Immediate Release

Mainland Headwear Announces 2016 Interim Results

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Reaches New Heights as
Manufacturing Business Continues to Demonstrate Excellent Performance
Profit Attributable to Shareholders Surges by 43% to HK$36,799,000

(25 August 2016, Hong Kong) **Mainland Headwear Holdings Limited** ("Mainland Headwear" or the "Group") (stock code: 1100), a renowned designer, producer and retailer of headwear, has today announced its interim results for the six months ended 30 June 2016. Thanks to the continuous excellent performance of its Manufacturing Business, the Group has recorded a substantial increase in overall profitability during the period under review. The Manufacturing Business segment has thus remained as the Group's principal revenue generator and driver of profitability growth, offsetting the performance of the Retail Business which was adversely affected by the market environment. The Group's Trading Business also achieved generally steady development.

During the period under review, the Group's long-standing stable business relations with existing clients and the strong overall market demand for its headwear products helped push turnover up to HK$451,532,000, 2% more against the same period last year (2015 Interim: HK$443,280,000). In addition, the Group has implemented strict cost control measures, cutting material and labour costs, which helped drive overall gross profit up by 15% to HK$151,837,000 (2015 Interim: HK$131,648,000) while gross profit margin increased by 3.9 ppt. to 33.6% (2015 Interim: 29.7%). With the production efficiency of the Bangladesh factory continuing to notably improve, the Group was able to reduce overall production costs. Profit attributable to shareholders of the Group thus soared 43% to HK$36,799,000 (2015 Interim: HK$25,821,000).

The Board of Directors has recommended the payment of an interim dividend of 2 HK cents per share for the six months ended 30 June 2016 (2015 Interim: 1 HK cent per share).

Mr. Ngan Hei Keung, Chairman of Mainland Headwear, said, "At the Group's careful planning, synergies have been achieved between the Shenzhen factory and Bangladesh factory, enabling the Group to maintain growth momentum and sustainable development of the Manufacturing Business. The overall business during the period under review, has recorded encouraging results as the rapid increase in production capacity at the Bangladesh factory has met the rising market demand for the Group's headwear products."

<u>Business Review</u>

Manufacturing Business

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

Trading Business

During the period under review, overall turnover from the segment dropped 13% to HK$102,794,000 (2015

Interim: HK$118,038,000). The is mainly due to the unfavourable external factors such as the Brexit, market competition and the negative impact of Drew Pearson International (Europe) Ltd. ("DPI") casued by losing licenses to trade headwear for some football teams. Nevertheless, the Group continued to actively expand the business of San Diego Hat Company ("SDHC"). In addition to the purchase of a property in San Diego, U.S., last year to serve as the headquarters of SDHC, the Group continued to optimise its trading strategies and accelerate product development to put SDHC's business on track. Gross profit of SDHC rose to HK$21,168,000, a 6% increase against the same period last year (2015 Interim: HK$19,925,000). And its operating profits rocketed 137% to HK$4,201,000 (2015 Interim: HK$1,769,000), which helped offset the unsatisfactory business performance of H3 and DPI.

Retail Business

The uncertain global economic environment continued to hit the retail market hard in China. Although the Group had flexibly adjusted its business strategies, including expanding its self-managed store network in China as well as pushing sales via online channels, the unfavourable factors inevitably affected the Group's operation and profitability. Turnover from the segment declined to HK$46,934,000, a decrease of 16% when compared with the same period last year (2015 Interim: HK$55,701,000) and operating loss was HK$4,262,000 (2015 Interim: operating loss of HK$1,040,000). Affected by the economic environment during the period under review, the number of Sanrio franchise stores decreased. The Group thus adopted flexible adjustment strategies and set up new self-owned stores in second- and third-tier cities in China to strengthen brand building and boost market penetration. Sales promotions were also mounted to increase turnover from the business. Concurrently, the Group has actively developed the Sanrio online sales platform, adding a new sales channel for the brand. The turnover of the Sanrio business was HK$34,129,000 (2015 Interim: HK$44,696,000).

Prospects

Building on its solid business foundation, the Group will stay abreast of the market situation and continue to proactively adjust and optimise its development strategies. The Group expects its existing businesses to expand benefitting from the "One Belt, One Road" strategic directive of China.

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

Additionally, with the growing popularity of overseas sports events broadcast online in the mainland, more and more young people in China have become interested in watching sports events or participating in sports activities. Heeding this trend, the Group is determined to implement a strategy that integrates its manufacturing business with the Internet, in order to help it capture the enormous business opportunities presented by its development. By exploring opportunities for collaboration with world-renowned sports brands, the Group aims to produce potential popular products for the market, and hence open a new revenue source.

Regarding the Trading Business, SDHC is expected to remain as the segment's crucial pillar and source of growth momentum with the Group continuing to enrich its product mix to meet changing market needs and enhance competitiveness.

As for the Retail Business, the Group will continue the development strategy of focusing on expanding its franchise store network. It will also increase sales via various channels, and Sanrio will continue to optimise its online sales platform so as to improve its performance.

Madam Ngan Po Ling Pauline, BBS, JP, Deputy Chairman and Managing Director of Mainland Headwear, concluded, "The Group's outstanding performance is proof of the wisdom of its overall strategic direction – fortifying its roots in the PRC, while proactively pushing to "Going Out" in line with the national strategic directive. Under the favourable condition benefited from the 'One Belt One Road' initiative to the Group in the future, we will continuously strive to drive the Group's business growth and maximise returns to its shareholders."

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About Mainland Headwear Holdings Limited (SEHK Stock Code : 1100)

Mainland Headwear was established in 1986 and listed on the Hong Kong Stock Exchange in 2000. The Group is principally engaged in the design, manufacture and distribution of quality headwear, with its own manufacturing plants in Shenzhen and an acquired factory in Bangladesh. In 2004, the Group commenced retail business to open headwear outlets in Hong Kong and the PRC. In 2005, the Group obtained the exclusive license to design, manufacture and sell all SANRIO products in the PRC. In 2008, the Group signed a seven-year manufacturing agreement with New Era Cap Co., Inc., the largest and fastest growing headwear manufacturer in the United States. In 2012, the Group acquired San Diego Hat Company, a leading high-end designer, importer and marketer of women's hats in the US, to expand self-owned brand business in the downstream market in Europe and the US, and the strategic partnership with New Era by entering into a five-year manufacturing agreement in 2014.
Company Website: www.mainlandheadwear.com / www.mainland.com.hk

For more information:

Strategic Financial Relations Limited
Heidi So Tel: +852 2864 4826 Email: Heidi.so@sprg.com.hk
Karen Tang Tel: +852 2114 4951 Email: Karen.tang@sprg.com.hk
Fax: +852 2527 1196

Mainland Headwear Holdings Limited
Thomas Lai Tel : +852 2798 3211 Email : thomas.lai@mainland.com.hk
Fax: +852 2796 1517