

*Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.*



## MAINLAND HEADWEAR HOLDINGS LIMITED

飛達帽業控股有限公司\*

*(Incorporated in Bermuda with limited liability)*

(Stock code: 1100)

### ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2023

The Board of Directors (the “Board” or the “Directors”) of Mainland Headwear Holdings Limited (the “Company”) hereby announces the unaudited interim results of the Company and its subsidiaries (collectively, the “Group”) for the six months ended 30 June 2023 (the “Period”) together with comparative figures for the corresponding period in 2022.

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

For the six months ended 30 June 2023

		Six months ended 30 June	
		2023	2022
		(Unaudited)	(Unaudited)
	Note	HK\$'000	HK\$'000
<b>Revenue</b>	3	<b>780,258</b>	941,912
Cost of sales		<b>(506,328)</b>	(638,195)
Gross profit		<b>273,930</b>	303,717
Other income		<b>15,713</b>	13,865
Other (losses)/gains – net		<b>(4,008)</b>	2,187
Selling and distribution costs		<b>(77,650)</b>	(92,299)
Administration expenses		<b>(105,933)</b>	(106,632)
Net impairment on financial assets		<b>(2,052)</b>	(2,425)
<b>Profit from operations</b>	4(a)	<b>100,000</b>	118,413

\* For identification purpose only

		<b>Six months ended 30 June</b>	
		<b>2023</b>	2022
		<b>(Unaudited)</b>	(Unaudited)
	<i>Note</i>	<b>HK\$'000</b>	<b>HK\$'000</b>
Finance income		<b>516</b>	144
Finance costs		<b>(8,890)</b>	(4,855)
Finance costs – net	4(b)	<b>(8,374)</b>	(4,711)
Share of loss from an investment accounted for using equity method		<b>(14)</b>	(78)
<b>Profit before income tax</b>		<b>91,612</b>	113,624
Income tax expense	5	<b>(20,009)</b>	(22,367)
<b>Profit for the period</b>		<b>71,603</b>	91,257
<b>Attributable to:</b>			
Owners of the Company		<b>65,075</b>	84,486
Non-controlling interests		<b>6,528</b>	6,771
		<b>71,603</b>	91,257
<b>Earnings per share attributable to owners of the Company</b>			
Basic (HK cents per share)	6(a)	<b>15.230</b>	20.804
Diluted (HK cents per share)	6(b)	<b>14.900</b>	20.422

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

For the six months ended 30 June 2023

	Six months ended 30 June	
	2023	2022
	(Unaudited) <i>HK\$'000</i>	(Unaudited) <i>HK\$'000</i>
<b>Profit for the period</b>	<b>71,603</b>	91,257
<b>Other comprehensive income</b>		
<b>Items that may be subsequently reclassified to profit or loss:</b>		
Exchange differences on translation of financial statements of foreign operations	(1,131)	(3,228)
Fair value losses on cash flow hedges	(3,554)	—
<b>Total comprehensive income for the period, net of tax</b>	<b>66,918</b>	88,029
<b>Attributable to:</b>		
Owners of the Company	60,273	81,448
Non-controlling interests	6,645	6,581
<b>Total comprehensive income for the period</b>	<b>66,918</b>	88,029

## Interim Condensed Consolidated Balance Sheet (Unaudited)

As at 30 June 2023

		<b>30 June 2023</b>	31 December 2022
		<b>(Unaudited)</b>	(Audited)
	<i>Note</i>	<b>HK\$'000</b>	<b>HK\$'000</b>
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	8	<b>497,894</b>	499,684
Right-of-use assets	9	<b>57,089</b>	64,421
Investment properties	8	<b>50,189</b>	51,096
Other intangible assets	8	<b>22,273</b>	30,265
Deferred income tax assets		<b>7,389</b>	7,867
Investment accounted for using equity method		<b>258</b>	272
Financial assets at fair value through profit or loss		<b>44,057</b>	41,377
Other financial assets at amortised cost	10	<b>2,073</b>	2,109
Other non-current assets		<b>37,670</b>	–
		<b>718,892</b>	697,091
<b>Current assets</b>			
Inventories		<b>387,550</b>	523,646
Trade receivable	10	<b>365,078</b>	435,287
Financial assets at fair value through profit or loss		<b>3,932</b>	21,525
Other financial assets at amortised cost	10	<b>6,880</b>	6,810
Other current assets		<b>30,439</b>	23,755
Tax recoverable		<b>3,251</b>	3,251
Cash and cash equivalents		<b>323,248</b>	246,949
		<b>1,120,378</b>	1,261,223
<b>Total assets</b>		<b>1,839,270</b>	1,958,314

		<b>30 June 2023 (Unaudited) HK\$'000</b>	31 December 2022 (Audited) HK\$'000
	<i>Note</i>		
<b>EQUITY AND LIABILITIES</b>			
Equity attributable to owners of the Company			
Share capital		<b>42,868</b>	42,660
Other reserves		<b>212,827</b>	215,238
Retained earnings		<b>807,641</b>	768,269
		<b>1,063,336</b>	1,026,167
Non-controlling interests		<b>47,266</b>	42,814
<b>Total equity</b>		<b>1,110,602</b>	1,068,981
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Other payables	11	<b>13,229</b>	18,140
Borrowings		<b>14,393</b>	14,393
Lease liabilities	9	<b>47,878</b>	54,741
Deferred income tax liabilities		<b>6,299</b>	6,365
		<b>81,799</b>	93,639
<b>Current liabilities</b>			
Trade and other payables	11	<b>357,770</b>	499,233
Amount due to a non-controlling interest		<b>537</b>	537
Borrowings		<b>202,712</b>	228,887
Derivative financial instruments		<b>5,868</b>	2,314
Lease liabilities	9	<b>13,055</b>	12,746
Current income tax liabilities		<b>66,927</b>	51,977
		<b>646,869</b>	795,694
<b>Total liabilities</b>		<b>728,668</b>	889,333
<b>Total equity and liabilities</b>		<b>1,839,270</b>	1,958,314
<b>Net current assets</b>		<b>473,509</b>	465,529
<b>Total assets less current liabilities</b>		<b>1,192,401</b>	1,162,620

## 1. BASIS OF PREPARATION

This interim condensed consolidated financial information for the six months ended 30 June 2023 has been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim financial reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). This interim condensed consolidated financial information does not include all the notes of the type normally included in annual consolidated financial statements. Accordingly, this interim condensed consolidated financial information should be read in conjunction with the annual consolidated financial statements for the year ended 31 December 2022, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”).

This interim condensed consolidated financial information is presented in Hong Kong dollars (“HK\$’000”) and has not been audited.

## 2. ACCOUNTING POLICIES

The accounting policies applied are consistent with those of the annual consolidated financial statements for the year ended 31 December 2022, as described in those annual consolidated financial statements, except for adoption of new and amended standards and the accounting policy for investment in an insurance contract set out below.

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

### **Investment in an insurance contract**

The Group has an investment in a life insurance contract of HK\$6,542,000, included in other non-current assets. The insurance contract of the Group includes both investment and insurance elements. The investment in an insurance contract is initially recognised at the amount of the premium paid and subsequently carried at the amount that could be realised under the corresponding insurance contract (“cash surrender value”) at the end of each reporting period, with changes in value being recognised in profit or loss.

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

A number of new or amended standards became applicable for the current reporting period. The Group did not have to change its accounting policies or make retrospective adjustments as a result of adopting these standards.

#### **(b) 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 the current or future reporting periods and on foreseeable future transactions.

### 3. SEGMENT INFORMATION

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

The executive directors assess the performance of the operating segments based on reportable segment profit/(loss), excluding fair value loss on financial assets at fair value through profit or loss (“FVPL”), share-based payment expenses, finance income and costs and income tax expense.

The executive directors consider the business from a business perspective whereby management assesses the performance of business operations by segment as follows:

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

	Manufacturing		Trading		Total	
	Six months ended 30 June		Six months ended 30 June		Six months ended 30 June	
	2023	2022	2023	2022	2023	2022
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$’000	HK\$’000	HK\$’000	HK\$’000	HK\$’000	HK\$’000
Revenue from external customers	469,233	561,969	311,025	379,943	780,258	941,912
Inter-segment revenue	30,163	58,139	—	—	30,163	58,139
Reportable segment revenue	<u>499,396</u>	<u>620,108</u>	<u>311,025</u>	<u>379,943</u>	<u>810,421</u>	<u>1,000,051</u>
Reportable segment profit/(loss)	129,083	141,885	(28,039)	(23,097)	101,044	118,788
Fair value loss on financial assets at FVPL					(1,191)	(218)
Change in value of investment in an insurance contract					(4,166)	—
Share-based payment expenses					—	(92)
Unallocated corporate income					15,042	13,563
Unallocated corporate expenses					(10,729)	(13,628)
Profit from operations					100,000	118,413
Finance costs – net					(8,374)	(4,711)
Share of loss from an investment accounted for using equity method					(14)	(78)
Income tax expense					(20,009)	(22,367)
Profit for the period					<u>71,603</u>	<u>91,257</u>

Segment assets exclude investment properties, deferred income tax assets, investment accounted for using equity method, financial assets at FVPL, 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.

	Manufacturing		Trading		Total	
	30 June 2023 (Unaudited) HK\$'000	31 December 2022 (Audited) HK\$'000	30 June 2023 (Unaudited) HK\$'000	31 December 2022 (Audited) HK\$'000	30 June 2023 (Unaudited) HK\$'000	31 December 2022 (Audited) HK\$'000
Reportable segment assets	721,011	859,552	679,393	726,425	1,400,404	1,585,977
Investment properties					50,189	51,096
Deferred income tax assets					7,389	7,867
Investment accounted for using equity method					258	272
Financial assets at FVPL					54,531	62,902
Tax recoverable					3,251	3,251
Cash and cash equivalents					323,248	246,949
Other corporate assets					—	—
Total assets					<u>1,839,270</u>	<u>1,958,314</u>

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	
	30 June 2023 (Unaudited) HK\$'000	31 December 2022 (Audited) HK\$'000	30 June 2023 (Unaudited) HK\$'000	31 December 2022 (Audited) HK\$'000	30 June 2023 (Unaudited) HK\$'000	31 December 2022 (Audited) HK\$'000
Reportable segment liabilities	250,319	365,100	182,201	210,665	432,520	575,765
Deferred income tax liabilities					6,299	6,365
Current income tax liabilities					66,927	51,977
Borrowings					217,105	243,280
Other corporate liabilities					5,817	11,946
					<u>728,668</u>	<u>889,333</u>
Capital expenditure incurred during the period/year	22,552	136,688	6,714	68,677	<u>29,266</u>	<u>205,365</u>



#### 4. PROFIT BEFORE INCOME TAX

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

	<b>Six months ended 30 June</b>	
	<b>2023</b>	2022
	<b>(Unaudited)</b> <i>HK\$'000</i>	(Unaudited) <i>HK\$'000</i>
<b>(a) Operating profit</b>		
Fair value loss on financial assets at FVPL	1,191	218
Change in value of investment in an insurance contract	4,166	–
Net exchange gain	(1,349)	(2,405)
Depreciation of property, plant and equipment	25,675	20,176
Depreciation of right-of-use assets	9,807	9,878
Short-term lease expenses	3,550	1,191
Amortisation of other intangible assets	13,664	10,548
Net provision for inventories ( <i>note (i)</i> )	1,936	2,674
Net impairment on trade receivables ( <i>note (ii)</i> )	2,052	2,425
	<u>1,191</u>	<u>218</u>

*Notes:*

- (i) Provision for obsolete inventories of HK\$1,936,000 has been made during the six months ended 30 June 2023 (six months ended 30 June 2022: HK\$2,674,000), after considering their physical condition, market demand and historical usage of those inventories.
- (ii) Provision for the expected credit losses made during the six months ended 30 June 2023 was mainly related to the trade receivables of customers in the USA and Europe after assessing the customers' business outlook and past repayment pattern. Based on the assessment of expected credit loss, the Group has made a provision of HK\$2,052,000 during the period ended 30 June 2023 (six months ended 30 June 2022: HK\$2,425,000).

	<b>Six months ended 30 June</b>	
	<b>2023</b>	2022
	<b>(Unaudited)</b> <i>HK\$'000</i>	(Unaudited) <i>HK\$'000</i>
<b>(b) Finance costs – net</b>		
Interest on bank loans, overdrafts and other borrowings	(7,458)	(3,519)
Interest accretion on license fee payables	(563)	(804)
Interest on lease liabilities	(869)	(532)
	<u>(8,890)</u>	<u>(4,855)</u>
Finance costs	(8,890)	(4,855)
Finance income	516	144
	<u>516</u>	<u>144</u>
Finance costs – net	<u>(8,374)</u>	<u>(4,711)</u>

## 5. INCOME TAX EXPENSE

	Six months ended 30 June	
	2023	2022
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Current year		
– Hong Kong profits tax	1,110	1,585
– Overseas tax	18,486	20,603
	<u>19,596</u>	<u>22,188</u>
Deferred income tax	413	179
	<u>20,009</u>	<u>22,367</u>

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

Hong Kong profits tax has been provided at the rate of 16.5% (six months ended 30 June 2022: 16.5%) on the estimated assessable profits for the period. Taxation on overseas profits has been calculated on the estimated assessable profits for the period at the rates of taxation prevailing in the countries in which the Group operates.

## 6. EARNINGS PER SHARE

### (a) Basic

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

	Six months ended 30 June	
	2023 (Unaudited)	2022 (Unaudited)
Profit attributable to owners of the Company ( <i>HK\$'000</i> )	<u>65,075</u>	<u>84,486</u>
Weighted average number of ordinary shares in issue	<u>427,289,401</u>	<u>406,107,058</u>
Basic earnings per share ( <i>HK cents</i> )	<u>15.230</u>	<u>20.804</u>

### (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.

The calculation of diluted earnings per share was based on the profit attributable to owners of the Company and the weighted average number of ordinary shares, which was calculated as follows:

	<b>Six months ended 30 June</b>	
	<b>2023</b>	2022
	<b>(Unaudited)</b>	(Unaudited)
Profit attributable to owners of the Company ( <i>HK\$'000</i> )	<b>65,075</b>	84,486
Weighted average number of ordinary shares in issue	<b>427,289,401</b>	406,107,058
Adjustment for share options	<b>9,452,381</b>	7,589,165
Weighted average number of ordinary shares for diluted earnings per share	<b>436,741,782</b>	413,696,223
Diluted earnings per share ( <i>HK cents</i> )	<b>14.900</b>	20.422

## 7. DIVIDENDS

### (a) Dividends attributable to the period

	<b>Six months ended 30 June</b>	
	<b>2023</b>	2022
	<b>(Unaudited)</b>	(Unaudited)
	<b><i>HK\$'000</i></b>	<i>HK\$'000</i>
Interim dividend declared of 3 HK cents (2022: 3 HK cents) per share	<b>12,861</b>	12,768

The interim dividend declared after the balance sheet date has not been recognised as a liability at the balance sheet date, but will be reflected as an appropriation of retained earnings for the six months ended 30 June 2023. The amount of proposed interim dividend was based on 428,684,448 (30 June 2022: 425,589,448) shares in issued as at 30 June 2023.

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

	<b>Six months ended 30 June</b>	
	<b>2023</b>	<b>2022</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Final dividend paid in respect of 2022 of 6 HK cents (2021: 4 HK cents) per share	<b>25,703</b>	16,213
No special dividend paid in respect of 2022 (2021: 2 HK cents)	<u>—</u>	<u>8,106</u>
	<b><u>25,703</u></b>	<b><u>24,319</u></b>

**8. CAPITAL EXPENDITURE**

During the six months ended 30 June 2023, the Group acquired property, plant and equipment of HK\$23,685,000 (six months ended 30 June 2022: HK\$30,528,000,) and intangible assets of HK\$5,581,000 (six months ended 30 June 2022: HK\$9,580,000).

As at 30 June 2023, other intangible assets represent acquired customer relationship of HK\$9,000 (31 December 2022: HK\$22,000) and licensing rights for the use of certain licensed trademark, brands and logos in the Group's products of HK\$22,264,000 (31 December 2022: HK\$30,243,000).

The Group's investment properties were revalued at 31 December 2022. No valuation was performed during the period as there was no indication of significant changes in the value since last annual reporting date (six months ended 30 June 2022: same).

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

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

	<b>At 30 June 2023 (Unaudited) HK\$'000</b>	<b>At 31 December 2022 (Audited) HK\$'000</b>
<b>Right-of-use assets</b>		
Properties	<b>57,089</b>	64,326
Motor vehicle	–	95
	<u><b>57,089</b></u>	<u>64,421</u>
<b>Lease liabilities</b>		
Non-current	<b>47,878</b>	54,741
Current	<b>13,055</b>	12,746
	<u><b>60,933</b></u>	<u>67,487</u>

No lease liabilities as at 30 June 2023 (31 December 2022: HK\$17,000) of the Group was secured by a legal charge on a motor vehicle of the Group recognised as right-of-use assets with no carrying amount (31 December 2022: HK\$95,000).

No additions to the right-of-use assets during the six months ended 30 June 2023 (six months ended 30 June 2022: HK\$36,447,000).

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

	<b>30 June 2023 (Unaudited) HK\$'000</b>	31 December 2022 (Audited) HK\$'000
Trade receivables	<b>380,898</b>	449,289
Less: provision for impairment losses	<u>(15,820)</u>	<u>(14,002)</u>
Trade receivables, net	<b>365,078</b>	435,287
Other financial assets at amortised cost	<u>8,953</u>	<u>8,919</u>
	<b>374,031</b>	444,206
Less: non-current portion of other financial assets at amortised cost	<u>(2,073)</u>	<u>(2,109)</u>
Current portion	<u><b>371,958</b></u>	<u>442,097</u>

The carrying amounts approximate their fair values.

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:

	<b>30 June 2023 (Unaudited) HK\$'000</b>	31 December 2022 (Audited) HK\$'000
0–30 days	<b>135,248</b>	127,622
31–60 days	<b>101,224</b>	122,207
61–90 days	<b>67,405</b>	85,906
91–120 days	<b>28,482</b>	48,464
Over 120 days	<u>48,539</u>	<u>65,090</u>
	<u><b>380,898</b></u>	<u>449,289</u>

## 11. TRADE AND OTHER PAYABLES

	<b>30 June 2023 (Unaudited) HK\$'000</b>	31 December 2022 (Audited) HK\$'000
Trade payables	<b>153,257</b>	233,579
Accrued charges and other payables	<b>217,742</b>	283,794
	<b>370,999</b>	517,373
Less: other non-current payables	<b>(13,229)</b>	(18,140)
Current portion	<b>357,770</b>	499,233

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

	<b>30 June 2023 (Unaudited) HK\$'000</b>	31 December 2022 (Audited) HK\$'000
0–30 days	<b>46,257</b>	120,896
31–60 days	<b>22,819</b>	30,694
61–90 days	<b>13,854</b>	6,839
Over 90 days	<b>70,327</b>	75,150
	<b>153,257</b>	233,579

Contract liabilities of HK\$1,198,000 (31 December 2022: HK\$1,133,000) 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 period ended 30 June 2023 that was included in the contract liabilities balance at the beginning of the period amounted to HK\$1,133,000 (six months ended 30 June 2022: HK\$1,238,000). The Group recognised its contract liabilities under other payables and accruals in the interim condensed consolidated balance sheet.



## **MANAGEMENT DISCUSSION AND ANALYSIS**

The Board of Directors (the “Board” or the “Directors”) of Mainland Headwear Holdings Limited (the “Company”) hereby presents the unaudited interim results of the Company and its subsidiaries (collectively, “Mainland Headwear” or the “Group”) for the six months ended 30 June 2023 (the “Period”).

### **FINANCIAL REVIEW**

In the first half of 2023, global manufacturers and traders faced the challenges of built-up inventories waiting to be consumed, weakened new demand and stagnant production and sales. The Group continued to implement strategies to stabilize prices and maintain the gross profit margin of its operations to address an oversupply of headwear during the Period. Supported by quick headwear production and delivery capabilities, the Group has secured a considerable number of quick-turn orders with higher selling prices at a time when the market was clearing goods that were overpurchased during the pandemic.

During the Period, the Group’s revenue totaled HK\$780,258,000 (2022 interim: HK\$941,912,000). Gross profit decreased by 9.8% to HK\$273,930,000 (2022 interim: HK\$303,717,000). As a result of the Group’s effective cost control measures, gross profit margin increased modestly by 2.9 percentage points to 35.1% (2022 interim: 32.2%). Profit attributable to shareholders decreased by 23.0% to HK\$65,075,000 (2022 interim: HK\$84,486,000).

The Board has resolved to declare an interim dividend of 3 HK cents per share (2022 interim: 3 HK cents). The Group is in a healthy financial position and has stable operating cash flows. It also has sufficient cash on hand and unutilized banking facilities of approximately HK\$323.2 million and HK\$705.0 million, respectively, as at 30 June 2023 (31 December 2022: HK\$246.9 million and HK\$579.5 million, respectively).

### **BUSINESS REVIEW**

#### **Manufacturing Business**

During the Period, revenue from the manufacturing business declined by 16.5% to HK\$469,233,000 (2022 interim: HK\$561,969,000), accounting for approximately 60.1% of the Group’s total revenue. The decrease was mainly attributable to built-up inventories still being offloaded by customers in Europe and the US, a result of the port congestion, and logistics and transportation chaos from last year. In particular, shipping fell notably in the second quarter as customers had started to reduce procurement since the beginning of the year. The decline in sales, coupled with traditional festivals in Bangladesh where workers took holidays which resulted in lower production volume, have pushed up average operating costs. The depreciation of the Bangladesh Taka helped to partially offset the increase in production costs during the Period. The segment’s operating profit decreased by 9.0% to HK\$129,083,000 (2022 interim: HK\$141,885,000).

During the Period, cost control at the Bangladesh factory was strengthened by improving management and adding new production capacity to optimize the operation layout. After the scheduled completion of construction of a new plant, the Bangladesh factory has a bigger production space for headwear production and commenced production of accessories, such as wallets and belts, for sale via its trading business. The Shenzhen factory continued to focus on the design, development and production of high-end products. As at 30 June 2023, the two factories had approximately 8,800 and 300 employees, respectively (31 December 2022: about 9,000 employees and 300 employees, respectively).

### **Trading Business**

The trading business was also affected by customers still offloading overbought stock levels from last year and declining sales. Revenue from the trading business decreased by 18.1% to HK\$311,025,000 (2022 interim: HK\$379,943,000), accounting for 39.9% of the Group's total revenue.

During the Period, the trading segment actively promoted budget management, streamlined structure and manpower, and strictly controlled sales and distribution costs and administrative expenses. However, the decrease in sales revenue was still greater than the reduction in costs. Hence, the trading business recorded an operating loss of HK\$28,039,000 (2022 interim: an operating loss of HK\$23,097,000).

### **PROSPECTS**

Looking ahead to next year, the global economy will still be affected by geopolitical tensions and uncertainties surrounding interest rate hikes. However, the European and American retail markets are expected to gain support from falling inflation and rising actual income, and see improvement in consumer confidence. Sales prospects for consumer goods such as headwear and apparel remain cautiously optimistic.

Destocking adjustments in major markets including the US have begun to show signs of improvement. Although major retailers are still facing significant inventory pressure, inventory levels have continued to drop in the past few months and are expected to return to healthy levels in the fourth quarter of this year. Orders will also rebound with recovering demand.

As one of the few manufacturers in the headwear market capable of quick production and delivery, the Group has established solid and long-standing business relations with many leading retail brands, ensuring stable prices for customers and maintaining the high-quality image of Mainland Headwear. The Group believes that stable selling prices are conducive to maintaining a healthy gross profit margin and are essential to the sustainability of enterprises. Therefore, the Group still continue to focus on sustainable development despite fluctuations in market supply and demand.

The Group will also continue to strengthen its operation and management, raise efficiency and enrich its product portfolio to consolidate its core competitive advantages. The new plant completed in Bangladesh in recent months has significantly enhanced the Group's production capacity as it boasts experienced management staff, skillful workers and advanced production equipment, allowing it to respond quickly to customer needs. As the factory has more production space after the completion of the new plant, it is currently expanding its production lines for accessories such as belts and wallets, and the finished products will be delivered to the Group's trading segment for sales. Such an arrangement will support the factory in achieving better resource utilization, while the trading segment will also be able to reduce external procurement cost and achieve faster delivery, thus realizing synergies between the Group's manufacturing and trading businesses.

Furthermore, the Group is adding another production base in Mexico. Associated construction is expected to be completed by the end of this year, with operations to be undertaken in phases. Since the production base is located in the area that is less than two kilometers away from the US border, it will help to strengthen the Group's rapid order production capacity, greatly shorten the order delivery time to the US, and reduce the logistics costs and import tax expenses for sales to the US after commencement of operation, thus further demonstrating the Group's quick production advantage.

As for the trading business, the Group will continue to optimize its product mix and operational efficiency. With the factory in Bangladesh becoming the production arm of the trading segment's subsidiary, overall operational efficiency is set to improve. The subsidiary will flexibly adjust products, specifications and delivery time in response to changes in different markets, effectively seizing opportunities arising from the anticipated recovery by the end of this year.

To overcome operational challenges brought by soaring raw material prices and freight rates, the Group will continue to implement various cost control measures, while strengthening its supply chain and procurement localization strategy to mitigate rising cost pressure and diversify supply risks.

Over the past 37 years, Mainland Headwear has coped with various economic cycles and challenges and established itself as a market leader in the headwear manufacturing industry. With its market leading position, diversified production layout, wide product portfolio that ranges from headwear to accessories, and keen business sense, the Group remains confident in its ability to overcome various challenges and create long-term value for customers and shareholders.

## **LIQUIDITY AND FINANCIAL RESOURCES**

As at 30 June 2023, the Group had cash and bank balances and a portfolio of liquid investments totaling Hong Kong dollars (“HK\$”) 327.20 million (31 December 2022: HK\$268.5 million). About 58%, 24% and 11% of these liquid funds were denominated in United States dollars, Renminbi and Hong Kong dollars respectively. As at 30 June 2023, the Group had banking facilities of HK\$893.0 million (31 December 2022: HK\$788.7 million), of which HK\$705.0 million (31 December 2022: HK\$579.5 million) were not utilised.

The borrowings over total equity ratio of the Group is at 19.5% (31 December 2022: 22.8%). In view of the strong financial and liquidity position, the Group has sufficient financial resources to meet its commitments and working capital requirements.

## **CAPITAL EXPENDITURE**

During the Period, the Group spent approximately HK\$23.7 million (30 June 2022: HK\$28.5 million) on additions to equipment and machineries to further upgrade and expand its manufacturing capabilities. Also the Group spent HK\$5.6 million (30 June 2022: HK\$2.0 million) on additions of equipment and systems of Trading Business.

As at 30 June 2023, the Group had authorised a capital commitment of HK\$102.2 million in respect of manufacturing plants and equipment in Mexico and Bangladesh. The Group had also authorised a capital commitment of HK\$0.3 million in respect of equipment upgrade for Trading business.

## **EXCHANGE RISK**

Most assets and liabilities of the Group are denominated either in HK dollars, US dollars, Renminbi or Bangladesh Taka. The Group estimates that 1% appreciation/depreciation of Bangladesh Taka is expected to reduce/increase the gross margin of the Manufacturing Business by about 0.2%.

## **EMPLOYEES AND REMUNERATION POLICIES**

As at 30 June 2023, the Group employed a total of 386 (30 June 2022: 418) workers and employees in the PRC (include Hong Kong), 8,830 (30 June 2022: 8,120) workers and employees in Bangladesh, and 163 (30 June 2022: 181) employees in the USA and the UK. The expenditures for the employees during the Period were approximately HK\$181.8 million (30 June 2022: HK\$214.3 million). The Group ensures that the pay levels of its employees are competitive and employees are remunerated based on their position and performance. Key employees of the Group, including Directors, are also granted share options under the share option schemes operated by the Company.

## **INTERIM DIVIDEND**

The Board has declared an interim dividend of 3 HK cents (2022: 3 HK cents) per share, payable on or after 10 October 2023.

## **CLOSURE OF REGISTER OF MEMBERS**

To determine the identity of members who are entitled to the interim dividend of the Company for the period ended 30 June 2023, the register of members of the Company will be closed from 18 September 2023 to 20 September 2023 (both dates inclusive). In order to qualify for the interim dividend, all transfers, accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong Branch Share Registrar, Tricor Tengis Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong for registration not later than 4:30 p.m. on 15 September 2023.

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

During the six months ended 30 June 2023, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

## **CODE ON CORPORATE GOVERNANCE PRACTICES**

In the opinion of the Board, the Company has complied with the code provisions in the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Listing Rules during the six months ended 30 June 2023.

## **MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS**

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules. All Directors have confirmed, following enquiries by the Company, that they have complied with the required standard set out in Model Code throughout the period ended 30 June 2023.

## **AUDIT COMMITTEE**

The Company has complied with Rule 3.21 of the Listing Rules in relation to the establishment of an audit committee. The audit committee members comprise of all independent non-executive directors. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control procedures of the Group. The audit committee has reviewed the interim condensed consolidated financial information for the period ended 30 June 2023.

By Order of the Board  
**Ngan Hei Keung**  
Chairman

Hong Kong, 29 August 2023

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