



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

Immediate Release



MAINLAND HEADWEAR HOLDINGS LIMITED

飛達帽業控股有限公司*

(Incorporated in Bermuda with limited liability)

Mainland Headwear Announces 2020 Interim Results

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Trading Revenue Surges 17.4% as Enhanced E-commerce Taps Increased Online Shopping Trend

Gross Profit Margin Rises to 30.0% with Optimised Efficiency, Management and Structure

(21 August 2020, Hong Kong) **Mainland Headwear Holdings Limited** (“Mainland Headwear” or the “Group”) (HKEX: 1100), a renowned designer, producer and distributor of headwear and accessories, has today announced its interim results for the six months ended 30 June 2020 (the “Period”).

During the Period, the COVID-19 outbreak affected the global supply chain and consumer market. Due to the challenges, the Group’s revenue contracted by 17.3% to HK\$430,952,000, dragged down by the Manufacturing Business, even though the Trading Business appreciably surged by 17.4%. Notwithstanding the decline in gross profit of 14.0% to HK\$129,377,000 mainly due to weaker top-line performance, gross profit margin rose to 30.0% (2019 interim: 28.9%). The reason for such growth can be attributed to the effective cost control measures to optimise the management and streamline the structure of the Group, reinforced by improvement in production efficiency due to a higher level of automation at its Bangladesh plant. However, owing to significant top-line drop in the second quarter, profit attributable to shareholders fell by 97.8% to HK\$757,000.

In view of the sound fundamentals of the Group, the Board has resolved to recommend an interim dividend of 2 HK cents per share (2019 Interim: 2 HK cents). The Group remains in a healthy financial position, and has stable operating cash flows. It also holds sufficient cash on hand and total unutilised banking facilities, amounting to approximately HK\$223.6 million and HK\$224.2 million, respectively, as at 30 June 2020.

* For identification purpose only

Mr. Ngan Hei Keung, Chairman of Mainland Headwear, said, “Although the entire supply chain and factories in the PRC were temporarily affected by the pandemic in February and March, our performance for the first quarter was robust and represented a year-on-year improvement as the Bangladesh plant has become our principal production base. However, as the pandemic spread worldwide, which led to Bangladesh’s nationwide shutdown starting 28 March 2020 until late May and affected the economic and retail markets in the US and Europe, our Manufacturing Business in April and May was inevitably affected. Our sales performance in June, nonetheless, has shown a quick rebound. We are glad to see that the satisfactory output of headwear products at the Bangladesh plant even with less headcount, thanks to the improved efficiency and a higher level of automation.

We are also encouraged that the investments made in the Trading Business in the previous years have yielded fruit. In particular, the e-commerce business has witnessed remarkable growth as online consumption has emerged as a prevailing market trend especially during the pandemic.”

BUSINESS REVIEW

Manufacturing: Sales order shows sign of improvement

The Manufacturing Business was dealt a blow by the nationwide shutdown in Bangladesh and the delay of shipments and orders from the majority of the Group’s US and European customers due to the pandemic. In the aftermath, this segment’s revenue dropped by 33.5% to HK\$268,469,000, while revenue from external customers declined by 33.5% to HK\$235,980,000 accounting for approximately 54.8% of the Group’s total revenue. Correspondingly, operating profit of the Manufacturing Business decreased by 36.9% to HK\$35,237,000.

Though China bore the brunt of the pandemic in February and March, the Group had largely transferred the majority of production of orders and the relevant raw materials from Shenzhen to Bangladesh before the lockdown. As a result, the Manufacturing Business not only remained unaffected in the first quarter, but even exceeded the same period last year. However, as the pandemic spread across the world in March, Bangladesh’s government has imposed a nationwide shutdown order starting 28 March 2020 until late May, therefore, the Group’s Bangladesh factory could only operate on a very limited scale.

On the demand front, the pandemic has led to the season suspension of all major sporting events. Many US and European customers have thus delayed their shipments and placing orders in April and May owing to the lockdown measures taken by their respective national governments. To minimise the impact brought by the pandemic, the Group has worked closely with customers for necessary adjustment to the delivery schedule so as to tide over the difficult times together, while implementing a series of stringent precautionary and control measures. It has seen a gradual sales improvement in June as the operation and orders of certain partners were swiftly picking up, while the shutdown in Bangladesh was lifted and the Group’s production resumed in an orderly manner.

Due to natural attrition as many staff have not been able to report to duty owing to travel restrictions, and partly due to the reduction in the workforce according to the actual needs to fill orders, the headcount was reduced by one-fifth. However, the output of headwear products at the Bangladesh plant was still satisfactory, thanks to the enhanced efficiency and a higher level of automation.

Trading: E-commerce business investment helps capture rising online shopping trend

Despite being impacted by the lackluster US and UK retail markets and shadowed by the pandemic, top-line growth of the Trading Business still soared by 17.4% to HK\$194,972,000, accounting for 45.2% of the Group's total revenue. The surge was mainly attributable to (i) consolidation of the financial results of Aquarius Ltd. subsequent to the Group's acquisition; and (ii) the accelerated growth in e-commerce business, clear evidence of the successful investment in this area in the past two years, which allowed it to capture the rising online shopping trend during the pandemic. However, owing to lockdown measures in the US and UK in the second quarter, except e-commerce business, the Group's other trading subsidiaries in these countries were affected, the operating loss of the business amounted to HK\$18,026,000 (2019 Interim: loss of HK\$9,164,000).

The management had set its eyes on the online consumption trend in recent years, and made a foray into the e-commerce business two years ago. With two years of investment, the Group started to reap the benefits as e-commerce started to contribute profits. With an expanding product offering, the management has full confidence in this segment as the pandemic has boosted online shopping.

PROSPECTS

Optimistic about rapid post-pandemic recovery with optimised efficiency, management and structure

Despite the uncertain outlook, the management is convinced that the worst time has passed and the market is bottoming out, as reflected by the faster-than-expected rebounding orders since June and the order visibility for the third quarter is almost back on track based. The management is looking forward to the rapid recovery of all sectors after the pandemic.

The Group is poised to seize the opportunities ahead as the monthly capacity at the Bangladesh factory is set to reach five million pieces of headwear products following the completed construction of Phase II in late 2019. Apart from production scale, the Group has also made unremitting efforts to ramp up the efficiency. To this end, the management has also taken this opportunity to fully review its operations and laid a solid foundation for long-term development. With the efficiency remarkably improved under a streamlined structure and optimised management, the Group is fully confident that this factory would bring greater contributions as efficiency will further increase when the production capacity expands as the orders approach normal levels when the pandemic recedes, and subsequently raise its profitability to an optimal level.

Still another opportunity is the change of global consumer habits after the pandemic. Recognising that online shopping has become even more popular as "stay at home" has become the "new normal" in the wake of pandemic, the Group will allocate greater resources towards capitalising on such developments. This includes further diversification of product categories under its Trading umbrella.

Mrs. Pauline Ngan Po Ling, BBS, JP, Deputy Chairman and Managing Director of Mainland Headwear, said, "Given our strengthened presence in Bangladesh and broadened product portfolio, we possess the strength necessary to ride out the storm with our business partners. We will bolster the two business operations, while enhancing efficiency across all areas of operation, which will steer Mainland Headwear towards the breaking of new business ground and the creation of greater long-term 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. 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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