



MAINLAND HEADWEAR HOLDINGS LIMITED

飛達帽業控股有限公司*

(Incorporated in Bermuda with limited liability)

Mainland Headwear Reports Net Profit of HK\$117.9 Million in 2023 Final Dividend of 6 HK Cents Per Share

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New Mexico Factory to Achieve Monthly Production Capacity of 1 Million Pieces by Year-end

(26 March 2024, 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 annual results for the year ended 31 December 2023 (the “Year”).

The Group’s revenue for the Year totaled HK\$1,418,994,000 (2022:HK\$1,874,424,000). Gross profit amounted to HK\$476,364,000 (2022: HK\$637,296,000). As a result of the Group’s effective cost control measures, the gross profit margin decreased slightly by 0.4 percentage points to 33.6% (2022: 34.0%). Profit attributable to shareholders was HK\$117,949,000 (2022: HK\$195,390,000).

The Board has resolved to recommend a final dividend of 6 HK cents per share for the year ended 31 December 2023 (2022: final dividend of 6 HK cents). Together with the interim dividend of 3 HK cents per share (2022: interim dividend of 3 HK cents), the total dividend for the Year amounted to 9 HK cents per share (2022: 9 HK cents).

Mr. Ngan Hei Keung, Chairman of Mainland Headwear, said, “In 2023, procurement activity became more cautious as a result of the tense international situation and slower economic growth in major markets such as the United States and Europe. At the same time, overall retail sales fell short of expectations as the market continued to clear inventory from last year’s overbuying. In this challenging operating environment, the Group utilized its quick production and delivery capabilities to secure a large number of quick-turn orders with higher selling prices. In addition, the Group’s focus on streamlining management and improving efficiency resulted in effective cost control, and the gross profit margin remained stable during the Year. The new factory in Mexico was completed and commenced production in mid-December, laying a solid foundation for the Group to fully leverage its advantage of rapid production and expand its market share in the headwear market.”

* For identification purpose only

Manufacturing: New Mexico factory shortens lead times and reduces logistics costs for U.S.-bound products

During the Year, purchasing activity slowed significantly as retailers in Europe and the United States continued to digest last year's inventory backlog. Consumer sentiment was also suppressed by factors such as interest rate hikes, resulting in a weak retail market. Revenue from the Manufacturing Business amounted to HK\$821,760,000 (2022: HK\$1,127,566,000). The segment's operating profit was HK\$186,886,000 (2022: HK\$309,750,000). The revenue contribution of the Manufacturing Business to the Group's total revenue was 57.9% (2022: 60.2%)

During the Year, the Group vigorously optimized the operational flow of its Bangladesh factory, which has a monthly production capacity of six million pieces, and its Shenzhen factory, utilizing automated production equipment to reduce production costs and leveraging the complementary advantages of the two factories to maintain high gross profit margins.

In addition, the Group built a new factory in Mexico during the Year to further bolster its production capacity, especially in terms of quick-turn orders, and to explore new customer segments. Located in Sonora, Mexico, less than two kilometers from the United States border, the new plant significantly shortens the lead time for products destined for the United States and reduces logistics costs and tariffs associated with such orders. The new plant was completed and put into operation at the end of last year as scheduled.

Trading: Optimizing manpower structure and cost control to improve operational efficiency

The Group's Trading Business subsidiaries boast a product portfolio covering headwear and accessories such as wallets and belts, both under its own brand and as licensed products. The trading segment also actively sought measures to optimize its manpower structure and improve operational efficiency to control sales and distribution costs, as well as administrative expenses. During the Year, revenue from the Trading Business amounted to HK\$597,234,000 (2022: HK\$746,858,000), accounting for 42.1% of the Group's total revenue. However, the decrease in sales revenue exceeded the reduction in costs, resulting in an operating loss of HK\$56,563,000 (2022: HK\$59,079,000).

Prospects: Synergies with Mexico and Bangladesh factories to achieve higher profitability

Although the overall economic environment remains challenging, the market showed signs of recovery in the fourth quarter of last year. With its edge in quick production and solid customer partnerships, the Group's production efficiency and competitiveness have been further strengthened after its new plant in Mexico commenced operation. Therefore, the Group remains cautiously optimistic about the sales outlook for consumer products such as headwear in 2024.

The Mexico plant will actively explore new customers in the country and in the United States, and will create synergies with the plant in Bangladesh to jointly strengthen the Group's production efficiency. The close proximity to the United States offers the advantages of fast delivery and lower logistics costs in serving the American market. Although the cost of production is higher, there is huge scope to produce and sell products with higher selling prices and in small quantities. The Bangladesh factory has an advantage in mass production of cheaper products, and will continue to focus on handling high-volume orders. The two plants complement each other, enabling the Group to take advantage of the time difference to achieve round-the-clock production, handling urgent orders promptly and achieving higher profits. It is expected that by the end of this year, the workforce at the Mexico plant will increase to approximately 1,000 employees, with a monthly production capacity of one million pieces.

To further enhance production efficiency, the Bangladesh factory commenced the production of accessories such as wallets and belts in the first quarter of this year. These finished products are available for sale through the Trading Business, which enables cost savings on external procurement and faster delivery by leveraging the synergies of the Group's combined production and trading capabilities.

For the Trading Business, the Group will continue to optimize its product mix and operational efficiency. In January 2024, the Group acquired a property in Missouri, the United States, to use as a warehouse, which is expected to be put into use in the fourth quarter of 2024. Once operational, the spacious facility will not only help to avoid rental expenses for third-party offices and warehouses, but also help to improve operational efficiency and meet the future development of the Group's trading business.

The Group also plans to leverage the geographical advantage of the Mexican plant to develop cross-border e-commerce logistics business to expand the supply chain layout and create new sources of income.

In response to the operational challenges posed by the minimum wage increase of around 60% in Bangladesh since last December and rising raw material prices, the Group will continue to implement various cost control measures, streamline the operating structure, improve efficiency, broaden the supply chain and localize procurement in order to ease the pressure of rising costs and mitigate supply risks.

The Group has established solid and long-term business relationships with leading retail brands. In the future, it will focus on the sustainable development of the Company, implement strategies to stabilize prices for customers and protect its premium brand image.

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 become a market leader in the headwear manufacturing industry. With its leading market position, diversified production layout, broad product portfolio ranging from headwear to accessories, and business acumen, the Group is confident that it can overcome the various challenges and create long-term value for its customers and shareholders."

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, Bangladesh, and Mexico, 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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