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MAINLAND HEADWEAR HOLDINGS LIMITED

飛達帽業控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock code: 1100)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2020

The Board of Directors (the “Board” or the “Directors”) of Mainland Headwear Holdings Limited (the “Company”) hereby announces the unaudited interim results of the Company and its subsidiaries (collectively, the “Group”) for the six months ended 30 June 2020 (the “Period”) together with comparative figures for the corresponding period in 2019.

Interim Condensed Consolidated Statement of Profit or Loss (Unaudited)

For the six months ended 30 June 2020

		Six months ended 30 June	
		2020	2019
		(Unaudited)	(Unaudited)
	<i>Note</i>	HK\$'000	HK\$'000
Continuing operations			
Revenue	3	430,952	521,181
Cost of sales		(301,575)	(370,795)
Gross profit		129,377	150,386
Other income		5,550	4,924
Other (losses)/gains — net		(5,506)	7,476
Selling and distribution costs		(48,579)	(45,765)
Administration expenses		(67,546)	(69,808)
Net impairment loss on financial assets		(3,682)	(512)
Profit from operations	4(a)	9,614	46,701

* *For identification purpose only*

		Six months ended 30 June	
		2020	2019
		(Unaudited)	(Unaudited)
	<i>Note</i>	HK\$'000	HK\$'000
Finance income		363	717
Finance costs		<u>(6,409)</u>	<u>(1,809)</u>
Finance costs — net	4(b)	<u>(6,046)</u>	<u>(1,092)</u>
Profit before income tax	4	3,568	45,609
Income tax expense	5	<u>(2,228)</u>	<u>(5,663)</u>
Profit from continuing operations		1,340	39,946
Discontinued operations			
Loss from discontinued operations (attributable to owners of the Company)	13	<u>—</u>	<u>(4,632)</u>
Profit for the period		<u>1,340</u>	<u>35,314</u>
Attributable to:			
Owners of the Company		757	34,578
Non-controlling interests		<u>583</u>	<u>736</u>
		<u>1,340</u>	<u>35,314</u>
Earnings per share attributable to owners of the Company			
From continuing and discontinued operations			
Basic (<i>HK cents per share</i>)	6(a)	<u>0.19</u>	<u>8.53</u>
Diluted (<i>HK cents per share</i>)	6(b)	<u>0.19</u>	<u>8.52</u>
From continuing operations			
Basic (<i>HK cents per share</i>)	6(a)	<u>0.19</u>	<u>9.67</u>
Diluted (<i>HK cents per share</i>)	6(b)	<u>0.19</u>	<u>9.66</u>

Interim Condensed Consolidated Statement of Comprehensive Income (Unaudited)

For the six months ended 30 June 2020

	Six months ended 30 June	
	2020	2019
	(Unaudited) <i>HK\$'000</i>	(Unaudited) <i>HK\$'000</i>
Profit for the period	1,340	35,314
Other comprehensive loss		
Items that may be subsequently reclassified to profit or loss:		
Exchange differences on translation of financial statements of foreign operations	(3,684)	(425)
Total comprehensive (loss)/income for the period, net of tax	(2,344)	34,889
Attributable to:		
Owners of the Company	(2,801)	34,153
Non-controlling interests	457	736
Total comprehensive (loss)/income for the period	(2,344)	34,889
Attributable to:		
Continuing operations	(2,344)	40,313
Discontinued operations	—	(5,424)
	(2,344)	34,889

Interim Condensed Consolidated Balance Sheet (Unaudited)

As at 30 June 2020

		30 June 2020 (Unaudited) <i>HK\$'000</i>	31 December 2019 (Audited) <i>HK\$'000</i>
	<i>Note</i>		
ASSETS			
Non-current assets			
Property, plant and equipment	8	415,602	425,480
Right-of-use assets		29,019	23,861
Investment properties	8	41,864	42,375
Goodwill		22,511	22,511
Other intangible assets	8	41,024	27,538
Deferred income tax assets		3,532	2,404
Financial assets at fair value through profit or loss		7,513	7,513
Other financial assets at amortised cost	9	1,284	821
		<u>562,349</u>	<u>552,503</u>
Current assets			
Inventories		240,431	275,402
Other current assets		13,640	10,637
Other financial assets at amortised cost		21,138	26,102
Trade receivable		260,857	319,553
Financial assets at fair value through profit or loss		5,245	31,348
Tax recoverable		2,345	—
Cash and cash equivalents		223,623	112,549
		<u>767,279</u>	<u>775,591</u>
Total assets		<u><u>1,329,628</u></u>	<u><u>1,328,094</u></u>

		30 June 2020 (Unaudited) HK\$'000	31 December 2019 (Audited) HK\$'000
	<i>Note</i>		
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company			
Share capital		40,532	40,532
Other reserves		218,467	221,523
Retained earnings		468,725	480,128
		727,724	742,183
Non-controlling interests		14,208	13,751
Total equity		741,932	755,934
LIABILITIES			
Non-current liabilities			
Other payables	10	27,389	13,096
Lease liabilities		21,420	15,584
Deferred tax liabilities		4,821	4,221
		53,630	32,901
Current liabilities			
Trade and other payables	10	177,678	244,717
Amount due to a non-controlling interest		—	537
Borrowings		332,679	272,919
Lease liabilities		8,509	8,899
Current income tax liabilities		15,200	12,187
		534,066	539,259
Total liabilities		587,696	572,160
Total equity and liabilities		1,329,628	1,328,094
Net current assets		233,213	236,332
Total assets less current liabilities		795,562	788,835

1. BASIS OF PREPARATION

This interim condensed consolidated financial information for the six months ended 30 June 2020 has been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim financial reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). This interim condensed consolidation financial information does not include all the notes of the type normally included in annual consolidated financial statements. Accordingly, this interim condensed consolidated financial information should be read in conjunction with the annual consolidated financial statements for the year ended 31 December 2019, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”).

This interim condensed consolidated financial information is presented in Hong Kong dollars (“HK\$’000”) and has not been audited.

2. ACCOUNTING POLICIES

The accounting policies applied are consistent with those of the annual consolidated financial statements for the year ended 31 December 2019, as described in those annual consolidated financial statements, except for estimation of income tax and the adoption of new and amended standards.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected annual earnings.

(a) New and amended standards adopted by the Group

A number of new or amended standards became applicable for the current reporting period. The Group did not have to change its accounting policies or make retrospective adjustments as a result of adopting these standards.

(b) Impact of standards issued but not yet applied by the Group

Certain new accounting standards and interpretations have been published that are not mandatory for this reporting period and have not been early adopted by the Group. These standards are not expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

3. SEGMENT INFORMATION

The executive directors have been identified as the chief operating decision maker. The executive directors have determined the operating segments based on the reports reviewed by them that are used to make strategic decisions.

The executive directors assess the performance of the operating segments based on reportable segment profit/(loss), excluding fair value (loss)/gain on financial asset at fair value through profit or loss (“FVPL”), (loss)/gain on disposal of a financial asset at FVPL, share-based payment expenses, finance income and costs and income tax expense.

The executive directors consider the business from a business perspective whereby management assesses the performance of business operations by segment as follows:

Continuing operations:

- (i) **Manufacturing Business:** The Group manufactures headwear products for sale to its Trading Business as well as to external customers. The principal manufacturing facilities are located in Bangladesh and Shenzhen, the People’s Republic of China (“PRC”). Customers are mainly located in the USA and Europe.
- (ii) **Trading Business:** The trading and distribution business of headwear, small leather goods, bags and accessories of the Group is operating through Drew Pearson International (Europe) Ltd., (“DPI”) which focuses on the Europe market, and H3 Sportgear LLC (“H3”), San Diego Hat Company (“SDHC”) and Aquarius Ltd. (“Aquarius”) which focus on the United States (“US”) market.

Discontinued operations:

Retail Business: The Group operates headwear stores in Hong Kong and Sanrio stores in the PRC.

	Continuing operations						Discontinued operations	
	Manufacturing		Trading		Total		Retail	
	Six months ended		Six months ended		Six months ended		Six months ended	
	2020	2019	2020	2019	2020	2019	2020	2019
(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Revenue from external customers	235,980	355,053	194,972	166,128	430,952	521,181	—	22,157
Inter-segment revenue	32,489	48,528	—	—	32,489	48,528	—	—
Reportable segment revenue	<u>268,469</u>	<u>403,581</u>	<u>194,972</u>	<u>166,128</u>	<u>463,441</u>	<u>569,709</u>	<u>—</u>	<u>22,157</u>
Reportable segment profit/(loss)	35,237	55,853	(18,026)	(9,164)	17,211	46,689	—	(4,643)
Fair value (loss)/gain on financial assets at FVPL					(2,029)	2,613	—	—
(Loss)/gain on disposal of financial assets at FVPL					(2,806)	5,068	—	—
Share-based payment expenses					(502)	(879)	—	—
Unallocated corporate income					5,483	4,793	—	—
Unallocated corporate expenses					(7,743)	(11,583)	—	—
Profit/(loss) from operations					9,614	46,701	—	(4,643)
Finance (costs)/income — net					(6,046)	(1,092)	—	11
Income tax expense					(2,228)	(5,663)	—	—
Profit/(loss) for the period					<u>1,340</u>	<u>39,946</u>	<u>—</u>	<u>(4,632)</u>

Segment assets exclude investment properties, deferred income tax assets, financial assets at FVPL, tax recoverable and cash and cash equivalents. In addition, corporate assets which are not directly attributable to the business activities of any operating segment are not allocated to a segment, which primarily applies to the Group's headquarters.

	Continuing operations				Discontinued operations		Total	
	Manufacturing		Trading		Retail			
	30 June	31 December	30 June	31 December	30 June	31 December	30 June	31 December
	2020	2019	2020	2019	2020	2019	2020	2019
(Unaudited)	(Audited)	(Unaudited)	(Audited)	(Unaudited)	(Audited)	(Unaudited)	(Audited)	
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Reportable segment assets	531,971	579,949	504,430	540,119	—	—	1,036,401	1,120,068
Investment properties							41,864	42,375
Deferred income tax assets							3,532	2,404
Financial assets at FVPL							12,758	38,861
Tax recoverable							2,345	—
Cash and cash equivalents							223,623	112,549
Other corporate assets							9,105	11,837
Total assets							<u>1,329,628</u>	<u>1,328,094</u>

Segment liabilities exclude current and deferred income tax liabilities, bank borrowings and other corporate liabilities which are not directly attributable to the business activities of any operating segment.

	Continuing operations				Discontinued operations		Total	
	Manufacturing		Trading		Retail			
	30 June	31 December	30 June	31 December	30 June	31 December	30 June	31 December
	2020	2019	2020	2019	2020	2019	2020	2019
(Unaudited)	(Audited)	(Unaudited)	(Audited)	(Unaudited)	(Audited)	(Unaudited)	(Audited)	
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Reportable segment liabilities	139,965	192,305	82,615	76,998	—	—	222,580	269,303
Deferred income tax liabilities							4,821	4,221
Current income tax liabilities							15,200	12,187
Borrowings							332,679	272,919
Other corporate liabilities							12,416	13,530
							<u>587,696</u>	<u>572,160</u>
Additions to non-current assets	8,815	91,969	37,336	39,811	—	—	46,151	131,780

4. PROFIT BEFORE INCOME TAX

An analysis of the amounts debited/(credited) to profit before income tax in the interim condensed consolidated financial information is given below:

	Six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Continuing operations		
(a) Operating profit		
Loss/(gain) on disposal of financial assets at FVPL	2,806	(5,068)
Fair value loss/(gain) on financial assets at FVPL	2,029	(2,613)
Net exchange loss	878	235
Depreciation of property, plant and equipment	19,053	14,101
Depreciation of right-of-use assets	7,832	3,660
Short-term lease expenses	213	3,571
Amortisation of other intangible assets	9,336	4,356
Net provision for inventories (<i>note (i)</i>)	3,416	1,990
Net impairment loss on trade receivables (<i>note (ii)</i>)	3,682	512
	<u>3,682</u>	<u>512</u>
(b) Finance costs — net		
Interest on bank loans, overdrafts and other borrowings	(5,009)	(3,738)
Interest accretion on license fee payables	(851)	(149)
Interest on lease liabilities	(549)	(317)
	<u>(6,409)</u>	<u>(4,204)</u>
Amount capitalised	—	2,395
	<u>(6,409)</u>	<u>(1,809)</u>
Finance income	363	717
	<u>363</u>	<u>717</u>
Finance costs — net	<u>(6,046)</u>	<u>(1,092)</u>

Notes:

- (i) Provision for obsolete inventories of HK\$3,416,000 has been made during the six months ended 30 June 2020 (six months ended 30 June 2019: HK\$1,990,000), after considering their physical condition, market demand and historical usage of those inventories.

- (ii) Provision for the expected credit losses made during the six months ended 30 June 2020 was mainly related to the trade receivables of customers in the US and Europe after assessing the customers' business outlook and past repayment pattern. Based on the assessment of expected credit loss, the Group has made a provision of HK\$3,682,000 during the period ended 30 June 2020 (2019: HK\$512,000).

5. INCOME TAX EXPENSE

	Six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Current year		
— Hong Kong profits tax	—	350
— Overseas tax	2,884	6,001
	2,884	6,351
Over-provision in prior years		
— Hong Kong profits tax	(128)	(987)
— Overseas tax	—	(98)
	(128)	(1,085)
Deferred income tax	(528)	397
	2,228	5,663

Income tax expense in the interim periods is recognised based on management's estimate of the weighted average annual income tax rate expected for the full financial year.

Hong Kong profits tax has been provided at the rate of 16.5% (six months ended 30 June 2019: 16.5%) on the estimated assessable profits for the period. Taxation on overseas profits has been calculated on the estimated assessable profits for the period at the rates of taxation prevailing in the countries in which the Group operates.

6. EARNINGS PER SHARE

(a) Basic

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the period.

	Six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
Profit/(loss) attributable to owners of the Company (<i>HK\$'000</i>)		
— Continuing operations	757	39,210
— Discontinued operations	—	(4,632)
	<u>757</u>	<u>34,578</u>
Weighted average number of ordinary shares in issue	<u>405,323,284</u>	<u>405,323,284</u>
Basic earnings per share (<i>HK cents</i>)		
— Continuing operations	0.19	9.67
— Discontinued operations	—	(1.14)
	<u>0.19</u>	<u>8.53</u>

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all outstanding share options. A calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming exercise of the share options.

For the six months ended 30 June 2020, the share options issued were not assumed to be exercised as they would have an antidilutive impact to the basic earnings per share. For the six months ended 30 June 2019, the calculation of diluted earnings per share was based on the profit attributable to owners of the Company and the weighted average number of ordinary shares, which was calculated as follows:

	Six months ended 30 June 2019 (Unaudited)
Profit/(loss) attributable to owners of the Company (<i>HK\$'000</i>)	
— Continuing operations	39,210
— Discontinued operations	<u>(4,632)</u>
	<u>34,578</u>
Weighted average number of ordinary shares in issue	405,323,284
Adjustment for share options	<u>453,120</u>
Weighted average number of ordinary shares for diluted earnings per share	<u>405,776,404</u>
Diluted earnings per share (<i>HK cents</i>)	
— Continuing operations	9.66
— Discontinued operations	<u>(1.14)</u>
	<u>8.52</u>

7. DIVIDENDS

(a) Dividends attributable to the period

	Six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interim dividend declared of 2 HK cents (2019: 2 HK cents) per share	<u>8,106</u>	<u>8,106</u>

The interim dividend declared after the balance sheet date has not been recognised as a liability at the balance sheet date, but will be reflected as an appropriation of retained earnings for the six months ended 30 June 2020.

(b) Dividends attributable to the previous financial year, approved and paid during the period

	Six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Final dividend paid in respect of 2019 of 3 HK cents (2018: 3 HK cents) per share	<u>12,160</u>	<u>12,160</u>

8. CAPITAL EXPENDITURE

During the six months ended 30 June 2020, the Group acquired property, plant and equipment of HK\$10,289,000, (six months ended 30 June 2019: HK\$36,763,000, including HK\$940,000 arising from acquisition of a subsidiary) and intangible assets of HK\$22,871,000 (six months ended 30 June 2019: HK\$24,637,000, including HK\$24,637,000 arising from acquisition of a subsidiary).

As at 30 June 2020, other intangible assets represent acquired customer relationship of HK\$3,132,000 (31 December 2019: HK\$3,901,000) and licensing rights for the use of certain licensed trademark, brands and logos in the Group's products of HK\$37,892,000 (31 December 2019: HK\$23,637,000).

The Group's investment properties were revalued at 31 December 2019. No valuation was performed during the period as there was no indication of significant changes in the value since last annual reporting date (six months ended 30 June 2019: same).

9. TRADE RECEIVABLES AND OTHER FINANCIAL ASSETS AT AMORTISED COST

	30 June 2020 (Unaudited) HK\$'000	31 December 2019 (Audited) HK\$'000
Trade receivables	266,736	324,841
Less: provision for impairment loss	<u>(5,879)</u>	<u>(5,288)</u>
Trade receivables, net	<u>260,857</u>	<u>319,553</u>
Other financial assets at amortised cost	<u>22,422</u>	<u>26,923</u>
	283,279	346,476
Less: non-current portion of other financial assets at amortised cost	<u>(1,284)</u>	<u>(821)</u>
Current portion	<u>281,995</u>	<u>345,655</u>

The carrying amounts approximate their fair values.

The majority of the Group's sales are with credit terms of 30–180 days. The ageing analysis of trade receivables based on invoice date is as follows:

	30 June 2020 (Unaudited) HK\$'000	31 December 2019 (Audited) HK\$'000
0–30 days	74,798	109,326
31–60 days	44,368	82,083
61–90 days	9,622	59,834
91–120 days	45,960	31,525
Over 121 days	<u>91,988</u>	<u>42,073</u>
	<u>266,736</u>	<u>324,841</u>

10. TRADE AND OTHER PAYABLES

	30 June 2020 (Unaudited) HK\$'000	31 December 2019 (Audited) HK\$'000
Trade payables	64,238	126,146
Bills payables	1,304	1,534
Accrued charges and other payables	139,525	130,133
	205,067	257,813
Less: other non-current payables	(27,389)	(13,096)
Current portion	177,678	244,717

The ageing analysis of the Group's trade payables based on invoice date is as follows:

	30 June 2020 (Unaudited) HK\$'000	31 December 2019 (Audited) HK\$'000
0–30 days	19,054	65,867
31–60 days	8,387	35,568
61–90 days	20,158	17,884
Over 90 days	16,639	6,827
	64,238	126,146

Contract liabilities of HK\$280,000 (31 December 2019: HK\$165,000) are recognised when a customer pays consideration, or is contractually required to pay consideration and the amounts are already due, before the Group recognised the related revenue. The Group expects to deliver the goods to satisfy the remaining performance obligation of these contract liabilities within one year or less.

Revenue recognised during the period ended 30 June 2020 that was included in the contract liabilities balance at the beginning of the period amounted to HK\$165,000 (six months ended 30 June 2019: HK\$532,000). The Group recognised its contract liabilities under other payables and accruals in the interim condensed consolidated balance sheet.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

During the Period, the global economy was battered by the COVID-19 outbreak, which affected the global supply chain and consumer market. Although the entire industrial supply chain and factories in the PRC were temporarily affected at the early stages of the pandemic in February and March when China was first hit, Mainland Headwear's performance for the first quarter was robust and represented a year-on-year improvement as the Bangladesh plant has become its principal production base. However, as the pandemic rapidly spread worldwide since March, 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, the Group's Manufacturing Business in April and May was inevitably affected by such developments. Its sales performance in June, nonetheless, has shown a quick rebound.

Conversely, 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.

Due to the aforementioned challenges during the Period, the Group's revenue from continuing operations contracted by 17.3% to HK\$430,952,000 (2019 Interim: HK\$521,181,000), dragged down by the Manufacturing Business, even though the Trading Business appreciably surged by 17.4%. Notwithstanding the expected decline in gross profit from continuing operations of 14.0% to HK\$129,377,000 (2019 Interim: HK\$150,386,000) mainly due to weaker top-line performance, gross profit margin for continuing operations rose to 30.0% (2019 Interim: 28.9%). The reason for such growth can be attributed to the management's successful efforts in implementing 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 from continuing operations for the period fell by 96.6% to HK\$1,340,000 (2019 Interim: HK\$39,946,000). As a result of the cessation of the retail business in 2019, no profit/loss has been recorded from this segment during the Period (2019 Interim: loss from discontinued operations of HK\$4,632,000). Profit attributable to shareholders fell by 97.8% to HK\$757,000 (2019 Interim: HK\$34,578,000).

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 (31 December 2019: HK\$112.5 million and HK\$306.3 million, respectively).

BUSINESS REVIEW

Manufacturing Business

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 (2019 Interim: HK\$403,581,000), while revenue from external customers declined by 33.5% to HK\$235,980,000 (2019 Interim: HK\$355,053,000) accounting for approximately 54.8% of the Group's total revenue for continuing operations. Correspondingly, operating profit of the Manufacturing Business decreased by 36.9% to HK\$35,237,000 (2019 Interim: HK\$55,853,000).

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, the latter being the Group's principal production base, which has avoided the severing of the supply chain. As a result, the Group's 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 already led to the season suspension of all major sporting events. Many US and European customers have thus delayed their shipments and placing orders to the Group in April and May owing to the lockdown measures taken by their respective national governments.

To minimise the negative impact on its operations, 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 to combat the impact brought by the pandemic. It has seen a gradual sales improvement in June as the operation and orders of certain partners were swiftly picking up, while at the same time the shutdown in Bangladesh was lifted and the Group's production resumed in an orderly manner with the premise of ensuring the safety of employees.

As at 30 June 2020, the Bangladesh and Shenzhen factory had approximately 4,000 and 600 employees, respectively (31 December 2019: about 5,200 employees and 800 employees, respectively). The drop in number of employees was mainly due to natural attrition as many management staff and workers 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.

It's worth noting that even though the headcount was reduced by one-fifth, the output of headwear products at the Bangladesh Plant was still satisfactory, thanks to the enhanced efficiency and a higher level of automation.

Trading Business

Despite being impacted by such uncertainties as 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 (2019 Interim: HK\$166,128,000), accounting for 45.2% of the Group's total revenue for continuing operations. The surge was mainly attributable to (i) consolidation of the financial results of Aquarius Ltd. ("Aquarius") from 1 June 2019 subsequent to the Group's acquisition; and (ii) the accelerated growth in e-commerce business, clear evidence of the success of its business strategy to invest 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 measure taken by US and UK government in the second quarter, apart from e-commerce business, Group's trading subsidiaries in these countries were adversely 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 in building a competitive product mix and promoting this new business, the Group started to reap the benefits in the review period as e-commerce started to contribute profits. With an expanding product offering, the management has full confidence in this segment as the pandemic has further boosted online shopping.

Discontinued operations

The Group elected to cease all retail operations in both Hong Kong and Mainland China in 2019, so no profit/loss has been recorded from this segment during the Period (2019 Interim: loss from discontinued operations of HK\$4,632,000). With the conclusion of all retail operations on both sides of the border, the Group has been able to direct greater attention and resources towards the Manufacturing and Trading segments.

PROSPECTS

Going forward, the pandemic and protracted China-US trade tensions are expected to bring unprecedented challenges and more uncertainties to the global economy. 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 on the preliminary assessment. 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 internal 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 production 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 that the management has observed 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 to capture the momentum.

While leaving no stone unturned in its quest for new opportunities, the Group is well aware of the importance of financial prudence, especially during such a difficult period. It will therefore implement appropriate cost control measures. The Group, nonetheless, continues to have stable operational cash flow, and has ample cash on hand and undrawn bank credit that will enable it to withstand market fluctuations.

Given the Group’s strengthened presence in Bangladesh and broadened product portfolio, it possesses the strength necessary to ride out the storm with its business partners. The management will continue its endeavour to bolster the two major business operations, while enhancing efficiency across all areas of operation, which will, in turn, steer Mainland Headwear towards the breaking of new business ground and the creation of greater long-term value for shareholders.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2020, the Group had cash and bank balances and a portfolio of liquid investments totaling Hong Kong dollars (“HK\$”) 228.9 million (31 December 2019: HK\$127.8 million). About 62%, 20% and 10% of these liquid funds were denominated in United States dollars, Renminbi and Hong Kong dollars respectively. As at 30 June 2020, the Group had banking facilities of HK\$558.7 million (31 December 2019: HK\$581.3 million), of which HK\$224.2 million (31 December 2019: HK\$306.3 million) were not utilised.

The bank borrowing over total equity ratio of the Group is at 44.8% (31 December 2019: 36.1%). In view of the strong financial and liquidity position, the Group has sufficient financial resources to meet its commitments and working capital requirements.

CAPITAL EXPENDITURE

During the Period, the Group spent approximately HK\$8.6 million (2019 Interim: HK\$14.5 million) on additions to equipment to further upgrade and expand its manufacturing capabilities. The construction of a new factory building in Bangladesh was completed by the end of 2019 (2019 Interim: HK\$18.6 million on the construction). Also HK\$1.7 million (2019 Interim: HK\$2.7 million) on additions of equipment and systems of Trading Business.

As at 30 June 2020, the Group had authorised a capital commitment of HK\$10.9 million in respect of manufacturing plants and equipment. The Group had also authorised a capital commitment of HK\$2.5 million in respect of equipment upgrade for Trading business.

EXCHANGE RISK

Most assets and liabilities of the Group are denominated either in HK dollars, US dollars, Renminbi or Bangladesh Taka. The Group estimates that 1% appreciation of the Renminbi and Bangladesh Taka is expected to reduce the gross margin of the Manufacturing Business by about 0.1% and 0.1% respectively.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2020, the Group employed a total of 663 (2019 Interim: 1,076) workers and employees in the PRC (include Hong Kong), 4,087 (2019 Interim: 5,432) workers and employees in Bangladesh, and 148 (2019 Interim: 153) employees in the USA and the UK. The expenditures for the employees during the Period were approximately HK\$113.4 million (2019 Interim: HK\$138.6 million). The Group ensures that the pay levels of its employees are competitive and employees are remunerated based on their position and performance. Key employees of the Group, including Directors, are also granted share options under the share option schemes operated by the Company.

INTERIM DIVIDEND

The Board has declared an interim dividend of 2 HK cents (2019 Interim: 2 HK cents) per share, payable on or after 8 October 2020.

CLOSURE OF REGISTER OF MEMBERS

To determine the identity of members who are entitled to the interim dividend of the Company for the period ended 30 June 2020, the register of members of the Company will be closed from 14 September 2020 to 16 September 2020 (both dates inclusive). In order to qualify for the interim dividend, all transfers, accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong Branch Share Registrar, Tricor Tengis Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on 11 September 2020.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the six months ended 30 June 2020, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

CODE ON CORPORATE GOVERNANCE PRACTICES

In the opinion of the Board, the Company has complied with the code provisions in the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Listing Rules during the six months ended 30 June 2020.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules. All Directors have confirmed, following enquiries by the Company, that they have complied with the required standard set out in Model Code throughout the period ended 30 June 2020.

AUDIT COMMITTEE

The Company has complied with Rule 3.21 of the Listing Rules in relation to the establishment of an audit committee. The audit committee members comprise of all independent non-executive directors. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control procedures of the Group. The audit committee has reviewed the interim condensed consolidated financial information for the period ended 30 June 2020.

By Order of the Board
Ngan Hei Keung
Chairman

Hong Kong, 21 August 2020

As at the date hereof, the Board of Directors of the Company comprises eight directors, of which five are Executive Directors, namely Mr. Ngan Hei Keung, Madam Ngan Po Ling, Pauline, BBS, JP, Mr. James S. Patterson, Mr. Ngan Siu Hon, Alexander and Mr. Lai Man Sing; and three are Independent Non-executive Directors, namely Mr. Leung Shu Yin, William, Mr. Liu Tieh Ching, Brandon, JP and Mr. Gordon Ng.