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 2023 Interim Results
Interim Dividend of 3 HK Cents Per Share
* * *
New Plant in Bangladesh Completed
New Factory in Mexico to Commence Production in Stages by End of This Year

(29 August 2023, Hong Kong) **Mainland Headwear Holdings Limited** ("Mainland Headwear" or the "Group") (HKEX: 1100), a renowned designer, manufacturer and distributor of headwear and accessories, today announced its interim results for the six months ended 30 June 2023 (the "Period").

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

Given the Group's healthy financial position and stable operating cash flow, the Board has resolved to declare an interim dividend of 3 HK cents per share (2022 interim: 3 HK cents).

Mr. Ngan Hei Keung, Chairman of Mainland Headwear, said, "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.

** For identification purpose only*

Manufacturing: Completion of new plant in Bangladesh to optimize production capacity and expand product line

Sales decreased due 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. 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 decline in sales, coupled with traditional festivals in Bangladesh, where workers took holidays which resulted in lower production volume, 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 operational layout. Following the scheduled completion of construction of a new plant, the Bangladesh factory has a larger headwear production space and has commenced the production of accessories, such as wallets and belts, for sale through 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: Proactive budget management and strict cost control

The revenue of 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, due to the slowdown in sales as customers were still destocking over-purchased inventory from last year.

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

Prospects: Maintain selling prices despite market volatility, expand production and enrich product portfolio to consolidate competitive edge

Looking ahead to next year, the global economy will continue to be affected by geopolitical tensions and uncertainties surrounding interest rate hikes. However, the European and American retail markets are expected to be supported by falling inflation and rising real incomes, as well as improving consumer confidence. Sales prospects for consumer goods such as headwear and apparel remain cautiously optimistic.

Destocking adjustments in major markets such as the US have begun to show signs of improvement. Although major retailers still face significant inventory pressure, inventory levels have continued to decline in recent months and are expected to return to healthy levels in the fourth quarter of this year. Orders will also rebound as demand recovers.

As one of the few manufacturers in the headwear market capable of rapid production and delivery, the Group has established solid and long-term business relations with many leading retail brands, ensuring stable prices for customers and safeguarding 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 continues to focus on sustainable development despite fluctuations in market supply and demand.

The Group will also continue to strengthen its operations and management, increase efficiency and enrich its product portfolio to consolidate its core competitive advantages. The new plant in Bangladesh, which was completed in recent months, has significantly enhanced the Group's production capacity, with experienced management staff, skilled workers and advanced production equipment, enabling the Group to respond quickly to customers' needs. With more production space following the completion of the new plant, the factory 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 sale. This arrangement will help the factory achieve better resource utilization, while the trading segment will also be able to reduce external procurement costs and achieve faster delivery, thus realizing synergies between the Group's manufacturing and trading businesses.

The Group is also adding another production base in Mexico. Construction is expected to be completed by the end of this year, with operations to be undertaken in phases. As this production base 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 delivery time of orders 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, the overall operational efficiency will be improved. The subsidiary will flexibly adjust products, specifications and delivery time in response to changes in different markets and effectively seize opportunities arising from the anticipated recovery by the end of this year.

To address the operational challenges posed 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 pressures and diversify supply risks.

Madam Ngan Po Ling, Pauline, BBS, JP, Deputy Chairman and Managing Director of Mainland Headwear, said, "Over the past 37 years, Mainland Headwear has weathered 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, extensive product portfolio ranging from headwear to accessories, and keen business acumen, the Group remains confident in its ability to overcome various challenges and create long-term value for customers and 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, the PRC, and Bangladesh, the Group manufactures an exclusive and wide range of licensed casual headwear products and accessories. The Group has established a long-term business partnership with New Era Cap, LLC. by entering into a manufacturing agreement.
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