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

Immediate Release

Mainland Headwear Announces 2018 Annual Results

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Steadily Improving Production Efficiency of the Bangladesh Factory Drives Revenue up 5.7% to Approximately HK$940 Million

(19 March 2019, Hong Kong) **Mainland Headwear Holdings Limited** ("Mainland Headwear" or the "Group") (HKEX: 1100), a renowned designer, producer and retailer of headwear, has today announced its annual results for the year ended 31 December 2018.

Benefiting from the improved production efficiency of the Bangladesh factory, the Group was able to meet the increasing demand for orders by its brand partners. Hence, the Manufacturing Business remained as the Group's main income source and profit growth driver. For the year, the Group achieved a turnover of HK$941,493,000 (2017: HK$890,707,000), an increase of 5.7% when compared with that of last year. Gross profit rose by 1.3% to HK$291,524,000 (2017: HK$287,794,000). Stable revenue growth in the Manufacturing Business failed to mitigate the effects of the difficult business environment on the Trading and Retail Businesses, so the profit attributable to shareholders declined to HK$62,513,000(2017: HK$77,228,000).

Mr Ngan Hei Keung, Chairman of Mainland Headwear, said, "The Sino-US trade talks brought uncertainties to the global trading landscape. Crisis, however, presents opportunities. By grasping the opportunities arising from the Belt and Road strategic initiative, we have set up a factory in Bangladesh in 2013, which has made us a winner amidst the trade war. Owing to the great demand of the US customers for products from the Bangladesh factory, the Manufacturing Business brought a stable and promising revenue contribution to us."

Business Review

The Manufacturing Business achieved segment revenue of HK$728,934,000 (2017: HK$702,532,000), while revenue from external customers rose steadily by 6.0% to HK$672,790,000 (2017: HK$634,563,000) and made up approximately 71.5% of the Group's total revenue. Since the production efficiency of the Bangladesh factory has been improving, it was able to undertake more high-end orders. As a result, operating profit of the Manufacturing Business increased by 8.0% to HK$108,673,000 (2017: HK$100,591,000).

As at 31 December 2018, the Bangladesh factory had nearly 5,000 employees (31 December 2017: about 4,100 employees). In addition to a growing workforce and maturing production techniques, the local factory's production efficiency has been significantly improving, enabling it to receive more orders of high-end headwear products. In addition, the factory has been connected to a private power plant, and stable power supply has contributed to increasing production output. Benefitting from these favourable factors, output increased dramatically by more than 30% from about three million pieces of headwear products per month last year to about four million pieces per month, occupying around 75% of its total capacity.

On the Trading Business front, despite being impacted by such uncertainties as the lackluster US retail market and Brexit, the Group still recorded a 15.5% growth in revenue, mainly attributable to the Group's subsidiary H3 Sportgear LLC ("H3") seeing double-digit growth in orders from a multinational retail enterprise customer, evidence of the success of its business consolidation strategy. Revenue of the segment was HK$213,143,000 (2017: HK$184,543,000), accounting for 22.6% of the Group's total revenue.

Prospects

Looking ahead, the Group will speed up the construction of Phase II of the Bangladesh factory, which is expected to start production in late 2019. The Group targets to increase the number of workers there to around 6,000, and the monthly capacity to five million pieces of headwear products. When it is fully utilised, full capacity in Bangladesh will rise from around 75% to 90% of the Group's total capacity. The Group will also further raise the production skills of workers there so they can handle more orders of high-end headwear products. Another challenge was the increase in the minimum wage in the garments industry since December 2018 subsequent to the authority's review conducted every five years. Facing the rising labour cost in Bangladesh, the Group has actively introduced automation and information technology production equipment, which can reduce its reliance on manpower and greatly improve production efficiency. As for product variety, the new factory can manufacture products with higher gross profit such as straw hats and knitted hats, to cater for demand from different orders of its brand partners.

Regarding the Trading Business, it will inevitably be subject to the impact of the trade war in the short term. But benefitting from the investments in the previous years, the management believes that 2019 will be time for harvest the returns. Reorganisation of H3 has also started to bear fruit. The Group believes that the efforts of stronger teams will achieve better results. As for another subsidiary, San Diego Hat Company ("SDHC"), its new building in California, USA was in use in October 2018. SDHC and its subsidiaries have already consolidated all warehousing facilities in one location, and are therefore facilitating easier inventory control and management. It is expected to see the benefits through better cost effectiveness in 2019. The new E-commerce Business has built a competitive product mix so the management has full confidence in its prospects.

As the retail markets in Mainland China and Hong Kong have been highly volatile in these years, the management is considering to explore the opportunity to terminate the Retail Business. The Group and Sanrio intend to match Sanrio's long-term development strategy, thus the Group is exploring the possibility of transferring the entire Retail Business in the Greater China Region to Sanrio, comprising operations, staff, stores, inventory, etc. Details have yet to be discussed by both parties and a final decision has yet to be made. As for the sales of headwear products, the Group has only one NOP brand self-operated store in Hong Kong. Since the lease will expire in June 2019, the Group will then officially retreat from the retail market of Hong Kong. After the Retail Business is terminated, the Group will focus resources on developing the core Manufacturing Business and enhancing the Trading Business.

Mrs. Pauline Ngan Po Ling, BBS, JP, Deputy Chairman and Managing Director of Mainland Headwear, said, "The Sino-US trade dispute is unlikely to be resolved in the near future, so global trade is likely to remain unstable. However, we have optimised the production layout in Bangladesh, and laid a solid foundation for the long-term development. Leveraging our sound foundation built over the previous three decades and the well-established layout of our production bases in Bangladesh, we are confident in leading Mainland Headwear to successfully tackle more challenges and generate the best returns 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. Headquartered in Hong Kong, with factories in Shenzhen, PRC and Bangladesh, the Group manufactures exclusive wide range of licensed casual headwear products, which are principally sold in overseas countries with the US as the main market, followed by Europe 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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