | 13 | | |
| Basic (HK cents per share) | | **31.5985** | 11.3231 |
| Diluted (HK cents per share) | | **31.5723** | 11.3229 |

The above consolidated statement of profit or loss should be read in conjunction with the accompanying notes.

# Consolidated Statement of Comprehensive Income

For the year ended 31 December 2021

| | Note | 2021<br>HK$'000 | 2020<br>HK$'000 |
|---|---|---|---|
| **Profit for the year** | | **137,211** | 50,038 |
| **Other comprehensive income/(loss), net of tax** | | | |
| **Items that have been or may be subsequently reclassified to profit or loss:** | | | |
| Exchange differences on translation of financial statements of foreign operations | | **2,237** | 3,292 |
| Release of exchange reserve upon deregistration of a subsidiary | 17 | **–** | (1,553) |
| **Total comprehensive income for the year, net of tax** | | **139,448** | 51,777 |
| **Total comprehensive income attributable to:** | | | |
| Owners of the Company | | **130,313** | 47,582 |
| Non-controlling interests | | **9,135** | 4,195 |
| **Total comprehensive income for the year** | | **139,448** | 51,777 |

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

# Consolidated Balance Sheet

As at 31 December 2021

| | Note | **2021 HK$'000** | 2020 HK$'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 15 | **416,029** | 407,737 |
| Right-of-use assets | 33 | **40,167** | 42,183 |
| Investment properties | 16 | **51,928** | 44,523 |
| Goodwill | 18 | **22,511** | 22,511 |
| Other intangible assets | 19 | **29,608** | 32,774 |
| Deferred income tax assets | 20 | **5,164** | 3,500 |
| Investment accounted for using equity method | 11 | **396** | 1,195 |
| Financial assets at fair value through profit or loss | 24 | **30,909** | 8,943 |
| Other financial assets at amortised cost | 22 | **1,561** | 1,489 |
| | | **598,273** | 564,855 |
| **Current assets** | | | |
| Inventories | 21 | **451,904** | 276,830 |
| Trade receivables | 22 | **360,931** | 335,320 |
| Financial assets at fair value through profit or loss | 24 | **15,289** | 6,556 |
| Other financial assets at amortised cost | 22 | **8,620** | 8,254 |
| Other current assets | 23 | **32,289** | 18,745 |
| Tax recoverable | | **3,324** | 3,477 |
| Cash and cash equivalents | 25 | **198,890** | 219,461 |
| | | **1,071,247** | 868,643 |
| **Total assets** | | **1,669,520** | 1,433,498 |
| **EQUITY AND LIABILITIES** | | | |
| Equity attributable to owners of the Company | | | |
| Share capital | 26 | **40,532** | 40,532 |
| Other reserves | | **226,390** | 223,800 |
| Retained earnings | | **609,985** | 506,135 |
| | | **876,907** | 770,467 |
| Non-controlling interests | | **25,214** | 17,946 |
| **Total equity** | | **902,121** | 788,413 |

# Consolidated Balance Sheet

As at 31 December 2021

| | Note | **2021** **HK$'000** | 2020 HK$'000 |
|---|---|---|---|
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Other payables | 28 | **20,587** | 20,862 |
| Lease liabilities | 33 | **23,540** | 27,374 |
| Deferred income tax liabilities | 20 | **6,324** | 4,563 |
| | | **50,451** | 52,799 |
| **Current liabilities** | | | |
| Trade and other payables | 28 | **393,185** | 270,187 |
| Amount due to a non-controlling interest | 29 | **537** | 537 |
| Borrowings | 30 | **275,384** | 293,677 |
| Lease liabilities | 33 | **18,826** | 16,294 |
| Current income tax liabilities | | **29,016** | 11,591 |
| | | **716,948** | 592,286 |
| **Total liabilities** | | **767,399** | 645,085 |
| **Total equity and liabilities** | | **1,669,520** | 1,433,498 |
| **Net current assets** | | **354,299** | 276,357 |
| **Total assets less current liabilities** | | **952,572** | 841,212 |

The consolidated financial statements on pages 68 to 149 were approved by the Board of Directors on 28 March 2022 and were signed on its behalf.

**Ngan Hei Keung**
*Director*

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

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

# Consolidated Statement of Changes in Equity

For the year ended 31 December 2021

| | 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 2021 | 40,532 | 167,016 | 25,878 | 9,975 | 8,042 | 12,889 | 506,135 | 770,467 | 17,946 | 788,413 |
| Profit for the year | – | – | – | – | – | – | 128,076 | 128,076 | 9,135 | 137,211 |
| Other comprehensive income: | | | | | | | | | | |
| – Exchange differences on translation of financial statements of foreign operations | – | – | – | – | – | 2,237 | – | 2,237 | – | 2,237 |
| Total comprehensive income for the year, net of tax | – | – | – | – | – | 2,237 | 128,076 | 130,313 | 9,135 | 139,448 |
| 2020 final dividend paid | – | – | – | – | – | – | (12,160) | (12,160) | – | (12,160) |
| 2021 interim dividend paid | – | – | – | – | – | – | (12,160) | (12,160) | – | (12,160) |
| Dividends paid to non-controlling interests | – | – | – | – | – | – | – | – | (1,867) | (1,867) |
| Share options scheme: | | | | | | | | | | |
| – Value of services provided | – | – | – | 447 | – | – | – | 447 | – | 447 |
| – Share options lapsed | – | – | – | (94) | – | – | 94 | – | – | – |
| | – | – | – | 353 | – | – | (24,226) | (23,873) | (1,867) | (25,740) |
| Balance at 31 December 2021 | 40,532 | 167,016 | 25,878 | 10,328 | 8,042 | 15,126 | 609,985 | 876,907 | 25,214 | 902,121 |

# Consolidated Statement of Changes in Equity

For the year ended 31 December 2021

| | 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 2020 | 40,532 | 167,016 | 25,878 | 9,385 | 8,042 | 11,202 | 480,128 | 742,183 | 13,751 | 755,934 |
| Profit for the year | – | – | – | – | – | – | 45,895 | 45,895 | 4,143 | 50,038 |
| Other comprehensive income/(loss): | | | | | | | | | | |
| – Exchange differences on translation of financial statements of foreign operations | – | – | – | – | – | 3,240 | – | 3,240 | 52 | 3,292 |
| – Release of exchange reserve upon deregistration of a subsidiary | – | – | – | – | – | (1,553) | – | (1,553) | – | (1,553) |
| Total comprehensive income for the year, net of tax | – | – | – | – | – | 1,687 | 45,895 | 47,582 | 4,195 | 51,777 |
| 2019 final dividend paid | – | – | – | – | – | – | (12,160) | (12,160) | – | (12,160) |
| 2020 interim dividend paid | – | – | – | – | – | – | (8,106) | (8,106) | – | (8,106) |
| Share options scheme: | | | | | | | | | | |
| – Value of services provided | – | – | – | 968 | – | – | – | 968 | – | 968 |
| – Share options lapsed | – | – | – | (378) | – | – | 378 | – | – | – |
| | – | – | – | 590 | – | – | (19,888) | (19,298) | – | (19,298) |
| Balance at 31 December 2020 | 40,532 | 167,016 | 25,878 | 9,975 | 8,042 | 12,889 | 506,135 | 770,467 | 17,946 | 788,413 |

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 above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

# Consolidated Cash Flow Statement

For the year ended 31 December 2021

| | Note | **2021** **HK$'000** | 2020 HK$'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash generated from operations | 31(a) | **105,637** | 129,970 |
| Income tax paid | | **(9,791)** | (8,547) |
| Interest paid | 9 | **(7,691)** | (11,137) |
| **Net cash generated from operating activities** | | **88,155** | 110,286 |
| **Cash flows from investing activities** | | | |
| Interest received | 9 | **371** | 637 |
| Purchase of property, plant and equipment | | **(21,932)** | (10,371) |
| Purchase of financial assets at fair value through profit or loss | | **(25,635)** | — |
| Proceeds from disposal of property, plant and equipment | 31(b) | **86** | 423 |
| Proceeds from disposal of financial assets at fair value through profit or loss | | **—** | 21,267 |
| Capital injection to an investment accounted for using equity method | 11 | **—** | (700) |
| **Net cash (used in)/generated from investing activities** | | **(47,110)** | 11,256 |
| **Cash flows from financing activities** | | | |
| Repayment of bank borrowings | 31(c) | **(103,313)** | (57,867) |
| Proceeds from bank borrowings | 31(c) | **85,020** | 78,625 |
| Principal elements of lease payments | 31(c) | **(18,663)** | (16,207) |
| Dividends paid | 31(c) | **(24,320)** | (20,266) |
| Dividends paid to non-controlling interests | | **(1,867)** | — |
| **Net cash used in financing activities** | | **(63,143)** | (15,715) |
| **Net (decrease)/increase in cash and cash equivalents** | | **(22,098)** | 105,827 |
| Cash and cash equivalents at beginning of year | | **219,461** | 112,549 |
| Effect of foreign exchange rate changes | | **1,527** | 1,085 |
| Cash and cash equivalents at end of year | | **198,890** | 219,461 |

The above consolidated cash flow statement should be read in conjunction with the accompanying notes.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

## 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 17 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 the disclosure 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.

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 2021

***Changes in accounting policies and disclosures***

***(i) New and amended standards adopted by the Group***

The Group has applied the following standards and amendments for the first time for the annual reporting period commencing 1 January 2021:

- Interest Rate Benchmark Reform — Phase 2 — Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16

- COVID-19-Related Rent Concessions — Amendments to HKFRS 16

The amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

***(ii) Impact of standards issued but not yet applied by the Group***

Certain new accounting standards, amendments to 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 current or future reporting periods and on foreseeable future transactions.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

## (b) Principles of consolidation and equity accounting

### *(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.

Inter-company 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) Joint arrangement*

Under HKFRS 11 Joint Arrangements investments in joint arrangements are classified as either joint operations or joint ventures. The classification depends on the contractual rights and obligations of each investor, rather than the legal structure of the joint arrangement.

Interest in a joint venture is accounted for using the equity method (see (iii) below), after initially being recognised at cost in the consolidated balance sheet.

### *(iii) Equity method*

Under the equity method of accounting, the investment is initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses of the investee in profit or loss, and the Group's share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from a joint venture is recognised as a reduction in the carrying amount of the investment.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

Where the Group's share of loss in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the other entity.

Unrealised gains on transactions between the Group and joint ventures are eliminated to the extent of the Group's interest in these entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of equity-accounted investees have been changed where necessary to ensure consistency with the policies adopted by the Group.

The carrying amount of equity-accounted investments is tested for impairment in accordance with the policy described in note 2(j).

***(iv) 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 separate reserve within 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 joint control, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in the 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 a 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. 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 joint venture is reduced but joint control is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

### (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 the 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 the 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 the consolidated statement of profit or loss.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

### (d) 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 received 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.

### (e) 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.

### (f) 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.

#### *(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 the 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 the consolidated statement of profit or loss as part of the fair value gain or loss and translation differences on nonmonetary asset such as equity classified as financial asset at fair value through other comprehensive income ("FVOCI") are recognised in other comprehensive income.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

***(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 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 the 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.

***(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 the 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 the consolidated statement of profit or loss.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

### (g) 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 accumulated impairment losses. 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 any component accounted for as separate asset is derecognised when replaced. 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, net of their residual values over their estimated useful lives as follows:

| | |
|---|---|
| Buildings | 3.33% to 10% |
| Furniture and equipment | 10% to 33% |
| Leasehold improvements | 10% to 20% |
| 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 (note 2(j)).

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.

Construction in progress represents property, plant and equipment under construction or pending installation, and is stated at cost less accumulated 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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

### (h) Investment properties

Investment properties, principally land and buildings, are held for long-term rental yields or for capital appreciation or both, and that are 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. Subsequently, they 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".

### (i) 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 CGUs 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 relationships have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated on straight-line basis over their estimated useful lives (5–10 years).

#### *(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 lives (2–10 years).

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

### (j) Impairment of non-financial assets

Goodwill 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 subject to amortisation are tested 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 of disposal 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 which are largely independent of the cash inflows from other assets or groups of assets (CGUs). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

### (k) 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 (either through other comprehensive income or profit or loss), 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.

#### *(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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

***(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.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

*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.

(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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

*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.

## (l) 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.

## (m) 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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

### (n) 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.

### (o) 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. Bank overdrafts are shown within borrowings in current liabilities in the consolidated balance sheet.

### (p) 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.

### (q) 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 payables 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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

### (r) 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 the consolidated statement of 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 the 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.

### (s) Borrowing costs

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.

### (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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

### *(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 and its 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 and 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 and does not give rise to equal taxable and deductible temporary difference. 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.

Current and deferred tax is recognised in the consolidated statement of 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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

## (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 end of the reporting period.

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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

***(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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

### (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 and other income

#### *(i) Sales of goods*

The Group principally engaged in the manufacturing, distribution 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 value gain on these assets.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

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

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, for example, term, country, currency and security.

Lease payments are allocated between principal 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.

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 the consolidated statement of profit or loss. Short-term leases are leases with a lease term of 12 months or less without a purchase option.

Lease income from operating leases where the Group is a lessor is recognised in income on a straight-line basis over the lease term.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

### (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.

## 3. FINANCIAL RISK MANAGEMENT

### (a) Categories of financial instruments

| | **2021** | 2020 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Financial assets | | |
| Financial assets at amortised cost | | |
| — Trade receivables | **360,931** | 335,320 |
| — Other financial assets at amortised costs | **10,181** | 9,743 |
| — Cash and cash equivalents | **198,890** | 219,461 |
| | **570,002** | 564,524 |
| Financial assets at fair value through profit or loss | **46,198** | 15,499 |
| | **616,200** | 580,023 |
| Financial liabilities | | |
| Financial liabilities at amortised cost: | | |
| — Trade and other payables | **353,960** | 237,051 |
| — Amount due to a non-controlling interest | **537** | 537 |
| — Lease liabilities | **42,366** | 43,668 |
| — Borrowings | **275,384** | 293,677 |
| | **672,247** | 574,933 |

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

## (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 risk, interest rate risk, credit risk, liquidity risk and use of financial instruments.

### *(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$"), Renminbi ("RMB"), Great British Pound ("GBP") and Bangladesh Taka ("BDT"), and there are no significant assets and liabilities denominated in other currencies. The Group is subject to foreign currency risk arising from future commercial transactions and recognised assets and liabilities which are denominated in a currency other than HK$, 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$, management believes that the foreign currency risk for translations between HK$ and US$ does not have material impact to the Group.

At 31 December 2021, 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$2,594,000 (2020: HK$2,365,000) lower/higher, mainly as a result of the foreign exchange difference on translation of RMB denominated current accounts with group companies.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

As at 31 December 2021, 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$403,000 (2020: HK$404,000) lower/higher, mainly as a result of the foreign exchange difference on translation of GBP denominated currents account with group companies.

*For the companies with US$ as their functional currency*

At 31 December 2021, 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$1,289,000 (2020: HK$1,042,000) higher/lower, mainly as a result of the foreign exchange difference on translation of BDT denominated accrued charges and other payables.

*For the companies with GBP as their functional currency*

At 31 December 2021, 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$386,000 (2020: HK$428,000) lower/higher, mainly as a result of the foreign exchange difference on translation of US$ denominated current accounts 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 2021, it is estimated that a general increase/decrease of 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$319,000 (2020: HK$323,000). 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 reporting date.

***(c) Price risk***

The Group is exposed to equity price risk through its investments in listed securities in Hong Kong, unlisted equity investments and unlisted convertible loan classified as financial assets at FVPL. To manage its price risk arising from investments, the Group diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by the Group.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

If the market bid prices or fair value of each equity investment classified as FVPL 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$3,708,000 (2020: HK$656,000), mainly as a result of unrealised gains/losses on listed securities in Hong Kong, unlisted equity investment in British Virgin Islands and unlisted convertible loan classified as financial asset at FVPL. A 10% change with reference to the historical change of stock price in the market 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 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.

*(a) Risk management*

Majority of the Group's 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 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 end of reporting period, the Group has certain concentration of credit risk as 38% (2020: 51%) and 55% (2020: 74%) of the total trade receivables was due from the Group's largest customer and the five largest customers respectively.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

(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 and cash and cash equivalents are also subject to the impairment requirements of HKFRS 9, the identified impairment loss was immaterial.

Trade receivables

The Group applies the HKFRS 9 simplified approach to measure 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 customers, its geographical location and its ageing category, and applying expected credit loss rates to the respective gross carrying amounts of the receivables.

(i) Measurement of expected credit loss on individual basis

Receivables relating to customers with known financial difficulties or significant doubt on collection of receivables are assessed individually for provision for impairment allowance. As at 31 December 2021, the balance of loss allowance in respect of these individually assessed receivables was HK$4,296,000 (2020: HK$2,330,000).

The following table presents the balances of gross carrying amount and the loss allowance in respect of the individually assessed receivables as at 31 December 2021 and 2020:

| | **As at 31 December** | |
|---|---|---|
| | **2021** | 2020 |
| | **HK$'000** | HK$'000 |
| Gross carrying amount | **4,296** | 2,330 |
| Loss allowance | **(4,296)** | (2,330) |
| Net carrying amount | **—** | — |

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

(ii) Measurement of expected credit loss on collective basis

Expected credit losses are also estimated by grouping the remaining receivables based on shared credit risk characteristics and collectively assessed for likelihood of recovery, taking into account the nature of the customers, its geographical location and its ageing category, and applying expected credit loss rates to the respective gross carrying amounts of the receivables.

The expected credit loss rates are determined based on historical credit losses experienced up to past 2 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 2021, the balance of loss allowance in respect of these collectively assessed receivables was HK$6,900,000 (2020: HK$5,552,000) based on expected credit loss rates up to 1.9% (2020: up to 1.6%) 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 and cash and cash equivalents

There is no significant loss allowance for other financial assets at amortised cost and cash and cash equivalents as at 31 December 2021 (2020: 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 2021, the Group's total available banking facilities, amounted to approximately HK$490,826,000 (2020: HK$513,412,000), of which approximately HK$273,968,000 (2020: HK$294,096,000) has been utilised.

The table below analyses the Group's non-derivative financial liabilities into relevant maturity based on the remaining period at the end of reporting period 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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

**31 December 2021**

| | 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 | — | 333,885 | 20,075 | — | 353,960 |
| Amount due to a non-controlling interest | 537 | — | — | — | 537 |
| Lease liabilities | — | 19,717 | 23,345 | 1,381 | 44,443 |
| Borrowings | 275,384 | — | — | — | 275,384 |
| Total | 275,921 | 353,602 | 43,420 | 1,381 | 674,324 |

31 December 2020

| | 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 | — | 216,701 | 20,350 | — | 237,051 |
| Amount due to a non-controlling interest | 537 | — | — | — | 537 |
| Lease liabilities | — | 17,378 | 25,699 | 3,426 | 46,503 |
| Borrowings | 293,677 | — | — | — | 293,677 |
| Total | 294,214 | 234,079 | 46,049 | 3,426 | 577,768 |

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.

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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

| | Due on demand or within 1 year<br>HK$'000 | More than 1 year but less than 2 years<br>HK$'000 | More than 2 years but less than 5 years<br>HK$'000 | Total<br>HK$'000 |
|---|---|---|---|---|
| 31 December 2021 | | | | |
| Principal | **205,121** | **48,108** | **22,155** | **275,384** |
| Interest | **3,759** | **1,091** | **344** | **5,194** |
| | **208,880** | **49,199** | **22,499** | **280,578** |
| 31 December 2020 | | | | |
| Principal | 152,754 | 69,016 | 71,907 | 293,677 |
| Interest | 2,441 | 2,321 | 3,554 | 8,316 |
| | 155,195 | 71,337 | 75,461 | 301,993 |

### (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.

| | **2021**<br>**HK$'000** | 2020<br>HK$'000 |
|---|---|---|
| Borrowings *(note 30)* | **275,384** | 293,677 |
| Lease liabilities *(note 33)* | **42,366** | 43,668 |
| Net debt | **317,750** | 337,345 |
| Equity | **902,121** | 788,413 |
| Gearing ratio (%) | **35.2** | 42.8 |

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

## (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 2021 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).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

See note 16 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:

| | 2021 | | | |
|---|---|---|---|---|
| | **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 equity investment in the USA | **—** | **—** | **9,122** | **9,122** |
| — Unlisted equity investment in British Virgin Islands | **—** | **—** | **21,787** | **21,787** |
| — Unlisted convertible loan | **—** | **—** | **9,444** | **9,444** |
| — Listed securities in Hong Kong | **5,845** | **—** | **—** | **5,845** |
| Total financial assets | **5,845** | **—** | **40,353** | **46,198** |

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

| | 2020 | | | |
|---|---|---|---|---|
| | 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 equity investment in the USA | — | — | 8,943 | 8,943 |
| — Listed securities in Hong Kong | 6,556 | — | — | 6,556 |
| Total financial assets | 6,556 | — | 8,943 | 15,499 |

There were no transfers of financial assets between the fair value hierarchy classifications during the year (2020: same).

There were no other changes in valuation techniques during the year (2020: same).

***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 end of the reporting period. 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 investments.

***(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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

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 end of the reporting period, 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 end of the reporting period.

***(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 2021:

| | Financial asset at fair value through profit or loss | | | |
|---|---|---|---|---|
| | **Unlisted equity investment in the USA HK$'000** | **Unlisted equity investment in British Virgin Islands HK$'000** | **Unlisted convertible loan HK$'000** | **Total HK$'000** |
| **As at 1 January 2021** | **8,943** | **—** | **—** | **8,943** |
| Addition | **—** | **17,855** | **7,780** | **25,635** |
| Fair value gains on revaluation recognised in the consolidated statement of profit or loss | **179** | **3,932** | **1,664** | **5,775** |
| **As at 31 December 2021** | **9,122** | **21,787** | **9,444** | **40,353** |
| Unrealised gain recognised in the consolidated statement of profit or loss attributable to balances held at the end of reporting period | **179** | **3,932** | **1,664** | **5,775** |

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

The following table presents the changes in level 3 financial instruments for the year ended 31 December 2020:

| | 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 2020** | 7,513 | 16,117 | 23,630 |
| Disposal | — | (15,560) | (15,560) |
| Loss on disposal recognised in the consolidated statement of profit or loss | — | (557) | (557) |
| Fair value gains on revaluation recognised in the consolidated statement of profit or loss | 1,430 | — | 1,430 |
| **As at 31 December 2020** | 8,943 | — | 8,943 |
| Unrealised gain recognised in the consolidated statement of profit or loss attributable to balances held at the end of reporting period | 1,430 | — | 1,430 |

***Unlisted equity investment in the USA***

The unlisted equity investment in the USA classified as financial asset at FVPL represents an investment in a 18% equity interest of an unlisted fund 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. The Group determines the net asset value of the fund is approximates the fair value of the unlisted equity fund in the USA.

***Unlisted equity investment in British Virgin Islands***

The unlisted equity investment in British Virgin Islands classified as financial asset at FVPL represents an investment in 2.3% equity interest of an unlisted fund in British Virgin Islands, which is not traded in an active market. The Group determines the net asset value of the fund is approximates the fair value of the unlisted equity fund in British Virgin Islands.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

***Unlisted convertible loan***

The unlisted convertible loan classified as financial asset at FVPL represents an investment in a convertible loan issued by an unlisted company in Cayman Islands, which is not traded in an active market. The key unobservable assumption used in the valuation of the unlisted convertible loan as at 13 August 2021 (date of investment) and 31 December 2021 are:

| **Valuation technique** | **Unobservable input** | **As at 13 August 2021** | **As at 31 December 2021** |
|---|---|---|---|
| Discounted cash flow model | Credit spread | 17.17% | 13.45% |
| | Risk free rate | 0.06%-0.10% | 0.04%-0.23% |

If the credit spread and the risk free rate shifted upward by 3% and 2% respectively, the impact on the profit or loss would be HK$63,000 lower/higher and HK$65,000 lower/higher respectively. The higher the credit spread and the risk free rate, the lower the fair value.

The valuations of the unlisted equity investment in British Virgin Islands and the unlisted convertible bond are based on the valuations carried out by independent professionally qualified valuer 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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

## 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 may have a financial impact on the Group and 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 at least 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.

Estimating the value in use requires an estimate of the expected future cash flows from the CGU 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 the net realisable value of inventories, 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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

### (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 and interest income on financial assets at FVPL, loss on disposal of financial assets at FVPL, fair value gains on investment properties, share-based payment expenses, unallocated corporate income and expenses, finance income and costs, share of profit from an investment accounted for using equity method 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:

(i) Manufacturing Business: The Group manufactures headwear products for sale to its Trading 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, apparel, 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. The Group also engages in e-commerce business which mainly focus on the USA market.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

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.

| | Manufacturing | | Trading | | Total | |
|---|---|---|---|---|---|---|
| | **2021** | 2020 | **2021** | 2020 | **2021** | 2020 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Revenue from external customers | **844,256** | 533,728 | **755,999** | 514,278 | **1,600,255** | 1,048,006 |
| Inter-segment revenue | **84,276** | 58,892 | **—** | — | **84,276** | 58,892 |
| Reportable segment revenue | **928,532** | 592,620 | **755,999** | 514,278 | **1,684,531** | 1,106,898 |
| Reportable segment profit/(loss) | **174,981** | 87,625 | **(11,617)** | (21,984) | **163,364** | 65,641 |
| Financial assets at fair value through profit or loss *(note 24)* | | | | | | |
| — fair value gains | | | | | **5,064** | 711 |
| — interest income | | | | | **—** | 207 |
| Loss on disposal of financial assets at fair value through profit or loss | | | | | **—** | (2,806) |
| Fair value gains on investment properties | | | | | **6,753** | 758 |
| Share-based payment expenses | | | | | **(447)** | (968) |
| Unallocated corporate income | | | | | **19,572** | 12,959 |
| Unallocated corporate expenses | | | | | **(13,074)** | (12,653) |
| Profit from operations | | | | | **181,232** | 63,849 |
| Finance income | | | | | **371** | 637 |
| Finance costs | | | | | **(7,691)** | (11,137) |
| Share of (loss)/profit from an investment accounted for using equity method | | | | | **(799)** | 495 |
| Income tax expense | | | | | **(35,902)** | (3,806) |
| Profit for the year | | | | | **137,211** | 50,038 |
| Depreciation of property, plant and equipment | **28,641** | 27,113 | **9,660** | 10,223 | **38,301** | 37,336 |
| Depreciation of right-of-use assets | **12,631** | 10,771 | **7,257** | 6,269 | **19,888** | 17,040 |
| Amortisation of other intangible assets | **—** | — | **23,066** | 20,520 | **23,066** | 20,520 |

| | Manufacturing | | Trading | | Total | |
|---|---|---|---|---|---|---|
| | **2021** | 2020 | **2021** | 2020 | **2021** | 2020 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Reportable segment assets | **658,796** | 563,563 | **704,810** | 580,889 | **1,363,606** | 1,144,452 |
| Investment properties | | | | | **51,928** | 44,523 |
| Deferred income tax assets | | | | | **5,164** | 3,500 |
| Investment accounted for using equity method | | | | | **396** | 1,195 |
| Financial assets at fair value through profit or loss | | | | | **46,198** | 15,499 |
| Tax recoverable | | | | | **3,324** | 3,477 |
| Cash and cash equivalents | | | | | **198,890** | 219,461 |
| Other corporate assets | | | | | **14** | 1,391 |
| Total assets | | | | | **1,669,520** | 1,433,498 |
| Reportable segment liabilities | **279,985** | 192,891 | **167,378** | 134,864 | **447,363** | 327,755 |
| Deferred income tax liabilities | | | | | **6,324** | 4,563 |
| Current income tax liabilities | | | | | **29,016** | 11,591 |
| Borrowings | | | | | **275,384** | 293,677 |
| Other corporate liabilities | | | | | **9,312** | 7,499 |
| Total liabilities | | | | | **767,399** | 645,085 |
| Capital expenditure incurred during the year | **63,549** | 25,715 | **21,558** | 53,909 | **85,107** | 79,624 |

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

Segment assets exclude investment properties, deferred income tax assets, investment accounted for using equity method, financial assets at fair value through profit or loss, tax recoverable 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.

### (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)).

| | **2021**<br>**HK$'000** | 2020<br>HK$'000 |
|---|---|---|
| USA | **1,423,456** | 924,714 |
| Europe | **118,676** | 68,359 |
| PRC | **23,139** | 10,975 |
| Hong Kong | **7,135** | 7,804 |
| Others | **27,849** | 36,154 |
| Total | **1,600,255** | 1,048,006 |

During the year ended 31 December 2021, revenue derived from the Group's largest customer (who is a group of affiliated companies of a shareholder) amounted to HK$576,140,000 or 36.0% of the Group's revenue from continuing operations (2020: HK$360,083,000 or 34.4%). These revenues were attributable to the Manufacturing Business.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

### (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:

| | **2021** | 2020 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| USA | **248,242** | 262,000 |
| Bangladesh | **209,797** | 196,569 |
| PRC | **50,656** | 47,581 |
| Europe | **6,981** | 7,193 |
| Hong Kong | **16,916** | 6,295 |
| | **532,592** | 519,638 |
| Other intangible assets | **29,608** | 32,774 |
| Deferred income tax assets | **5,164** | 3,500 |
| Financial assets at fair value through profit or loss | **30,909** | 8,943 |
| | **598,273** | 564,855 |

## 6. OTHER INCOME

| | **2021** | 2020 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Rental income | **19,665** | 12,896 |
| Sundry income | **881** | 1,323 |
| | **20,546** | 14,219 |

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

## 7. OTHER GAINS — NET

| | **2021** | 2020 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Financial assets at fair value through profit or loss | | |
| — fair value gains | **5,064** | 711 |
| — interest income of unlisted convertible bonds in Hong Kong | **—** | 207 |
| Loss on disposal of financial assets at fair value through profit or loss | **—** | (2,806) |
| Net foreign exchange (loss)/gain | **(621)** | 530 |
| Fair value gains on investment properties *(note 16)* | **6,753** | 758 |
| Loss on disposal of property, plant and equipment | **(78)** | (207) |
| Gain on deregistration of a subsidiary *(note 17)* | **—** | 1,553 |
| Gain on lease termination | **33** | — |
| | **11,151** | 746 |

## 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:

| | **2021** | 2020 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Employee benefit expense *(note 10)* | **340,233** | 251,755 |
| Cost of inventories *(note 21)* | **749,205** | 477,489 |
| Auditors' remuneration | | |
| — Audit services | **4,267** | 4,204 |
| — Non-audit services | **336** | 159 |
| Licence fees | **26,589** | 8,135 |
| Depreciation of property, plant and equipment *(note 15)* | **38,301** | 37,336 |
| Depreciation of right-of-use assets *(note 33)* | **19,888** | 17,040 |
| Amortisation of other intangible assets *(note 19)* | **23,066** | 20,520 |
| Short-term lease expenses *(note 33)* | **685** | 522 |
| Net provision for inventories *(note 21)* | **19,057** | 1,853 |
| Claim expenses | **1,874** | 2,129 |
| Advertising expenses | **18,780** | 12,568 |
| Delivery expenses | **52,571** | 32,092 |
| Others | **152,554** | 125,034 |
| Total | **1,447,406** | 990,836 |

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

## 9. FINANCE COSTS — NET

| | **2021** **HK$'000** | 2020 HK$'000 |
|---|---|---|
| Interest on bank loans and other borrowings | **(4,659)** | (8,224) |
| Interest on lease liabilities *(note 33)* | **(1,230)** | (1,226) |
| Interest accretion on licence fee payables | **(1,802)** | (1,687) |
| Interest costs | **(7,691)** | (11,137) |
| Interest income | **371** | 637 |
| Finance costs — net | **(7,320)** | (10,500) |

## 10. EMPLOYEE BENEFIT EXPENSE

| | **2021** **HK$'000** | 2020 HK$'000 |
|---|---|---|
| Employee remuneration (including directors' emoluments and retirement benefit costs) | | |
| — Salaries and allowances | **334,305** | 243,258 |
| — Contribution to retirement scheme | **5,481** | 7,529 |
| — Share-based payment expenses | **447** | 968 |
| | **340,233** | 251,755 |

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

### Five highest paid individuals

The five highest paid individuals included two (2020: two) directors whose emoluments are reflected in the analysis shown in note 37. The details of the emoluments of the remaining three (2020: three) highest paid individuals are as follows:

| | **2021** | 2020 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Basic salaries, housing allowances, other allowances and benefits in kind | **9,373** | 6,726 |
| Discretionary bonuses | **125** | 3,055 |
| Contributions to retirement scheme | **18** | 18 |
| | **9,516** | 9,799 |

The emoluments of these three (2020: three) employees are within the following bands:

| | **2021** | 2020 |
|---|---|---|
| HK$2,000,001 — HK$2,500,000 | **—** | — |
| HK$2,500,001 — HK$3,000,000 | **1** | 2 |
| HK$3,000,001 — HK$3,500,000 | **1** | — |
| HK$3,500,001 — HK$4,000,000 | **1** | — |
| HK$4,000,001 — HK$4,500,000 | **—** | — |
| HK$4,500,001 — HK$5,000,000 | **—** | 1 |

## 11. INVESTMENT ACCOUNTED FOR USING EQUITY METHOD

The Group has a 50% interest in a joint arrangement, namely, Treasureland Group Limited which was set up as a partnership together with Tranquil Grand Limited, an independent third party, to distribute apparel and accessories to wholesale customers in the USA. The capital injection amounted to HK$700,000.

The principal place of business of the joint operation is in the USA.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

Set out below is the joint venture of the Group as at 31 December 2021 and 2020. The entity listed below has share capital consisting solely of ordinary shares, which are held directly by the Group. The country of incorporation or registration is also its principal place of business, and the proportion of ownership interest is the same as the proportion of voting rights held.

| Name of entity | Place of business/ country of incorporation | % of ownership interest | | Nature of relationship | Measurement method | Carrying amount | |
|---|---|---|---|---|---|---|---|
| | | **2021** | 2020 | | | **2021** | 2020 |
| | | **%** | % | | | **HK$'000** | HK$'000 |
| Treasureland Group Limited | USA | **50** | 50 | Joint venture | Equity method | **396** | 1,195 |

Treasureland Group Limited distributes apparel and accessories to wholesale customers in the USA market. It is a strategic investment for the Group as an expansion of e-commerce business. It is a private entity which no quoted price is available.

This investment is immaterial to the Group and has been accounted for using equity method of accounting.

| | **2021** | 2020 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Carrying amount of the joint venture | **396** | 1,195 |
| Amount of the Group's share of (loss)/profit from operation | **(799)** | 495 |
| Total comprehensive (loss)/income | **(799)** | 495 |

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

## 12. INCOME TAX EXPENSE

| | **2021** | 2020 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Current year | | |
| — Hong Kong profits tax | **10,320** | — |
| — Overseas tax | **25,551** | 4,666 |
| | **35,871** | 4,666 |
| Deferred income tax *(note 20)* | **31** | (860) |
| | **35,902** | 3,806 |

Hong Kong profits tax has been provided at the rate of 16.5% (2020: 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. A subsidiary of the Group received queries from the Hong Kong Inland Revenue Department ("HKIRD") in relation to its offshore claim for the previous years. The Directors have consulted with the tax advisors and a Hong Kong Profits Tax provision of HK$5.1 million, together with other relevant potential provision, have been made by the subsidiary.

The abolishment of the Macau Offshore Law has been approved by the Macau Legislative Assembly and became effective on 28 December 2018. All offshore operating licenses of Macau Offshore companies (MOCs) became invalid on 1 January 2021. As such, the Group's subsidiary with such license is subject to Macau Complementary Tax of 12% in 2021.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

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:

| | **2021** | 2020 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Profit before income tax | **173,113** | 53,844 |
| Calculated at a taxation rate of 16.5% (2020: 16.5%) | **28,564** | 8,884 |
| Effect of different taxation rates in other countries | **(5,769)** | (9,298) |
| Expenses not deductible for tax purposes | **20,759** | 8,652 |
| Income not subject to tax | **(9,881)** | (4,489) |
| Net operating loss carry back *(note)* | **—** | (1,188) |
| Tax losses for which no deferred income tax assets was recognised | **2,692** | 1,245 |
| Utilisation of previously unrecognised tax losses | **(463)** | — |
| Income tax expense | **35,902** | 3,806 |

*Note:*

AQ, a subsidiary of the Group, operates in the USA. In response to the COVID-19 pandemic, the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") of the USA was enacted on 27 March 2020, which provides various federal tax relief measures. Under the CARES Act, net operating loss generated in 2018, 2019, and 2020 can be carried back five years to offset prior year taxable income. AQ reported taxable income and made US federal tax payments in tax years 2015–2017. As such, the Group carried back its 2020 taxable loss to 2015–2017 and claim for tax refund of HK$3,477,000, this was recognised as tax recoverable in the consolidated balance sheet as at 31 December 2020.

## 13. 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.

| | **2021** | 2020 |
|---|---|---|
| Profit attributable to owners of the Company *(HK$'000)* | **128,076** | 45,895 |
| Weighted average number of ordinary shares in issue | **405,323,284** | 405,323,284 |
| Basic earnings per share *(HK cents)* | **31.5985** | 11.3231 |

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

### (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.

| | **2021** | 2020 |
|---|---|---|
| Profit attributable to owners of the Company *(HK$'000)* | **128,076** | 45,895 |
| Weighted average number of ordinary shares in issue | **405,323,284** | 405,323,284 |
| Adjustment for share options | **335,554** | 7,156 |
| Weighted average number of ordinary shares for diluted earnings per share | **405,658,838** | 405,330,440 |
| Diluted earnings per share *(HK cents)* | **31.5723** | 11.3229 |

## 14. DIVIDENDS

A final dividend and special dividend in respect of the year ended 31 December 2021 of 4 HK cents and 2 HK cents respectively per share, amounting to a total dividend of HK$16,213,000 and 8,106,000 respectively. Bonus issue are to be proposed at the upcoming annual general meeting and will be made on the basis of one share of HK$0.1 each credited as fully paid for every twenty existing shares. These financial statements do not reflect these dividend payable and bonus issue. The amount of proposed final dividend, special dividend and bonus issue for 2021 were based on 405,323,284 (2020: 405,323,284) shares in issue as at 31 December 2021.

| | **2021** | 2020 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Interim dividend of 3 HK cents (2020: 2 HK cents) per share | **12,160** | 8,106 |
| Proposed final dividend of 4 HK cents (2020: 3 HK cents) per share | **16,213** | 12,160 |
| Proposed special dividend of 2 HK cents (2020: nil) per share | **8,106** | – |
| | **36,479** | 20,266 |

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

## 15. 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 2020** | | | | | | | |
| 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 |
| **Year ended 31 December 2020** | | | | | | | |
| Net book amount at 1 January 2020 | 93,721 | 237,381 | 23,936 | 1,972 | 67,423 | 1,047 | 425,480 |
| Additions | — | 2,117 | 7,775 | 4,403 | 5,216 | — | 19,511 |
| Transfer | (93,721) | 93,721 | — | — | — | — | — |
| Disposals | — | — | (313) | — | (317) | — | (630) |
| Depreciation | — | (17,566) | (6,915) | (1,689) | (10,754) | (412) | (37,336) |
| Exchange differences | — | 195 | 22 | 1 | 481 | 13 | 712 |
| **Closing net book amount** | — | 315,848 | 24,505 | 4,687 | 62,049 | 648 | 407,737 |
| **At 31 December 2020** | | | | | | | |
| Cost | — | 363,885 | 79,406 | 33,783 | 275,119 | 10,448 | 762,641 |
| Accumulated depreciation and impairment | — | (48,037) | (54,901) | (29,096) | (213,070) | (9,800) | (354,904) |
| **Net book amount** | — | 315,848 | 24,505 | 4,687 | 62,049 | 648 | 407,737 |
| **Year ended 31 December 2021** | | | | | | | |
| Net book amount at 1 January 2021 | — | 315,848 | 24,505 | 4,687 | 62,049 | 648 | 407,737 |
| Additions | — | — | 5,838 | 6,249 | 34,204 | 321 | 46,612 |
| Depreciation | — | (17,616) | (7,295) | (1,508) | (11,633) | (249) | (38,301) |
| Disposals | — | — | — | — | — | (164) | (164) |
| Exchange differences | — | — | 10 | — | 130 | 5 | 145 |
| **Closing net book amount** | — | 298,232 | 23,058 | 9,428 | 84,750 | 561 | 416,029 |
| **At 31 December 2021** | | | | | | | |
| Cost | — | 363,885 | 67,937 | 34,503 | 304,673 | 10,605 | 781,603 |
| Accumulated depreciation and impairment | — | (65,653) | (44,879) | (25,075) | (219,923) | (10,044) | (365,574) |
| **Net book amount** | — | 298,232 | 23,058 | 9,428 | 84,750 | 561 | 416,029 |

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

Depreciation expenses have been charged as below:

| | **2021** | 2020 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Cost of sales | **29,173** | 26,416 |
| Selling and distribution costs | **—** | 24 |
| Administration expenses | **9,128** | 10,896 |
| **Total depreciation expenses** | **38,301** | 37,336 |

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

## 16. INVESTMENT PROPERTIES

| | **2021** | 2020 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| At fair value | | |
| Opening balance at 1 January | **44,523** | 42,375 |
| Net gains from fair value adjustment | **6,753** | 758 |
| Exchange differences | **652** | 1,390 |
| Closing balance at 31 December | **51,928** | 44,523 |

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

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

| | **2021** | 2020 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Rental income | **4,030** | 3,907 |
| Direct operating expenses arising from investment property that generated rental income | **(1,488)** | (1,016) |

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

At 31 December 2021 and 2020, the future aggregate minimum rentals receivables under non-cancellable operating leases are as follows:

| | **2021** | 2020 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| No later than 1 year | **5,715** | 4,194 |
| Later than 1 year and not later than 5 years | **11,122** | 154 |
| | **16,837** | 4,348 |

The valuation of the investment properties is based on the valuation carried out by independent professionally qualified valuer 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 (2020: same).

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

| **Description** | **Quoted prices in active markets for identical assets (Level 1) HK$'000** | **Fair value measurements at 31 December 2021 using Significant other observable inputs (Level 2) HK$'000** | **Significant unobservable inputs (Level 3) HK$'000** | **Total HK$'000** |
|---|---|---|---|---|
| Investment properties: | | | | |
| Factory premises in the PRC | **—** | **—** | **23,049** | **23,049** |
| Residential building units in the PRC | **—** | **6,317** | **—** | **6,317** |
| Residential building units in the USA | **—** | **22,562** | **—** | **22,562** |
| | **—** | **28,879** | **23,049** | **51,928** |

| Description | Quoted prices in active markets for identical assets (Level 1) HK$'000 | Fair value measurements at 31 December 2020 using Significant other observable inputs (Level 2) HK$'000 | Significant unobservable inputs (Level 3) HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| Investment properties: | | | | |
| Factory premises in the PRC | — | — | 18,929 | 18,929 |
| Residential building units in the PRC | — | 5,833 | — | 5,833 |
| Residential building units in the USA | — | 19,761 | — | 19,761 |
| | — | 25,594 | 18,929 | 44,523 |

The Group's finance department reviews the valuations performed by the independent valuers for financial reporting purposes. This team reports directly to the CFO 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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

The valuation of the factory premises 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-21 (HK$'000) | Valuation technique | Unobservable inputs | Range of unobservable inputs (probability-weighted average) | Relationship of unobservable inputs to fair value |
|---|---|---|---|---|---|
| Factory premises in the PRC | 23,049 (RMB17,900,000) | Income approach | Term rent | RMB16–RMB19 per month per square metre | The higher the rent, the higher the fair value |
| | | | Market rent | RMB19 per month per square metre | The higher the rent, the higher the fair value |
| | | | Term yield | 8% | 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-20 (HK$'000) | Valuation technique | Unobservable inputs | Range of unobservable inputs (probability-weighted average) | Relationship of unobservable inputs to fair value |
|---|---|---|---|---|---|
| Factory premises in the PRC | 18,929 (RMB15,900,000) | Income approach | Term rent | RMB14–RMB17 per month per square metre | The higher the rent, the higher the fair value |
| | | | Market rent | RMB18 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 |

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

## 17. SUBSIDIARIES

The following is a list of the principal subsidiaries at 31 December 2021 and 2020:

| 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 2021 | 2020 | Principal activities |
|---|---|---|---|---|---|---|
| Aquarius Ltd | USA | USA | US$361,630 common | **100%** | 100% | 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 Limited | The British Virgin Island | USA | US$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 |
| 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 |
| Medone LLC | USA | USA | US$1 common | **100%** | 100% | E-commerce business |
| New Wintax Commercial Company Limtied | Macau | Macau | MOP$100,000 ordinary | **100%** | – | Provision of research and development, quality control and administrative services |
| 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 |
| SA Property Investment LLC | USA | USA | US$1 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 |

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

| 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 2021 | 2020 | Principal activities |
|---|---|---|---|---|---|---|
| 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 |
| 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 Sky Trade Limited | Macau | Macau | MOP$100,000 ordinary | **100%** | 100% | Trading of headwear |
| Wintax Trading Limited | Macau | Macau | MOP$100,000 ordinary | **100%** | 100% | Trading of headwear and provision of digitizing services |

*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.

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

During the year ended 31 December 2020, the Group deregistrated a subsidiary, Beijing Diecui Souvenirs Limited. A gain in connection with the deregistration of HK$1,553,000 was recognised in the consolidated statement of profit or loss, which mainly arise from release of exchange reserve of the same amount charged to the consolidated statement of profit or loss.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

## 18. GOODWILL

| | 2021<br>HK$'000 | 2020<br>HK$'000 |
|---|---|---|
| Opening and Closing net book amount | **22,511** | 22,511 |
| Cost | **33,821** | 33,821 |
| Accumulated impairment | **(11,310)** | (11,310) |
| Net book amount | **22,511** | 22,511 |

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

| | 2021<br>HK$'000 | 2020<br>HK$'000 |
|---|---|---|
| Trading Business — H3 | **22,488** | 22,488 |
| Trading Business — AQ | **23** | 23 |
| | **22,511** | 22,511 |

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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

The key assumptions used are as follows:

| | 2021 | 2020 |
|---|---|---|
| **Trading Business — H3** | | |
| Sales growth rate | **10%** | 15% |
| Gross profit margin | **26%** | 27% |
| 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 2021 (2020: same). Management believes that any reasonably foreseeable change in any of the above key assumptions would not result in impairment of goodwill.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

## 19. OTHER INTANGIBLE ASSETS

| | Trademark | Licensing rights | Acquired customer relationship | Total |
|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **At 1 January 2020** | | | | |
| 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 |
| **Year ended 31 December 2020** | | | | |
| Opening net book amount | — | 23,637 | 3,901 | 27,538 |
| Additions | — | 25,707 | — | 25,707 |
| Amortisation | — | (19,002) | (1,518) | (20,520) |
| Exchange differences | — | 49 | — | 49 |
| **Closing net book amount** | — | 30,391 | 2,383 | 32,774 |
| **At 31 December 2020** | | | | |
| Cost | 6,495 | 65,603 | 15,130 | 87,228 |
| Accumulated amortisation | (6,495) | (35,212) | (12,747) | (54,454) |
| **Net book amount** | — | 30,391 | 2,383 | 32,774 |
| **Year ended 31 December 2021** | | | | |
| Opening net book amount | — | 30,391 | 2,383 | 32,774 |
| Additions | — | 19,900 | — | 19,900 |
| Amortisation | — | (21,548) | (1,518) | (23,066) |
| **Closing net book amount** | — | 28,743 | 865 | 29,608 |
| **At 31 December 2021** | | | | |
| Cost | 6,495 | 70,548 | 15,130 | 92,173 |
| Accumulated amortisation | (6,495) | (41,805) | (14,265) | (62,565) |
| **Closing net book amount** | — | 28,743 | 865 | 29,608 |

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

## 20. DEFERRED INCOME TAXATION

At the end of the reporting period, components of the deferred income tax assets and liabilities of the Group provided are as follows:

| | Assets | | Liabilities | |
|---|---|---|---|---|
| | **2021** | 2020 | **2021** | 2020 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Depreciation allowances | **861** | 902 | **—** | — |
| Net revaluation surplus on investment properties | **—** | — | **(6,324)** | (4,563) |
| Right-of-use assets | **—** | — | **(7,830)** | (8,739) |
| Lease liabilities | **8,327** | 9,081 | **—** | — |
| Others | **3,806** | 2,256 | **—** | — |
| Deferred income tax assets/(liabilities), gross | **12,994** | 12,239 | **(14,154)** | (13,302) |
| Set-off deferred tax (liabilities)/assets | **(7,830)** | (8,739) | **7,830** | 8,739 |
| Deferred income tax assets/(liabilities), net | **5,164** | 3,500 | **(6,324)** | (4,563) |

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

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 2020 | 322 | 5,240 | 1,930 | 7,492 | (4,221) | (5,088) | (9,309) | (1,817) |
| Addition of right-of-use assets and lease liabilities | — | 6,481 | — | 6,481 | — | (6,481) | (6,481) | — |
| Credit/(charged) to the consolidated statement of profit or loss | 227 | (2,636) | 628 | (1,781) | (189) | 2,830 | 2,641 | 860 |
| Exchange differences | — | 7 | 40 | 47 | (153) | — | (153) | (106) |
| At 31 December 2020 | 549 | 9,092 | 2,598 | 12,239 | (4,563) | (8,739) | (13,302) | (1,063) |
| Set-off deferred tax (liabilities)/assets | — | (8,739) | — | (8,739) | — | 8,739 | 8,739 | — |
| At 31 December 2020, net | 549 | 353 | 2,598 | 3,500 | (4,563) | — | (4,563) | (1,063) |
| At 1 January 2021 | 549 | 9,092 | 2,598 | 12,239 | (4,563) | (8,739) | (13,302) | (1,063) |
| Additions of right-of-use assets and lease liabilities | — | 2,742 | — | 2,742 | — | (2,742) | (2,742) | — |
| Credit/(charged) to the consolidated statement of profit or loss | 312 | (3,512) | 1,208 | (1,992) | (1,690) | 3,651 | 1,961 | (31) |
| Exchange differences | — | 5 | — | 5 | (71) | — | (71) | (66) |
| At 31 December 2021 | 861 | 8,327 | 3,806 | 12,994 | (6,324) | (7,830) | (14,154) | (1,160) |
| Set-off deferred tax (liabilities)/assets | — | (7,830) | — | (7,830) | — | 7,830 | 7,830 | — |
| At 31 December 2021, net | 861 | 497 | 3,806 | 5,164 | (6,324) | — | (6,324) | (1,160) |

The Group did not recognise deferred income tax assets in respect of cumulative tax losses of HK$146,755,000 (2020: HK$134,016,000) 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$106,017,000 (2020: HK$93,582,000) which will expire in 5 years to 20 years (2020: 5 years to 20 years).

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

## 21. INVENTORIES

| | 2021<br>HK$'000 | 2020<br>HK$'000 |
|---|---|---|
| Raw materials | **156,978** | 93,845 |
| Work-in-progress | **45,545** | 20,850 |
| Finished goods | **249,381** | 162,135 |
| | **451,904** | 276,830 |

The cost of inventories recognised as expense and included in cost of sales amounted to HK$749,205,000 (2020: HK$477,489,000).

Provision for inventories of HK$19,057,000 has been recognised to cost of sales (2020: HK$1,853,000).

The gross amount of inventories carried at net realisable value amounted to approximately HK$35,214,000 (2020: HK$31,711,000) as at 31 December 2021. Full provision has been made with regards to these balances.

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

| | 2021<br>HK$'000 | 2020<br>HK$'000 |
|---|---|---|
| Trade receivables | **372,127** | 343,202 |
| Less: provision for impairment losses | **(11,196)** | (7,882) |
| Trade receivables, net | **360,931** | 335,320 |
| Other financial assets at amortised cost | **10,181** | 9,743 |
| | **371,112** | 345,063 |
| Less: non-current portion of other financial assets at amortised cost | **(1,561)** | (1,489) |
| Current portion | **369,551** | 343,574 |

The carrying amounts approximate their fair values.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

**(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:

| | 2021 HK$'000 | 2020 HK$'000 |
|---|---|---|
| 0 – 30 days | **130,400** | 117,463 |
| 31 – 60 days | **126,305** | 78,436 |
| 61 – 90 days | **57,355** | 52,138 |
| 91 – 120 days | **27,839** | 27,068 |
| Over 121 days | **30,228** | 68,097 |
| | **372,127** | 343,202 |

**(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 2021, based on management's assessment, the Group recorded impairment loss for trade receivables of HK$3,314,000 (2020: HK$8,286,000) in the consolidated statement of profit or loss.

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

| | 2021 HK$'000 | 2020 HK$'000 |
|---|---|---|
| At 1 January | **7,882** | 5,288 |
| Net provision for impairment loss for the year | **3,314** | 8,286 |
| Uncollectible amounts written off | **—** | (5,692) |
| At 31 December | **11,196** | 7,882 |

Trade receivables of HK$5,692,000, which are still subject to enforcement activity were determined as uncollectible and were written off against trade receivables during the year ended 31 December 2020.

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

***Other financial assets at amortised cost***

As at 31 December 2021, the receivables from an investment accounted for using equity method of HK$3,190,000 is unsecured, non-interest bearing and repayable on demand. This amount was included in other financial assets at amortised cost.

As at 31 December 2021, the impact of expected loss is immaterial to the Group (2020: same).

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

## 23. OTHER CURRENT ASSETS

| | 2021 HK$'000 | 2020 HK$'000 |
|---|---|---|
| Prepayments | **8,657** | 8,238 |
| Deposits and others | **23,632** | 10,507 |
| | **32,289** | 18,745 |

Deposits and others mainly represent trade deposits to suppliers.

## 24. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

### Financial assets at fair value through profit or loss

As at 31 December 2021, the Group's financial assets at FVPL represent investment in listed securities, unlisted equity investments and unlisted convertible loan (2020: listed securities and unlisted equity investment). The investments in listed securities and unlisted convertible loan are mandatory measured at FVPL, while the Group does not elect to classify the unlisted equity investments as financial asset at FVOCI. The financial assets measured at FVPL are with the following details:

| | 2021 HK$'000 | 2020 HK$'000 |
|---|---|---|
| At 1 January | **15,499** | 38,861 |
| Additions | **25,635** | — |
| Disposals | **—** | (24,073) |
| Fair value gains on revaluation recognised in consolidated statement of profit or loss | **5,064** | 711 |
| | **46,198** | 15,499 |
| Non-current | | |
| Unlisted equity investment in the USA | **9,122** | 8,943 |
| Unlisted equity investment in British Virgin Islands | **21,787** | — |
| | **30,909** | 8,943 |
| Current | | |
| Unlisted convertible loan | **9,444** | — |
| Listed securities in Hong Kong | **5,845** | 6,556 |
| | **15,289** | 6,556 |
| | **46,198** | 15,499 |

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

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

| | **2021** | 2020 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| US$ | **40,353** | 8,943 |
| HK$ | **5,845** | 6,556 |
| | **46,198** | 15,499 |

## 25. CASH AND CASH EQUIVALENTS

| | **2021** | 2020 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Cash at bank and on hand | **198,890** | 219,461 |

Funds of the Group amounting HK$57,381,000 (2020: HK$57,139,000) and HK$11,654,000 (2020: HK$7,623,000) 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.

## 26. SHARE CAPITAL

| | **Number of shares of HK$0.10 each** | **HK$'000** |
|---|---|---|
| **Authorised:** | | |
| At 1 January 2020, 31 December 2020, 1 January 2021 and 31 December 2021 | 1,000,000,000 | 100,000 |
| **Issued and fully paid:** | | |
| At 1 January 2020, 31 December 2020, 1 January 2021 and 31 December 2021 | 405,323,284 | 40,532 |

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

## 27. EQUITY SETTLED SHARE-BASED PAYMENT TRANSACTIONS

On 29 December 2011, a share option scheme (the "Share Option Scheme") was adopted whereby the Board of Directors, may, at their absolute discretion, grant options to any eligible employee, including directors of the Company 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 Share Option Scheme and any other share option schemes of the Group may not in aggregate exceed 39,858,328, being 10% of the shares in issue of the Company as at 29 December 2011, the date of adoption of the Share Option Scheme. Upon refreshing of the scheme mandate limit, the Company may grant options entitling holders thereof to subscribe for up to a maximum of 40,532,328 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.

### Movements in share options

| | **2021** | | 2020 | |
|---|---|---|---|---|
| | **Number of share options** | **Weighted average exercise price HK$** | Number of share options | Weighted average exercise price HK$ |
| At 1 January | **31,400,000** | **1.365** | 32,300,000 | 1.353 |
| Lapsed | **(1,000,000)** | **0.800** | (900,000) | 0.920 |
| At 31 December | **30,400,000** | **1.384** | 31,400,000 | 1.365 |
| Options vested at 31 December | **26,526,000** | **1.362** | 23,652,000 | 1.310 |

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

At the end of the reporting period, the options have a weighted average contractual terms of 4.4 years (2020: 5.4 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$** | **2021 '000** | 2020 '000 |
| 29 December 2021 | **0.800** | **—** | 1,000 |
| 14 July 2025 | **1.120** | **11,030** | 11,030 |
| 12 April 2027 | **1.534** | **19,370** | 19,370 |
| | | **30,400** | 31,400 |

Out of the total 30,400,000 (2020: 31,400,000) outstanding options, 26,526,000 options (2020: 23,652,000) are exercisable. No share options was exercised during the year ended 31 December 2021 (2020: same).

Under this share option scheme, HK$447,000 (2020: HK$968,000) of share-based payment expense has been included in the consolidated statement of profit or loss for 2021 and a corresponding amount has been credited to share based compensation reserve.

## 28. TRADE AND OTHER PAYABLES

| | **2021 HK$'000** | 2020 HK$'000 |
|---|---|---|
| Trade payables | **219,760** | 140,232 |
| Accrued charges and other payables | **194,012** | 150,817 |
| | **413,772** | 291,049 |
| Less: other non-current payables | **(20,587)** | (20,862) |
| Current portion | **393,185** | 270,187 |

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

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

| | **2021** | 2020 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| 0 – 30 days | **109,699** | 51,593 |
| 31 – 60 days | **45,643** | 43,910 |
| 61 – 90 days | **25,795** | 19,394 |
| Over 90 days | **38,623** | 25,335 |
| | **219,760** | 140,232 |

Contract liabilities of HK$1,238,000 (2020: HK$471,000) 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 2021 that was included in the contract liability at the beginning of the year amounted to HK$471,000 (2020: HK$165,000).

As at 31 December 2020, the payable to an investment accounted for using equity method of HK$1,487,000 is unsecured, non-interest bearing and repayable on demand. This amount was included in the accrued charges and other payables.

## 29. AMOUNT DUE TO A NON-CONTROLLING INTEREST

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

## 30. BORROWINGS

| | **2021** | 2020 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Current: | | |
| Bank borrowings | **275,384** | 293,677 |

As at 31 December 2021, bank borrowings of HK$212,284,000 (2020: HK$232,993,000), were guaranteed by the Company and a subsidiary of the Company.

As at December 2021, bank borrowings of HK$61,642,000 (2020: HK$60,684,000) were secured by inventories, trade receivables and plant and equipment of a subsidiary of the Company amounted to HK$130,430,000, HK$106,353,000 and HK$2,429,000 (2020: HK$74,331,000, HK$97,799,000 and HK$2,757,000), respectively.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

The bank borrowings would mature from 1 to 5 years but repayable on demand (2020: same). The weighted average effective interest rate per annum for borrowings was 1.55% (2020: 1.57%). The carrying amounts of the borrowings approximate their fair values.

The Group has complied with the financial covenants of its borrowing facilities during the 2021 and 2020 reporting period, see note 3(c).

## 31. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

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

| | **2021** | 2020 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Profit before income tax | **173,113** | 53,844 |
| Finance income | **(371)** | (637) |
| Finance costs | **7,691** | 11,137 |
| Loss on disposal of property, plant and equipment | **78** | 207 |
| Loss on disposal of financial assets at fair value through profit or loss | **—** | 2,806 |
| Gain on lease termination | **(33)** | — |
| Fair value gains on financial assets at fair value through profit or loss | **(5,064)** | (711) |
| Gain on deregistration of a subsidiary | **—** | (1,553) |
| Interest income of unlisted convertible bonds in Hong Kong | **—** | (207) |
| Fair value gains on investment properties | **(6,753)** | (758) |
| Depreciation of property, plant and equipment | **38,301** | 37,336 |
| Depreciation of right-of-use assets | **19,888** | 17,040 |
| Amortisation of other intangible assets | **23,066** | 20,520 |
| Net provision for inventories | **19,057** | 1,853 |
| Share-based payment expenses | **447** | 968 |
| Net impairment losses on financial assets | **3,314** | 8,286 |
| Share of loss/(profit) from an investment accounted for using equity method | **799** | (495) |
| Changes in working capital: | | |
| Inventories | **(194,131)** | (3,281) |
| Trade receivables and other financial assets at amortised cost | **(33,890)** | (6,666) |
| Other current assets | **(14,019)** | (8,108) |
| Trade and other payables | **74,144** | (1,611) |
| Cash generated from operations | **105,637** | 129,970 |

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

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

| | **2021** | 2020 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Net book amount *(note 15)* | **164** | 630 |
| Loss on disposal of property, plant and equipment | **(78)** | (207) |
| Proceeds from disposal of property, plant and equipment | **86** | 423 |

**(c) Reconciliation of liabilities arising from financing activities**

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

| | **Borrowings** | **Lease liabilities** | **Dividend payables** | **Total** |
|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **As at 1 January 2020** | 272,919 | 24,483 | — | 297,402 |
| Additions of lease *(note 33)* | — | 34,406 | — | 34,406 |
| Dividend declared and approved | — | — | 20,266 | 20,266 |
| Cash flows | 20,758 | (16,207) | (20,266) | (15,715) |
| Exchange difference | — | 986 | — | 986 |
| **As at 31 December 2020** | 293,677 | 43,668 | — | 337,345 |
| **As at 1 January 2021** | 293,677 | 43,668 | — | 337,345 |
| Additions of lease *(note 33)* | — | 18,096 | — | 18,096 |
| Dividend declared and approved | — | — | 24,320 | 24,320 |
| Cash flows | (18,293) | (18,663) | (24,320) | (61,276) |
| Lease termination | — | (1,147) | — | (1,147) |
| Exchange difference | — | 412 | — | 412 |
| **As at 31 December 2021** | 275,384 | 42,366 | — | 317,750 |

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

## 32. COMMITMENTS

### (a) Capital commitment

Capital expenditure contracted for but not yet incurred as at the end of the reporting period is as follows:

| | 2021<br>HK$'000 | 2020<br>HK$'000 |
|---|---|---|
| Contracted but not provided for | **29,723** | — |

The above commitment represents capital expenditure commitment relating to purchase of machineries and upgrade in IT system.

### (b) Other commitment

On 15 December 2021, the Group executed a capital contribution agreement in relation to a contribution of HK$36.6 million to a limited partnership established in the PRC (the "Fund"). The contribution by the Group represents about 2% of the targeted contribution of the Fund. As a result, the Group has a commitment of HK$36.6 million as at 31 December 2021. A partnership agreement was signed for the purpose of the establishment of the partnership on 28 January 2022. The relevant financial impact of the investment will be reflected in the consolidated financial statements of the Group for the year ending 31 December 2022.

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

### (a) 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:

| | 2021<br>HK$'000 | 2020<br>HK$'000 |
|---|---|---|
| **Right-of-use assets** | | |
| Properties | **39,881** | 41,707 |
| Motor vehicle | **286** | 476 |
| | **40,167** | 42,183 |
| **Lease liabilities** | | |
| Non-current | **23,540** | 27,374 |
| Current | **18,826** | 16,294 |
| | **42,366** | 43,668 |

Lease liabilities as at 31 December 2021 of HK$222,000 (2020: HK$419,000) 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$286,000 (2020: HK$476,000).

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

Additions of right-of-use assets during the year ended 31 December 2021 were HK$18,595,000 (2020: HK$34,406,000).

During the year ended 31 December 2021, a gain of HK$33,000, being the difference between the right-of-use assets of HK$1,114,000 and correspondence lease liabilities of HK$1,147,000 was recognised as a result of early termination of a lease.

### (b) 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:

| | **2021** | 2020 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Depreciation charge of right-of-use assets | | |
| — Properties | **19,697** | 16,849 |
| — Motor vehicle | **191** | 191 |
| | **19,888** | 17,040 |
| Interest expenses (included in finance costs) | **1,230** | 1,226 |
| Expenses relating to short-term leases | **685** | 522 |
| Depreciation expenses have been charged as below: | | |
| Cost of sales | **8,299** | 8,045 |
| Selling and distribution costs | **2,884** | 2,036 |
| Administration expenses | **8,705** | 6,959 |
| | **19,888** | 17,040 |

The total cash outflow for leases during the year ended 31 December 2021 is HK$20,578,000 (2020: HK$17,955,000).

### (c) 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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

## 34. 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 | **2021**<br>**HK$'000** | 2020<br>HK$'000 |
|---|---|---|---|
| Sales of goods to affiliated companies of a shareholder | (i) | **576,140** | 360,083 |
| Rent paid in respect of office premises to directors and a company controlled by a director | (ii) | **1,762** | 1,762 |
| Claim charges paid to affiliated companies of a shareholder | (iii) | **1,059** | 267 |

(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 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 21 March 2019. These transactions are connected transactions as defined in Chapter 14A of the Listing Rules.

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 2021 are HK$46,000 and HK$50,000 (2020: HK$2,034,000 and HK$2,146,000), 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 2021

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

| | **2021** | 2020 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Trade receivables from affiliated companies of a shareholder | **137,943** | 171,961 |

Trade receivables from affiliated companies of a shareholder arise mainly from sale transactions and are due 60–90 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 37 and certain of the highest paid employees as disclosed in note 10, is as follows:

| | **2021** | 2020 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Short-term employee benefits | **36,042** | 33,734 |
| Retirement scheme contributions | **162** | 162 |
| | **36,204** | 33,896 |

## 35. CONTINGENT LIABILITIES

As at 31 December 2021 and 2020, the Group had no contingent liabilities.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

## 36. BALANCE SHEET AND RESERVE OF THE COMPANY

| | Note | 2021 HK$'000 | 2020 HK$'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Interests in subsidiaries | | **785,011** | 746,935 |
| Financial assets at fair value through profit or loss | | **21,787** | — |
| | | **806,798** | 746,935 |
| **Current assets** | | | |
| Financial assets at fair value through profit or loss | | **9,444** | — |
| Cash and cash equivalents | | **29,911** | 18,447 |
| | | **39,355** | 18,447 |
| **Total assets** | | **846,153** | 765,382 |
| **EQUITY AND LIABILITIES** | | | |
| Equity attributable to owners of the Company | | | |
| Share capital | | **40,532** | 40,532 |
| Other reserves | (a) | **276,775** | 276,422 |
| Retained earnings | (a) | **525,457** | 445,007 |
| | | **842,764** | 761,961 |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Trade and other payables | | **3,389** | 3,421 |
| | | **3,389** | 3,421 |
| **Total equity and liabilities** | | **846,153** | 765,382 |

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

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 2020 | 167,016 | 99,431 | 9,385 | 456,925 | 732,757 |
| Profit for the year | — | — | — | 7,970 | 7,970 |
| 2019 final dividend paid | — | — | — | (12,160) | (12,160) |
| 2020 interim dividend paid | — | — | — | (8,106) | (8,106) |
| Share option scheme: | | | | | |
| — Value of services provided | — | — | 968 | — | 968 |
| — Share options lapsed | — | — | (378) | 378 | — |
| At 31 December 2020 | 167,016 | 99,431 | 9,975 | 445,007 | 721,429 |
| At 1 January 2021 | 167,016 | 99,431 | 9,975 | 445,007 | 721,429 |
| Profit for the year | — | — | — | 104,676 | 104,676 |
| 2020 final dividend paid | — | — | — | (12,160) | (12,160) |
| 2021 interim dividend paid | — | — | — | (12,160) | (12,160) |
| Share option scheme: | | | | | |
| — Value of services provided | — | — | 447 | — | 447 |
| — Share options lapsed | — | — | (94) | 94 | — |
| At 31 December 2021 | 167,016 | 99,431 | 10,328 | 525,457 | 802,232 |

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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

## 37. 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 2021**

| | 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 2021 | | | | | | |
| | 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 | 90 | 1,905 | 800 | — | 69 | 18 | 2,882 |
| Madam Ngan Po Ling, Pauline, *BBS, JP* *(Managing Director)* | 90 | 1,639 | 800 | 1,440 | 46 | 18 | 4,033 |
| Mr. James S. Patterson | 90 | 30 | 311 | — | 23 | — | 454 |
| Mr. Ngan Siu Hon, Alexander | 90 | 1,466 | — | — | 23 | 18 | 1,597 |
| Mr. Lai Man Sing | 90 | 2,421 | 125 | — | 23 | 18 | 2,677 |
| Mr. Leung Shu Yin, William | 120 | — | — | — | — | — | 120 |
| Mr. Liu Tieh Ching, Brandon, *JP* | 120 | — | — | — | — | — | 120 |
| Mr. Gordon Ng | 120 | — | — | — | — | — | 120 |
| Total | 810 | 7,461 | 2,036 | 1,440 | 184 | 72 | 12,003 |

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

For the year ended 31 December 2020

| | 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 2020 | | | | | | |
| | 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 | — | 1,785 | 1,500 | — | 95 | 18 | 3,398 |
| Madam Ngan Po Ling, Pauline, *BBS, JP* *(Managing Director)* | — | 1,547 | 1,500 | 1,440 | 143 | 18 | 4,648 |
| Mr. James S. Patterson | — | 120 | 311 | — | 47 | — | 478 |
| Mr. Ngan Siu Hon, Alexander | — | 942 | 200 | — | 51 | 18 | 1,211 |
| Mr. Lai Man Sing | — | 2,239 | 125 | — | 47 | 18 | 2,429 |
| Mr. Leung Shu Yin, William | 120 | — | — | — | — | — | 120 |
| Mr. Liu Tieh Ching, Brandon, *JP* | 120 | — | — | — | — | — | 120 |
| Mr. Gordon Ng | 120 | — | — | — | — | — | 120 |
| Total | 360 | 6,633 | 3,636 | 1,440 | 383 | 72 | 12,524 |

*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 2021 and 2020.

## (b) Directors' retirement benefits and termination benefits

None of the directors received or will receive any retirement benefits or termination benefits during the year (2020: 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 (2020: Nil).

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

**(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 (2020: 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 34 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.

# Financial Summary

| Results | Year ended 31 December | | | | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | **2021** |
| | HK$'000 | HK$'000 (Restated) | HK$'000 | HK$'000 | **HK$'000** |
| Turnover | 890,707 | 885,933 | 1,146,834 | 1,048,006 | **1,600,255** |
| Gross profit | 287,794 | 266,291 | 346,212 | 318,689 | **479,224** |
| Profit before income tax | 85,578 | 84,355 | 70,973 | 53,844 | **173,113** |
| Profit for the year attributable to: | 81,223 | 67,346 | 62,843 | 50,038 | **137,211** |
| Owners of the Company | 77,228 | 62,513 | 58,213 | 45,895 | **128,076** |
| Non-controlling interests | 3,995 | 4,833 | 4,630 | 4,143 | **9,135** |
| Basic earnings per share (HK cents) | 19.1 | 15.4 | 14.4 | 11.3 | **31.6** |
| Dividends | 20,255 | 20,266 | 20,266 | 20,266 | **24,320** |

| Assets and liabilities | As at 31 December | | | | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | **2021** |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | **HK$'000** |
| Non-current assets | 383,934 | 487,693 | 552,503 | 564,855 | **598,273** |
| Current assets | 564,571 | 583,900 | 775,591 | 868,643 | **1,071,247** |
| Current liabilities | (268,801) | (350,026) | (539,259) | (592,286) | **(716,948)** |
| Net current assets | 295,770 | 233,874 | 236,332 | 276,357 | **354,299** |
| Non-current liabilities | (5,936) | (7,073) | (32,901) | (52,799) | **(50,451)** |
| Net assets | 673,768 | 714,494 | 755,934 | 788,413 | **902,121** |

*Notes:* The information of the financial summary for two years ended 31 December 2020 and 2021 have been extracted from the audited consolidated statement of profit or loss and consolidated balance sheet which are set out on page 68 to page 72 of the annual report.