STRATEGIC FINANCIAL RELATIONS LIMITED
縱橫財經公關顧問有限公司

Immediate Release

Mainland Headwear Announces 2019 Interim Results

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Bangladesh Factory Satisfies Keen Demand
Driving Revenue up 19.6% to HK$521.2 Million

Financial Highlights	For the six months ended 30 June	
	2019 (HK$ million)	**2018** (HK$ million)
Continuing operations		
Revenue	**521.2**	435.8
Gross profit	**150.4**	133.7
Gross profit margin (%)	**28.9**	30.7
Profit for the period	**39.9**	42.7
Profit attributable to shareholders	**34.6**	36.1
Earnings per share (HK cents)		
- Basic	**8.5**	8.9
- Diluted	**8.5**	8.8

(26 August 2019, Hong Kong) **Mainland Headwear Holdings Limited** ("Mainland Headwear" or the "Group") (HKEX: 1100), a renowned designer, manufacturer and distributor of headwear and accessories, has today announced its unaudited interim results for the six months ended 30 June 2019 (the "Period").

During the Period, the ongoing China-US trade tensions added to the uncertainty surrounding the global economy. Nevertheless, thanks to the competitive advantages of Bangladesh factory, the Group continued to receive a stable revenue stream from the Manufacturing Business. In view of the highly volatile retail markets in Mainland China and Hong Kong in these years, the management elected to pave the way for termination of the Retail Business.

Continuing operations achieved a turnover of HK$521,181,000 (2018 Interim: HK$435,838,000), a marked increase of 19.6% when compared with that of last year. Gross profit for continuing operations was up 12.5% to HK$150,386,000 (2018 interim: HK$133,699,000). However, due to rising material costs and labour cost faced by the Manufacturing Business, and more promotions offered by its Trading Business, gross profit margin for continuing operations slightly decreased by 1.8 percentage points to 28.9% (2018 interim: 30.7%).

Owing to the less-than-stellar performance of the Trading Business, profit from continuing operations fell by 6.3% to HK$39,946,000 (2018 Interim: HK$42,650,000). As for the discontinued operations, the loss was narrowed to HK$4,632,000 (2018 Interim: loss of HK$5,748,000). Profit attributable to shareholders fell by 4.1% to HK$34,578,000 (2018 Interim: HK$36,067,000).

Mr Ngan Hei Keung, Chairman of Mainland Headwear, said, "We had expanded our production base into Bangladesh as early as 2013, leveraging China's Belt and Road initiative. With the trade war escalating, our Bangladesh factory has become one of our major competitive advantages and satisfied the keen demand from our US customers for orders from production bases outside China, driving the business growth of the Group."

BUSINESS REVIEW

Manufacturing: strong orders from customers, thanks to the Bangladesh factory

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

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

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

Trading: expands business spectrum from headwear to accessories segment via acquisition

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

To diversify the income stream and broaden its product offerings, the Group has completed the acquisition of Aquarius, a leading accessories supplier in the USA, on 30 May 2019. The acquisition marked a step forward in strengthening and expanding the Group's existing business segment by widening the spectrum from headwear to the accessories segment. Subsequent to completion, Aquarius has become a wholly-owned subsidiary of the Group. The Group now offers a full series of accessories ranging from headwear products, scarves, belts, wallet, backpacks and gloves to a wide spectrum of customers through different channels in mass market as well as high-end market segments. The Group expects to benefit from the synergy in sales and cost savings as their customer base, product mix and license portfolio are complementary to each other. At the same time, the Group and Aquarius can share talent and resources in design, warehousing and back office facilities.

Discontinued operations

As the Group was proceeding on track in terminating the Retail Business, revenue of the segment amounted to HK$22,157,000 (2018 Interim: HK$31,140,000) and operating loss was narrowed to HK$4,643,000 (2018 Interim: loss of HK$5,762,000). Since the lease of its only one NOP brand self-operated store in Hong Kong expired in June 2019, the Group has officially retreated from the Hong Kong retail market.

The Group and Sanrio have been discussing the details of transferring entire Retail Business in the Greater China Region to Sanrio, including operations, staff, stores, inventories, etc. The management believes that by concluding retail operations on both sides of the border, it will be able to focus resources on advancing the core Manufacturing Business and Trading Business in the best interest of the Company and its shareholders.

PROSPECTS

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

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

Regarding the Trading Business, benefitting from the acquisition of Aquarius, together with the investments in the previous years, the management believes that this business will see greater contributions to the Group in second half year.

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

Mrs. Pauline Ngan Po Ling, BBS, JP, Deputy Chairman and Managing Director of Mainland Headwear, said, "Given our strengthened presence in Bangladesh and active efforts in diversifying our product portfolio, we possess the strengths as well as the growth momentum necessary to confidently face the future. We will also direct our focus and energies to enhancing efficiency across all areas of operation, which will ultimately create value for shareholders."

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About Mainland Headwear Holdings Limited (HKEX: 1100)

Mainland Headwear Holdings Limited was established in 1986 and listed on the Main Board of The Stock Exchange of Hong Kong in 2000. The Group is principally engaged in the design, manufacture and distribution of quality headwear and accessories. Headquartered in Hong Kong, with factories in Shenzhen, PRC and Bangladesh, the Group manufactures an exclusive wide range of licensed casual headwear products and accessories, which are principally sold in overseas countries with the US as the main market, followed by the European market. The Group has established a long-term business partnership with New Era Cap Co., Inc. by entering into a manufacturing agreement.

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