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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 ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2020

The board of directors (the "Board"/"Directors") of Mainland Headwear Holdings Limited (the "Company") is pleased to announce the financial results of the Company and its subsidiaries (collectively the "Group"/"Mainland Headwear") for the year ended 31 December 2020.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2020

	Note	2020 HK$'000	2019 HK$'000
Revenue	2	**1,048,006**	1,146,834
Cost of sales		**(729,317)**	(800,622)
Gross profit		**318,689**	346,212
Other income		**14,219**	10,842
Other gains — net	3	**746**	7,678
Selling and distribution costs		**(108,482)**	(120,248)
Administration expenses		**(153,037)**	(163,745)
Net impairment losses on financial assets		**(8,286)**	(2,743)
Profit from operations		**63,849**	77,996
Finance income	4	**637**	1,860
Finance costs	4	**(11,137)**	(8,883)
Finance costs — net		**(10,500)**	(7,023)
Share of profit from an investment accounted for using equity method		**495**	—
Profit before income tax	5	**53,844**	70,973
Income tax expense	6	**(3,806)**	(9,302)
Profit from continuing operations		**50,038**	61,671
Discontinued operations			
Profit from discontinued operations (attributable to owners of the Company)		**—**	1,172
Profit for the year		**50,038**	62,843

* *For identification purpose only*

	Note	2020 HK$'000	2019 HK$'000
Profit attributable to:			
Owners of the Company		**45,895**	58,213
Non-controlling interests		**4,143**	4,630
		50,038	62,843

	Note	2020	2019
Earnings per share for the profit attributable to owners of the Company	7		
From continuing and discontinued operations			
Basic (HK cents per share)		**11.3231**	14.3622
Diluted (HK cents per share)		**11.3229**	14.3495
From continuing operations			
Basic (HK cents per share)		**11.3231**	14.0730
Diluted (HK cents per share)		**11.3229**	14.0606
From discontinued operations			
Basic (HK cents per share)		—	0.2892
Diluted (HK cents per share)		—	0.2889

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2020

	Note	2020 HK$'000	2019 HK$'000
Profit for the year		**50,038**	62,843
Other comprehensive income/(loss), net of tax			
Items that have been or may be subsequently reclassified to profit or loss:			
Exchange differences on translation of financial statements of foreign operations		**3,292**	(724)
Release of exchange reserve upon disposal of a subsidiary		**—**	(2,173)
Release of exchange reserve upon deregistration of a subsidiary		**(1,553)**	—
Total comprehensive income for the year, net of tax		**51,777**	59,946
Total comprehensive income attributable to:			
Owners of the Company		**47,582**	55,363
Non-controlling interests		**4,195**	4,583
Total comprehensive income for the year		**51,777**	59,946
Attributable to:			
Continuing operations		**51,777**	59,172
Discontinued operations		**—**	774
		51,777	59,946

CONSOLIDATED BALANCE SHEET
As at 31 December 2020

	Note	2020 HK$'000	2019 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment		**407,737**	425,480
Right-of-use assets		**42,183**	23,861
Investment properties		**44,523**	42,375
Goodwill		**22,511**	22,511
Other intangible assets		**32,774**	27,538
Deferred income tax assets		**3,500**	2,404
Investment accounted for using equity method		**1,195**	—
Financial assets at fair value through profit or loss		**8,943**	7,513
Other financial assets at amortised cost	9	**1,489**	821
		564,855	552,503
Current assets			
Inventories		**276,830**	275,402
Trade receivables	9	**335,320**	319,553
Financial assets at fair value through profit or loss		**6,556**	31,348
Other financial assets at amortised cost	9	**8,254**	26,102
Other current assets	10	**18,745**	10,637
Tax recoverable		**3,477**	—
Cash and cash equivalents		**219,461**	112,549
		868,643	775,591
Total assets		**1,433,498**	1,328,094
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company			
Share capital		**40,532**	40,532
Other reserves		**223,800**	221,523
Retained earnings		**506,135**	480,128
		770,467	742,183
Non-controlling interests		**17,946**	13,751
Total equity		**788,413**	755,934

	Note	2020 HK$'000	2019 HK$'000
LIABILITIES			
Non-current liabilities			
Other payables	11	**20,862**	13,096
Lease liabilities		**27,374**	15,584
Deferred income tax liabilities		**4,563**	4,221
		52,799	32,901
Current liabilities			
Trade and other payables	11	**270,187**	244,717
Amount due to a non-controlling interest		**537**	537
Borrowings		**293,677**	272,919
Lease liabilities		**16,294**	8,899
Current income tax liabilities		**11,591**	12,187
		592,286	539,259
Total liabilities		**645,085**	572,160
Total equity and liabilities		**1,433,498**	1,328,094
Net current assets		**276,357**	236,332
Total assets less current liabilities		**841,212**	788,835

Notes

1. ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs") and the disclosure requirements of the Hong Kong Companies Ordinance Cap. 622. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss ("FVPL") and investment properties, which are measured at fair values.

The preparation of financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

Changes in accounting policy and disclosures

(i) New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for the annual reporting period commencing 1 January 2020:

- Definition of Material — Amendments to HKAS 1 and HKAS 8
- Definition of a Business — Amendments to HKFRS 3
- Interest Rate Benchmark Reform — Amendments to HKFRS 9, HKAS 39 and HKFRS 7
- Revised Conceptual Framework for Financial Reporting

The amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

The Group has early adopted Amendment to HKFRS 16 — COVID-19 Related Rent Concessions retrospectively from 1 January 2020.

The Group has applied the practical expedient to the qualifying COVID-19 Related Rent Concessions. Rent concessions totaling HK$52,000 have been accounted for as negative variable lease payments and recognised in other lease expenses in the consolidated statement of comprehensive income for the year ended 31 December 2020, with a corresponding adjustment to the lease liability. There is no impact on the Group's retained earnings as at 1 January 2020.

(ii) 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 31 December 2020 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.

2. 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 gains and interest income on financial assets at FVPL, (loss)/gain on disposal of a financial asset at FVPL, fair value gains on investment properties, share-based payment expense, finance income and costs, share of profit from an investment accounted for using equity method 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 PRC. Customers are mainly located in the United States of America (the "USA") and Europe.

(ii) Trading Business: The trading and distribution of headwear, apparel, small leather goods, bags and accessories of the Group is operating through Drew Pearson International (Europe) Ltd., ("DPI Europe") which focuses on the Europe market, and H3 Sportgear LLC ("H3"), San Diego Hat Company ("SDHC") and Aquarius Ltd ("AQ") which focus on the USA market. The Group also engages in e-commerce business which mainly focus on the USA market.

Discontinued operations:

Retail Business: The Group's operation of headwear stores in Hong Kong and the Sanrio stores in the PRC were discontinued in 2019.

	Continuing operations						Discontinued operations	
	Manufacturing		Trading		Total		Retail	
	2020	2019	**2020**	2019	**2020**	2019	**2020**	2019
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Revenue from external customers	**533,728**	670,327	**514,278**	476,507	**1,048,006**	1,146,834	**—**	32,399
Inter-segment revenue	**58,892**	72,834	**—**	—	**58,892**	72,834	**—**	—
Reportable segment revenue	**592,620**	743,161	**514,278**	476,507	**1,106,898**	1,219,668	**—**	32,399
Reportable segment profit/(loss)	**87,625**	104,951	**(21,984)**	(21,986)	**65,641**	82,965	**—**	(1,661)
Gain on disposal of a subsidiary					**—**	—	**—**	2,857
Financial assets at fair value through profit or loss *(note 3)*								
— fair value gains					**711**	806	**—**	—
— interest income					**207**	643	**—**	—
(Loss)/gain on disposal of financial assets at fair value through profit or loss					**(2,806)**	5,312	**—**	—
Fair value gains on investment properties					**758**	1,314	**—**	—
Share-based payment expense					**(968)**	(1,760)	**—**	—
Unallocated corporate income					**12,959**	9,944	**—**	—
Unallocated corporate expenses					**(12,653)**	(21,228)	**—**	—
Profit from operations					**63,849**	77,996	**—**	1,196
Finance income					**637**	1,860	**—**	—
Finance costs					**(11,137)**	(8,883)	**—**	(25)
Share of profit from an investment accounted for using equity method					**495**	—	**—**	—
Income tax expense					**(3,806)**	(9,302)	**—**	1
Profit for the year					**50,038**	61,671	**—**	1,172
Depreciation of property, plant and equipment	**27,113**	16,765	**10,223**	9,664	**37,336**	26,429	**—**	778
Depreciation of right-of-use assets	**10,771**	11,128	**6,269**	3,206	**17,040**	14,334	**—**	398
Amortisation of other intangible assets	**—**	—	**20,520**	12,675	**20,520**	12,675	**—**	—
Impairment of goodwill	**—**	—	**—**	(11,310)	**—**	(11,310)	**—**	—

	Manufacturing		Trading		Total	
	2020	2019	**2020**	2019	**2020**	2019
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Reportable segment assets	**563,563**	579,949	**580,889**	540,119	**1,144,452**	1,120,068
Investment properties					**44,523**	42,375
Deferred income tax assets					**3,500**	2,404
Investment accounted for using equity method					**1,195**	—
Financial assets at fair value through profit or loss					**15,499**	38,861
Tax recoverable					**3,477**	—
Cash and cash equivalents					**219,461**	112,549
Other corporate assets					**1,391**	11,837
Total assets					**1,433,498**	1,328,094
Reportable segment liabilities	**192,891**	192,305	**134,864**	76,998	**327,755**	269,303
Deferred income tax liabilities					**4,563**	4,221
Current income tax liabilities					**11,591**	12,187
Borrowings					**293,677**	272,919
Other corporate liabilities					**7,499**	13,530
Total liabilities					**645,085**	572,160
Capital expenditure incurred during the year	**25,715**	91,969	**53,909**	39,811	**79,624**	131,780

Segment assets exclude investment properties, deferred income tax assets, investment accounted for using equity method, financial assets at fair value through profit or loss, 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.

Capital expenditure incurred during the year comprises additions to property, plant and equipment, intangible assets and right-of-use assets (2019: property, plant and equipment, intangible assets and right-of-use assets, including additions resulting from acquisition through business combinations).

(i) Revenue from external customers

The Group's revenue from external customers is divided into the following geographical areas based on the location at which the goods were delivered:

	2020	2019
	HK$'000	*HK$'000*
Continuing operations:		
USA	**924,714**	962,842
Europe	**68,359**	87,345
PRC	**10,975**	16,469
Hong Kong	**7,804**	15,841
Others	**36,154**	64,337
	1,048,006	1,146,834
Discontinued operations:		
PRC	—	31,711
Hong Kong	—	688
	—	32,399
Total	**1,048,006**	1,179,233

During the year ended 31 December 2020, revenue derived from the Group's largest customer (who is a group of affiliated companies of a shareholder) amounted to HK$360,083,000 or 34.4% of the Group's revenue from continuing operations (2019: HK$427,138,000 or 37.2%). These revenues were attributable to the Manufacturing Business.

(ii) Non-current assets

The geographical location of the non-current assets is based on the location of operations and physical location of the asset:

	2020	2019
	HK$'000	*HK$'000*
USA	**262,000**	248,413
Bangladesh	**196,569**	202,287
PRC	**47,581**	49,229
Europe	**7,193**	7,164
Hong Kong	**6,295**	7,955
	519,638	515,048
Other intangible assets	**32,774**	27,538
Deferred income tax assets	**3,500**	2,404
Financial assets at fair value through profit or loss	**8,943**	7,513
	564,855	552,503

3. OTHER GAINS — NET

	2020	2019
	HK$'000	*HK$'000*
Financial assets at fair value through profit or loss		
— fair value gains	**711**	806
— interest income of unlisted convertible bonds in Hong Kong	**207**	643
(Loss)/gain on disposal of financial assets at fair value through profit or loss	**(2,806)**	5,312
Net foreign exchange gain/(loss)	**530**	(397)
Fair value gains on investment properties	**758**	1,314
Loss on disposal of property, plant and equipment	**(207)**	—
Gain on deregistration of a subsidiary	**1,553**	—
	746	7,678

4. FINANCE COSTS — NET

	2020	2019
	HK$'000	*HK$'000*
Interest on bank loans, overdrafts and other borrowings	**(8,224)**	(9,325)
Interest on lease liabilities	**(1,226)**	(1,094)
Interest accretion on licence fee payables	**(1,687)**	(697)
	(11,137)	(11,116)
Amount capitalised *(note)*	**—**	2,233
Interest costs	**(11,137)**	(8,883)
Interest income	**637**	1,860
Finance costs — net	**(10,500)**	(7,023)

Note:

During 31 December 2019, interest expenses on bank borrowings were capitalised at the weighted average rate of its general borrowings of approximately 3.94%. There was no interest expenses capitalised during 31 December 2020 as the construction was completed.

5. PROFIT BEFORE INCOME TAX

Profit before income tax is stated after charging:

	2020	2019
	HK$'000	*HK$'000*
Depreciation of property, plant and equipment	**37,336**	26,429
Depreciation of right-of-use assets	**17,040**	14,334
Amortisation of other intangible assets	**20,520**	12,675
Net impairment losses on trade receivables	**8,286**	2,743
Net provision for inventories	**1,853**	597
Impairment of goodwill	**—**	11,310

6. INCOME TAX EXPENSE

	2020	2019
	HK$'000	*HK$'000*
Current year		
— Hong Kong profits tax	**—**	1,440
— Overseas tax	**4,666**	9,990
	4,666	11,430
Over-provision in prior years		
— Hong Kong profits tax	**—**	(1,973)
— Overseas tax	**—**	(1,308)
	—	(3,281)
Deferred income tax	**(860)**	1,152
	3,806	9,301
Income tax expense is attributable to:		
Profit from continuing operations	**3,806**	9,302
Loss from discontinued operations	**—**	(1)
	3,806	9,301

Hong Kong profits tax has been provided at the rate of 16.5% (2019: 16.5%) on the estimated assessable profits for the year.

Taxation on overseas profits has been calculated on the estimated assessable profits for the year at the rates of taxation prevailing in the countries in which the Group operates.

AQ, a subsidiary of the Group, operates in the USA. In response to the COVID-19 pandemic, the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") of the USA was enacted on 27 March 2020, which provides various federal tax relief measures. Under the CARES Act, net operating loss generated in 2018, 2019, and 2020 can be carried back five years to offset prior year taxable income. AQ reported taxable income and made US federal tax payments in tax years 2015-2017. As such, the Group carried back its 2020 taxable loss to 2015-2017 and claim for tax refund of HK$3,477,000, this was recognised as tax recoverable in the consolidated balance sheet.

7. 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 year.

	2020	2019
Profit attributable to owners of the Company *(HK$'000)*		
— Continuing operations	**45,895**	57,041
— Discontinued operations	**—**	1,172
	45,895	58,213
Weighted average number of ordinary shares in issue	**405,323,284**	405,323,284
Basic earnings per share *(HK cents)*		
— Continuing operations	**11.3231**	14.0730
— Discontinued operations	**—**	0.2892

(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.

	2020	2019
Profit attributable to owners of the Company *(HK$'000)*		
— Continuing operations	**45,895**	57,041
— Discontinued operations	**—**	1,172
	45,895	58,213
Weighted average number of ordinary shares in issue	**405,323,284**	405,323,284
Adjustment for share options	**7,156**	356,469
Weighted average number of ordinary shares for diluted earnings per share	**405,330,440**	405,679,753
Diluted earnings per share *(HK cents)*		
— Continuing operations	**11.3229**	14.0606
— Discontinued operations	**—**	0.2889
	11.3229	14.3495

8. DIVIDENDS

A final dividend in respect of the year ended 31 December 2020 of 3 HK cents per share, amounting to a total dividend of HK$12,160,000, is to be proposed at the upcoming annual general meeting. These financial statements do not reflect this dividend payable. The amount of proposed final dividend for 2020 was based on 405,323,284 (2019: 405,323,284) shares in issue as at 31 December 2020.

	2020	2019
	HK$'000	*HK$'000*
Interim dividend of 2 HK cents (2019: 2 HK cents) per share	**8,106**	8,106
Proposed final dividend of 3 HK cents (2019: 3 HK cents) per share	**12,160**	12,160
	20,266	20,266

9. TRADE RECEIVABLES AND OTHER FINANCIAL ASSETS AT AMORTISED COST

	2020 *HK$'000*	2019 *HK$'000*
Trade receivables	**343,202**	324,841
Less: provision for impairment losses	**(7,882)**	(5,288)
Trade receivables, net	**335,320**	319,553
Other financial assets at amortised cost	**9,743**	26,923
	345,063	346,476
Less: non-current portion of other financial assets at amortised cost	**(1,489)**	(821)
Current portion	**343,574**	345,655

The carrying amounts approximate their fair values.

(a) 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:

	2020 *HK$'000*	2019 *HK$'000*
0 – 30 days	**117,463**	109,326
31 – 60 days	**78,436**	82,083
61 – 90 days	**52,138**	59,834
91 – 120 days	**27,068**	31,525
Over 121 days	**68,097**	42,073
	343,202	324,841

(b) Impairment and risk exposure

Trade receivables

The Group applies the HKFRS 9 simplified approach to measure expected credit loss which uses a lifetime expected loss allowance for all trade receivables. To measure the expected credit loss, trade receivables relating to customers with known financial difficulties or significant doubt on collection of receivables are assessed individually for provision for impairment allowance, the remaining trade receivables have been grouped based on shared credit risk characteristics. Future cash flows for each group receivables are estimated on the basis of historical loss experience, adjusted to reflect the effects of current conditions as well as forward looking information.

During the year ended 31 December 2020, based on management's assessment, the Group recorded impairment loss for trade receivables of HK$8,286,000 (2019: HK$2,743,000) in the consolidated statement of profit or loss.

The movement in provision for impairment loss of trade receivables during the year is as follows:

	2020	2019
	HK$'000	*HK$'000*
At 1 January	**5,288**	2,545
Net provision for impairment loss for the year *(Note 5)*	**8,286**	2,743
Uncollectible amounts written off	**(5,692)**	—
At 31 December	**7,882**	5,288

Trade receivables of HK$5,692,000, which are still subject to enforcement activity were determined as uncollectible and were written off against trade receivables during the year ended 31 December 2020. There is no trade receivable written off during the year ended 31 December 2019.

The Group does not hold any collateral over the impaired receivables.

10. OTHER CURRENT ASSETS

	2020	2019
	HK$'000	*HK$'000*
Prepayments	**8,238**	7,702
Others	**10,507**	2,935
	18,745	10,637

11. TRADE AND OTHER PAYABLES

	2020	2019
	HK$'000	*HK$'000*
Trade payables	**140,232**	126,146
Bill payables	**—**	1,534
Accrued charges and other payables	**150,817**	130,133
	291,049	257,813
Less: other non-current payables	**(20,862)**	(13,096)
Current portion	**270,187**	244,717

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

	2020	2019
	HK$'000	*HK$'000*
0 – 30 days	**51,593**	65,867
31 – 60 days	**43,910**	35,568
61 – 90 days	**19,394**	17,884
Over 90 days	**25,335**	6,827
	140,232	126,146

BUSINESS REVIEW

Overview

The past 12 months have been disruptive to all businesses in the wake of the pandemic which inflicted a heavy blow to both the global supply chain and the consumer market in the first half. The pandemic first hit the entire industrial supply chain and factories in China in February and March, and it then swept across the world and forced Bangladesh to impose a nationwide shutdown from the end of March 2020 until May. On the demand front, the economic and retail markets in the US and Europe were also affected severely, causing delays of shipments and orders from the majority of the Group's US and European customers.

However, one positive impact of the events of the year was it clearly differentiated businesses that are responsive, adaptable and well-prepared against those which are not. Although the Group was not exempted from the negative events over the past year, I am pleased that the strong business ties cultivated with our customers and the well-established Bangladesh plant has enabled our Manufacturing Business to benefit from the quick rebound of orders since June, thus enabling the Group to achieve the best sales performance in the last quarter in recent years.

As regards the Trading Business, the pandemic has expedited the shift towards online shopping by consumers. This trend has brought significant benefits to the Group's well-developed e-commerce business. In recent years, we have poured considerable resources into building a competitive product mix and promoting this business, and this has been rewarded by a remarkable rise in the volume of e-commerce sales over the past year.

FINANCIAL REVIEW

The extraordinary events over the past year saw the Group's revenue from continuing operations contract by 8.6% to HK$1,048,006,000 (2019: HK$1,146,834,000), as they were dragged down by the Manufacturing Business mainly in the second quarter despite the Trading Business gain of 7.9%. Notwithstanding the expected decline in gross profit from continuing operations by 7.9% to HK$318,689,000 (2019: HK$346,212,000) mainly due to weaker topline performance, the gross profit margin for continuing operations rose modestly to 30.4% (2019: 30.2%), which can be attributed to the effective cost control measures that optimised the management and streamlined the structure of the Group, reinforced by improvement in production efficiency due to a higher level of automation at its Bangladesh plant. However, the significant top-line drop in the second quarter has caused profit from continuing operations during the year to fall by 18.9% to HK$50,038,000 (2019: HK$61,671,000). As a result of the cessation of the retail business in 2019, no profit/loss has been recorded from this segment during the year (2019: profit from discontinued operations of HK$1,172,000). Profit attributable to shareholders fell by 21.2% to HK$45,895,000 (2019: HK$58,213,000).

Given the Group's sound fundamentals, the Board has resolved to recommend a final dividend of 3 HK cents per share (2019: 3 HK cents). Together with an interim dividend of 2 HK cents per share (2019 Interim: 2 HK cents), total dividend for the year amounted to 5 HK cents (2019: 5 HK cents).

The Group remains in a healthy financial position, and it has stable operating cash flows. It also holds sufficient cash on hand and total unutilised banking facilities, amounting to approximately HK$219.5 million and HK$219.3 million, respectively, as of 31 December 2020 (31 December 2019: HK$112.5 million and HK$306.3 million, respectively).

BUSINESS REVIEW

Manufacturing Business

Because of the inevitable adverse impact of the pandemic, segment revenue from the Manufacturing Business dropped by 20.3% to HK$592,620,000 (2019: HK$743,161,000), while revenue from external customers declined by 20.4% to HK$533,728,000 (2019: HK$670,327,000), accounting for approximately 50.9% of the Group's total revenue for continuing operations. Correspondingly, operating profit of the Manufacturing Business decreased by 16.5% to HK$87,625,000 (2019: HK$104,951,000).

The year 2020 has been a roller-coaster ride for the Group's Manufacturing Business. In the first quarter, the segment not only remained unaffected by the disruption in China's supply chain, it even exceeded its business in the same period last year as it had largely transferred the majority of production of orders and relevant raw materials from Shenzhen to its principal production base in Bangladesh. However, the segment was hit hard by the nationwide shutdown in Bangladesh which started at the end of March 2020 and lasted until May and by the delay of shipments and orders from the majority of the Group's US and European customers due to the pandemic.

To overcome the difficult times, we worked closely together with customers on necessary adjustments to the delivery schedule. Such efforts paid off as we saw gradual improvement of sales since June as the operation and orders of certain retailers picked up quickly. In particular, we have gained more orders from our long-term business partners, serving as testament to the strong business ties that the Group has established with our customers.

As a firm believer in the principle that opportunities are ideally positioned only for those who are well-prepared, the Group has exerted relentless efforts to equip itself to capture and cash in on opportunities ahead. This included our consistent implementation of a series of stringent precautionary and control measures throughout the pandemic, including those during the period of mandatory closure, to ensure the safety of our employees. This has enabled our production to resume quickly once the shutdown in Bangladesh was lifted. We were actively ramping up efficiency by implementing a higher level of automation and optimising our management. With the remarkable improvement of efficiency under a streamlined structure and optimised management, the Group demonstrated that it was more than capable of handling the faster-than-expected rebound of orders since mid-2020 and the level in the last quarter even reached the peak in recent years.

As of 31 December 2020, the Bangladesh and Shenzhen factories had more than 5,300 and 500 employees, respectively (31 December 2019: about 5,300 employees and 800 employees, respectively). The drop in the number of employees was mainly due to natural attrition.

Trading Business

Despite the lackluster US and UK retail markets getting weighed down by the pandemic, the Group's Trading Business still managed to achieve top-line growth of 7.9% to HK$514,278,000 (2019: HK$476,507,000), accounting for 49.1% of the Group's total revenue for the continuing operations. The surge was due mainly 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 of e-commerce business, a clear evidence of the success of its business strategy to invest in this area over the past few years, which enabled the Group to benefit from the rising online shopping trend during the pandemic. However, the lockdown measures taken by the US and UK governments, except the e-commerce business, have adversely affected the Group's trading subsidiaries in these countries. As a result, the operating loss of this segment amounted to HK$21,984,000 (2019: HK$21,986,000).

We have tracked closely the online consumption trend well before the pandemic's outbreak, and this foresight has proven to be particularly successful, as we achieved a surge in sales from the e-commerce business. Apart from building a competitive product mix and promoting this new business, the Group also expanded its portfolio of licensed brands by leveraging the consolidation in the industry during this challenging year.

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 year (2019: operating profit from discontinued operations of HK$1,172,000). With the cessation of all retail operations, the Group has been able to focus its resources on the Manufacturing and Trading segments.

PROSPECTS

As 2021 ushered in, the management is convinced that the world is likely to gain the upper hand over the pandemic with the rollout of vaccines, a welcome development which is expected to alleviate the pandemic. This optimism is shared by our customers as they have gradually adapted to the new normal and with the resumption of the season of all major sports events. The management believes the short-term challenges from the pandemic are behind us and business has steadily resumed its growth momentum, and the Group is confident that its business will return to the right track.

The Group is ready to seize opportunities that lie ahead as it leverages its strengthened production presence in Bangladesh with remarkably enhanced efficiency, optimised management and a well-established traceability system, which again puts it a step ahead of its peers. Its competitive edge is further bolstered by the market's concerns over various geopolitical tensions, particularly as customers shift their production away from chaos-afflicted Myanmar. As regards expanding production into small leather goods, bags and accessories, approval of the local government was slightly behind schedule due to the pandemic. The Group will steadfastly communicate with authorities to speed up the progress. With all these advantages and plans in place, the Group is fully confident that this factory will bring greater contributions amid the likely increase of orders when the pandemic recedes, and as it subsequently raises its profitability to an optimal level.

One phenomenon that will certainly outlast the pandemic is the online shopping habit. We will strengthen our e-commerce presence to cash in on the momentum. Another opportunity amid the pandemic that the Group has observed is the industry consolidation trend. We will expand our licensed brand portfolio under the Trading umbrella to bolster our leading edge.

As for the space saved at the Group's Shenzhen factory after the transfer of most of its production to its Bangladesh plant, we will strive to maximise its value for shareholders since it is situated in a prime location with close proximity to the train station. We will tap opportunities emerging from the government policy of fostering the development of the ecological chain of the innovation and technology industry in Hong Kong and Shenzhen.

With our strengthened presence in Bangladesh, solid relationships built with our customers and a wide spectrum of products, we are excited about opportunities that loom in the horizon and we look forward to a brighter year ahead. We will continue bolstering the two business operations, while enhancing efficiency across all areas of operation, which will, in turn, elevate Mainland Headwear to new heights, and create long-term value for our customers and shareholders.

MANAGEMENT DISCUSSION AND ANALYSIS

Liquidity and Financial Resources

As at 31 December 2020, the Group had cash and cash equivalents and a portfolio of liquid investments totaling HK$226.0 million (2019: HK$127.8 million). About 58%, 25% and 8% of these liquid funds were denominated in United States dollars, Renminbi and Hong Kong dollars respectively and the remaining were mainly in Pound Sterling and Bangladesh Taka.

As at 31 December 2020, the Group had banking facilities of HK$513.4 million (2019: HK$581.3 million), of which HK$219.3 million (2019: HK$306.3 million) was not utilised.

The bank borrowing over equity ratio of the Group was 37.2% (2019: 36.1%). In view of the strong financial and liquidity position, the Group have sufficient financial resources to meet its commitments and working capital requirements.

Capital Expenditure

During the year, the Group incurred approximately HK$16.6 million (2019: HK$37.8 million) on additions to plant and equipment and on additions to land to upgrade its manufacturing capability and expansion in the Bangladesh factory. During the year ended 31 December 2019, the Group incurred HK$35.2 million on the construction of a factory building in Bangladesh, which was completed in early 2020. The Group also incurred HK$2.9 million (2019: HK$4.2 million) on equipments and systems of Trading business.

The Group budgeted HK$48.6 million for capital expenditures of which HK$45.6 million is estimated to be used for the expansion in the Bangladesh under Manufacturing business. The Group also authorised a capital commitment of HK$3.0 million for the equipment upgrades for Trading business.

The above capital expenditure is expected to be financed by internal resources of the Group and banking facilities.

Exchange Risk

Most assets and liabilities of the Group are denominated either in Hong Kong dollars, United States dollars, Renminbi or Bangladesh Taka. The Group estimates that any 1% appreciation of the Bangladesh Taka and Renminbi is expected to reduce the gross margin of the Manufacturing Business by about 0.2% and 0.1% respectively.

Employees and Remuneration Policies

At 31 December 2020, the Group employed 558 (2019: 819) employees in the PRC (include Hong Kong), 5,328 (2019: 5,265) employees in Bangladesh and a total of 147 (2019: 162) employees in the USA and the United Kingdom. The expenditures for employees during the year were approximately HK$251.8 million (2019: HK$288.3 million). The Group ensures that the pay levels of its employees are competitive and employees were 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.

DIVIDENDS AND CLOSURE OF REGISTER OF MEMBERS

The Directors recommend the payment of a final dividend of 3 HK cents (2019: 3 HK cents) per share in respect of the year ended 31 December 2020. Subject to the approval at the forthcoming annual general meeting, the final dividend will be payable on or after 25 June 2021 to the shareholders whose names appear on the register of members at the close of the business on 7 June 2021, being the record date for determination of entitlements to the final dividend.

The register of members of the Company will be closed from 2 June 2021 to 7 June 2021 (both dates inclusive). In order to qualify for the proposed final 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 1 June 2021.

ANNUAL GENERAL MEETING

It is proposed that the Annual General Meeting of the Company will be held on 26 May 2021. The Notice of the Annual General Meeting will be published in the Company's website and sent to the shareholders of the Company in due course.

To determine the identity of members who are entitled to attend and vote at the forthcoming Annual General Meeting which will be held on 26 May 2021, the register of members of the Company will be closed from 21 May 2021 to 26 May 2021 (both dates inclusive). In order to qualify to attend the Annual General Meeting, 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 20 May 2021.

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

During the year ended 31 December 2020, the Company has not redeemed any of its shares. 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 year ended 31 December 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 enquiry by the Company, that they have complied with the required standard set out in the Model Code throughout the year ended 31 December 2020.

REVIEW OF FINANCIAL STATEMENTS

The Audit Committee has reviewed the Group's consolidated financial statements for the year ended 31 December 2020, including the accounting principles and practices adopted by the Group.

SCOPE OF WORK OF PRICEWATERHOUSECOOPERS

The figures in respect of the Group's consolidated balance sheet, consolidated statement of profit or loss, consolidated statement of comprehensive income and the related notes thereto for the year ended 31 December 2020 as set out in the preliminary announcement have been agreed by the Group's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's draft consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on the preliminary announcement.

By Order of the Board
Ngan Hei Keung
Chairman

Hong Kong, 29 March 2021

As at the date of this announcement, the Board 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.