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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 2021

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 2021 (the “Period”) together with comparative figures for the corresponding period in 2020.

Interim Condensed Consolidated Statement of Profit or Loss (Unaudited)

For the six months ended 30 June 2021

		Six months ended 30 June	
		2021	2020
		(Unaudited)	(Unaudited)
	<i>Note</i>	HK\$'000	HK\$'000
Revenue	3	741,658	430,952
Cost of sales		(498,928)	(301,575)
Gross profit		242,730	129,377
Other income		10,009	5,550
Other losses — net		(2,001)	(5,506)
Selling and distribution costs		(68,175)	(48,579)
Administration expenses		(93,802)	(67,546)
Net reversal/(impairment) on financial assets		788	(3,682)
Profit from operations	4(a)	89,549	9,614

* *For identification purpose only*

		Six months ended 30 June	
		2021	2020
		(Unaudited)	(Unaudited)
	<i>Note</i>	HK\$'000	HK\$'000
Finance income		246	363
Finance costs		<u>(3,917)</u>	<u>(6,409)</u>
Finance costs — net	4(b)	<u>(3,671)</u>	<u>(6,046)</u>
Profit before income tax		85,878	3,568
Income tax expense	5	<u>(15,196)</u>	<u>(2,228)</u>
Profit for the period		<u>70,682</u>	<u>1,340</u>
Attributable to:			
Owners of the Company		66,084	757
Non-controlling interests		<u>4,598</u>	<u>583</u>
		<u>70,682</u>	<u>1,340</u>
Earnings per share attributable to owners of the Company			
Basic (<i>HK cents per share</i>)	6(a)	<u>16.30</u>	<u>0.19</u>
Diluted (<i>HK cents per share</i>)	6(b)	<u>16.30</u>	<u>0.19</u>

Interim Condensed Consolidated Statement of Comprehensive Income (Unaudited)

For the six months ended 30 June 2021

	Six months ended 30 June	
	2021	2020
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Profit for the period	70,682	1,340
Other comprehensive income/(loss)		
Items that may be subsequently reclassified to profit or loss:		
Exchange differences on translation of financial statements of foreign operations	<u>1,069</u>	<u>(3,684)</u>
Total comprehensive income/(loss) for the period, net of tax	<u>71,751</u>	<u>(2,344)</u>
Attributable to:		
Owners of the Company	67,064	(2,801)
Non-controlling interests	<u>4,687</u>	<u>457</u>
Total comprehensive income/(loss) for the period	<u>71,751</u>	<u>(2,344)</u>

Interim Condensed Consolidated Balance Sheet (Unaudited)

As at 30 June 2021

		30 June 2021 (Unaudited) <i>HK\$'000</i>	31 December 2020 (Audited) <i>HK\$'000</i>
	<i>Note</i>		
ASSETS			
Non-current assets			
Property, plant and equipment	8	394,459	407,737
Right-of-use assets	9	43,514	42,183
Investment properties	8	44,523	44,523
Goodwill		22,511	22,511
Other intangible assets	8	22,952	32,774
Deferred income tax assets		5,315	3,500
Investment accounted for using equity method		1,195	1,195
Financial assets at fair value through profit or loss		17,855	8,943
Other financial assets at amortised cost	10	<u>1,663</u>	<u>1,489</u>
		<u>553,987</u>	<u>564,855</u>
Current assets			
Inventories		320,314	276,830
Trade receivable	10	350,778	335,320
Financial assets at fair value through profit or loss		13,822	6,556
Other financial assets at amortised cost	10	9,408	8,254
Other current assets		19,909	18,745
Tax recoverable		3,325	3,477
Cash and cash equivalents		<u>217,294</u>	<u>219,461</u>
		<u>934,850</u>	<u>868,643</u>
Total assets		<u><u>1,488,837</u></u>	<u><u>1,433,498</u></u>

		30 June	31 December
		2021	2020
		(Unaudited)	(Audited)
	<i>Note</i>	HK\$'000	HK\$'000
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company			
Share capital		40,532	40,532
Other reserves		225,003	223,800
Retained earnings		560,059	506,135
		825,594	770,467
Non-controlling interests		22,633	17,946
Total equity		848,227	788,413
LIABILITIES			
Non-current liabilities			
Other payables	11	14,029	20,862
Lease liabilities	9	29,970	27,374
Deferred income tax liabilities		5,206	4,563
		49,205	52,799
Current liabilities			
Trade and other payables	11	279,870	270,187
Amount due to a non-controlling interest		537	537
Borrowings		270,343	293,677
Lease liabilities	9	15,840	16,294
Current income tax liabilities		24,815	11,591
		591,405	592,286
Total liabilities		640,610	645,085
Total equity and liabilities		1,488,837	1,433,498
Net current assets		343,445	276,357
Total assets less current liabilities		897,432	841,212

1. BASIS OF PREPARATION

This interim condensed consolidated financial information for the six months ended 30 June 2021 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 2020, 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 2020, 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 on financial assets at fair value through profit or loss (“FVPL”), loss 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:

- (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.

	Manufacturing		Trading		Total	
	Six months ended		Six months ended		Six months ended	
	2021	2020	2021	2020	2021	2020
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue from external customers	392,618	235,980	349,040	194,972	741,658	430,952
Inter-segment revenue	48,684	32,489	—	—	48,684	32,489
Reportable segment revenue	<u>441,302</u>	<u>268,469</u>	<u>349,040</u>	<u>194,972</u>	<u>790,342</u>	<u>463,441</u>
Reportable segment profit/(loss)	89,087	35,237	7,631	(18,026)	96,718	17,211
Fair value loss on financial assets at FVPL					(1,677)	(2,029)
Loss on disposal of financial assets at FVPL					—	(2,806)
Share-based payment expenses					(223)	(502)
Unallocated corporate income					9,452	5,483
Unallocated corporate expenses					(14,721)	(7,743)
Profit from operations					89,549	9,614
Finance costs — net					(3,671)	(6,046)
Income tax expense					(15,196)	(2,228)
Profit for the period					<u>70,682</u>	<u>1,340</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.

	Manufacturing		Trading		Total	
	30 June 2021 (Unaudited) <i>HK\$'000</i>	31 December 2020 (Audited) <i>HK\$'000</i>	30 June 2021 (Unaudited) <i>HK\$'000</i>	31 December 2020 (Audited) <i>HK\$'000</i>	30 June 2021 (Unaudited) <i>HK\$'000</i>	31 December 2020 (Audited) <i>HK\$'000</i>
Reportable segment assets	592,155	563,563	593,353	580,889	1,185,508	1,144,452
Investment properties					44,523	44,523
Deferred income tax assets					5,315	3,500
Investment accounted for using equity method					1,195	1,195
Financial assets at FVPL					31,677	15,499
Tax recoverable					3,325	3,477
Cash and cash equivalents					217,294	219,461
Other corporate assets					—	1,391
Total assets					<u>1,488,837</u>	<u>1,433,498</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.

	Manufacturing		Trading		Total	
	30 June 2021 (Unaudited) <i>HK\$'000</i>	31 December 2020 (Audited) <i>HK\$'000</i>	30 June 2021 (Unaudited) <i>HK\$'000</i>	31 December 2020 (Audited) <i>HK\$'000</i>	30 June 2021 (Unaudited) <i>HK\$'000</i>	31 December 2020 (Audited) <i>HK\$'000</i>
Reportable segment liabilities	230,314	192,891	100,315	134,864	330,629	327,755
Deferred income tax liabilities					5,206	4,563
Current income tax liabilities					24,815	11,591
Borrowings					270,343	293,677
Other corporate liabilities					9,617	7,499
					<u>640,610</u>	<u>645,085</u>
Capital expenditure incurred during the period/year	15,971	25,715	7,275	53,909	<u>23,246</u>	<u>79,624</u>

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	
	2021	2020
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
(a) Operating profit		
Loss on disposal of financial assets at FVPL	—	2,806
Fair value loss on financial assets at FVPL	1,677	2,029
Net exchange loss	324	878
Depreciation of property, plant and equipment	18,871	19,053
Depreciation of right-of-use assets	10,022	7,832
Short-term lease expenses	564	213
Amortisation of other intangible assets	9,218	9,336
Net provision for inventories (<i>note (i)</i>)	733	3,416
Net (reversal)/impairment on trade receivables (<i>note (ii)</i>)	(788)	3,682
	<u>(788)</u>	<u>3,682</u>

Notes:

- (i) Provision for obsolete inventories of HK\$733,000 has been made during the six months ended 30 June 2021 (six months ended 30 June 2020: HK\$3,416,000), 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 2021 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 reversal of HK\$788,000 during the period ended 30 June 2021 (six months ended 30 June 2020: provision of HK\$3,682,000).

	Six months ended 30 June	
	2021	2020
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
(b) Finance costs — net		
Interest on bank loans, overdrafts and other borrowings	(2,706)	(5,009)
Interest accretion on license fee payables	(592)	(851)
Interest on lease liabilities	(619)	(549)
	<u>(3,917)</u>	<u>(6,409)</u>
Finance costs	(3,917)	(6,409)
Finance income	246	363
	<u>(3,671)</u>	<u>(6,046)</u>

5. INCOME TAX EXPENSE

	Six months ended 30 June	
	2021	2020
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Current year		
— Hong Kong profits tax	1,001	—
— Overseas tax	11,867	2,884
	<u>12,868</u>	<u>2,884</u>
Under-provision/(over-provision) in prior years		
— Hong Kong profits tax	3,500	(128)
— Overseas tax	—	—
	<u>3,500</u>	<u>(128)</u>
Deferred income tax	<u>(1,172)</u>	<u>(528)</u>
	<u>15,196</u>	<u>2,228</u>

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 2020: 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	
	2021	2020
	(Unaudited)	(Unaudited)
Profit attributable to owners of the Company <i>(HK\$'000)</i>	<u>66,084</u>	<u>757</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>	<u>16.30</u>	<u>0.19</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 2021, 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 2021 (Unaudited)
Profit attributable to owners of the Company (<i>HK\$'000</i>)	<u>66,084</u>
Weighted average number of ordinary shares in issue	405,323,284
Adjustment for share options	<u>140,472</u>
Weighted average number of ordinary shares for diluted earnings per share	<u>405,463,756</u>
Diluted earnings per share (<i>HK cents</i>)	<u>16.30</u>

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.

7. DIVIDENDS

(a) Dividends attributable to the period

	Six months ended 30 June	
	2021	2020
	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interim dividend declared of 3 HK cents (2020: 2 HK cents) per share	<u>12,160</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 2021.

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

	Six months ended 30 June	
	2021	2020
	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Final dividend paid in respect of 2020 of 3 HK cents (2019: 3 HK cents) per share	<u>12,160</u>	<u>12,160</u>

8. CAPITAL EXPENDITURE

During the six months ended 30 June 2021, the Group acquired property, plant and equipment of HK\$5,645,000, (six months ended 30 June 2020: HK\$10,289,000) and intangible assets of HK\$6,247,000 (six months ended 30 June 2020: HK\$22,871,000).

As at 30 June 2021, other intangible assets represent acquired customer relationship of HK\$1,615,000 (31 December 2020: HK\$2,383,000) and licensing rights for the use of certain licensed trademark, brands and logos in the Group's products of HK\$21,337,000 (31 December 2020: HK\$30,391,000).

The Group's investment properties were revalued at 31 December 2020. 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 2020: same).

9. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

The interim condensed consolidated balance sheet shows the following amounts relating to the leases in respect of properties and a motor vehicle:

	At 30 June 2021 (Unaudited) HK\$'000	At 31 December 2020 (Audited) HK\$'000
Right-of-use assets		
Properties	43,126	41,707
Motor vehicle	<u>388</u>	<u>476</u>
	<u>43,514</u>	<u>42,183</u>
Lease liabilities		
Non-current	29,970	27,374
Current	<u>15,840</u>	<u>16,294</u>
	<u>45,810</u>	<u>43,668</u>

Lease liabilities as at 30 June 2021 of HK\$322,000 (31 December 2020: HK\$419,000) of the Group was secured by a legal charge on a motor vehicle of the Group recognised as right-of-use assets with carrying amount of HK\$388,000 (31 December 2020: HK\$476,000).

Additions to the right-of-use assets during the six months ended 30 June 2021 is HK\$11,353,000 (six months ended 30 June 2020: HK\$12,990,000).

10. TRADE RECEIVABLES AND OTHER FINANCIAL ASSETS AT AMORTISED COST

	30 June 2021 (Unaudited) HK\$'000	31 December 2020 (Audited) HK\$'000
Trade receivables	358,630	343,202
Less: provision for impairment losses	<u>(7,852)</u>	<u>(7,882)</u>
Trade receivables, net	<u>350,778</u>	<u>335,320</u>
Other financial assets at amortised cost	<u>11,071</u>	<u>9,743</u>
	361,849	345,063
Less: non-current portion of other financial assets at amortised cost	<u>(1,663)</u>	<u>(1,489)</u>
Current portion	<u><u>360,186</u></u>	<u><u>343,574</u></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 2021 (Unaudited) HK\$'000	31 December 2020 (Audited) HK\$'000
0–30 days	129,479	117,463
31–60 days	91,122	78,436
61–90 days	63,350	52,138
91–120 days	30,308	27,068
Over 120 days	<u>44,371</u>	<u>68,097</u>
	<u><u>358,630</u></u>	<u><u>343,202</u></u>

11. TRADE AND OTHER PAYABLES

	30 June 2021 (Unaudited) HK\$'000	31 December 2020 (Audited) HK\$'000
Trade payables	159,585	140,232
Accrued charges and other payables	<u>134,314</u>	<u>150,817</u>
	293,899	291,049
Less: other non-current payables	<u>(14,029)</u>	<u>(20,862)</u>
Current portion	<u>279,870</u>	<u>270,187</u>

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

	30 June 2021 (Unaudited) HK\$'000	31 December 2020 (Audited) HK\$'000
0–30 days	75,089	51,593
31–60 days	40,513	43,910
61–90 days	31,527	19,394
Over 90 days	<u>12,456</u>	<u>25,335</u>
	<u>159,585</u>	<u>140,232</u>

Contract liabilities of HK\$2,186,000 (31 December 2020: HK\$471,000) 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 2021 that was included in the contract liabilities balance at the beginning of the period amounted to HK\$471,000 (six months ended 30 June 2020: HK\$165,000). 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, with the rebound of the global economy and relaxation of the pandemic lockdown measures worldwide, most of the Group's customers have gradually adapted to the new normal of the late-pandemic era while the seasons of all major sports events have also resumed.

Leveraging the increased production capacity at the Group's manufacturing operations in Bangladesh and a full-fledged product portfolio under its trading umbrella, Mainland Headwear was able to grasp the opportunities presented by the market recovery and rising online shopping trend and saw an uptick in its sales volume in both the Manufacturing and Trading business segments in the first half of 2021.

As a result, the Group achieved record-high revenue and net profit during the Period. Revenue surged by 72.1% to HK\$741,658,000 (2020 Interim: HK\$430,952,000). Correspondingly, gross profit rose appreciably by 87.6% to HK\$242,730,000 (2020 interim: HK\$129,377,000) with gross profit margin rising to 32.7% (2020 interim: 30.0%). Apart from the top-line growth, such increases can also be attributed to more fast orders received and 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. Profit attributable to shareholders soared by 87.3 times to HK\$66,084,000 (2020 Interim: HK\$757,000).

To share the fruit of its success with shareholders, the Board has resolved to recommend an interim dividend of 3 HK cents per share (2020 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\$217.3 million and HK\$204.3 million, respectively, as of 30 June 2021 (31 December 2020: HK\$219.5 million and HK\$219.3 million, respectively).

BUSINESS REVIEW

Manufacturing Business

Revenue from the Manufacturing Business surged by 64.4% to HK\$441,302,000 (2020 Interim: HK\$268,469,000), while revenue from external customers climbed by 66.4% to HK\$392,618,000 (2020 Interim: HK\$235,980,000) accounting for approximately 52.9% of the Group's total revenue. The increase was mainly due to the rapid rebound in purchases from its customers, supported by the increased production capacity in its Bangladesh factory. These factors have led to sales in the Period not only growing year-on-year, but even surpassing pre-pandemic levels. Surging demand, reinforced by the increasing proportion of fast orders, have also translated to the significant rise in the segment's operating profit by 152.8% to HK\$89,087,000 (2020 Interim: HK\$35,237,000).

To meet the strong and fast order demand with short production cycles, the Group not only actively ramped up efficiency at its Bangladesh factory by implementing a higher level of automation and optimizing its management, but also resumed recruitment. As of 30 June 2021, the Bangladesh and Shenzhen factory had approximately 6,300 and 400 employees, respectively (31 December 2020: about 5,300 employees and 500 employees, respectively). As a result, production in Bangladesh contributed around 50.1% of the Group's total revenue, up from 47.5% in the corresponding period last year.

Trading Business

Revenue from the Trading Business jumped by 79.0% to HK\$349,040,000 (2020 Interim: HK\$194,972,000), accounting for 47.1% of the Group's total revenue. The surge was mainly attributable to significant sales growth in the Group's trading subsidiaries in the US and UK, where lockdown measures were relaxed with the rollout of vaccines. The segment has turned around from an operating loss of HK\$18,026,000 in the first half of 2020 to an operating profit of HK\$7,631,000 during the Period.

The online consumption trend boosted by the pandemic boded well for its Trading Business, which the Group had invested in well before the outbreak of the pandemic. Apart from building a competitive product mix, the Group also expanded its portfolio of licensed brands by leveraging the consolidation in the industry during this challenging period as inflicted by the pandemic, thus reaping the benefits as the market was back on track to recovery.

PROSPECTS

Looking ahead, though the world still remains in the grip of COVID-19 as the delta variant spreads, the management believes the growth momentum will continue into the next few months as the market has adapted to the "new normal" of living with COVID-19, as reflected in the strong order demand from the Group's customers leading to a performance even better than in previous years.

In order to meet the keen demand from its customers, the Group will continue to improve the layout of its production capacity, including enhancing the efficiency and increasing production capacity. In Bangladesh, the pandemic returned and as a result, the government has imposed a nationwide shutdown order starting 23 July 2021 until 5 August 2021, which once again led to the halt to the Group's production for approximately two weeks. At present, the Group's overall operations have returned to normal.

In addition to the volatility of the pandemic situation, the management is also mindful of shortages and soaring prices of raw materials, as well as the rising freight costs and tightening of transportation capacity. To this end, the management is gradually implementing a supply chain and procurement localization strategy in order to mitigate the impact of rising freight costs and save warehousing expenses, as well as dispersing supply risks.

With reference to the Trading Business, the Group expects that the satisfactory growth experienced by its trading subsidiaries in the US and the UK in the Period is set to continue as they benefit from the irreversible online shopping trend and gradual market recovery. The Group will intensify the expansion of its licensed brand portfolio under the trading umbrella to bolster its leading edge.

Over the past 35 years, Mainland Headwear has ridden out various economic cycles and challenges and established itself as a market leader in the headwear manufacturing industry. With its leading market position, a strengthened presence in Bangladesh, a widened product portfolio spanning from headwear to accessories and shrewd business acumen, the Group remains confident in its ability to weather whatever conditions that may come as well as create long-term value for its customers and shareholders.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2021, the Group had cash and bank balances and a portfolio of liquid investments totaling Hong Kong dollars (“HK\$”) 222.2 million (31 December 2020: HK\$226.0 million). About 60%, 26% and 7% of these liquid funds were denominated in United States dollars, Renminbi and Hong Kong dollars respectively. As at 30 June 2021, the Group had banking facilities of HK\$475.0 million (31 December 2020: HK\$513.4 million), of which HK\$204.3 million (31 December 2020: HK\$219.3 million) were not utilised.

The bank borrowing over total equity ratio of the Group is at 31.9% (31 December 2020: 37.2%). 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\$4.6 million (30 June 2020: HK\$8.6 million) on additions to equipment to further upgrade and expand its manufacturing capabilities. Also the Group spent HK\$1.0 million (30 June 2020: HK\$1.7 million) on additions of equipment and systems of Trading Business.

As at 30 June 2021, the Group had authorised a capital commitment of HK\$51.4 million in respect of manufacturing plants and equipment. The Group had also authorised a capital commitment of HK\$3.0 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 2021, the Group employed a total of 482 (30 June 2020: 663) workers and employees in the PRC (include Hong Kong), 6,290 (30 June 2020: 4,087) workers and employees in Bangladesh, and 157 (30 June 2020: 148) employees in the USA and the UK. The expenditures for the employees during the Period were approximately HK\$165.5 million (30 June 2020: HK\$113.4 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 3 HK cents (2020: 2 HK cents) per share, payable on or after 8 October 2021.

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 2021, the register of members of the Company will be closed from 14 September 2021 to 16 September 2021 (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 13 September 2021.

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

During the six months ended 30 June 2021, 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 2021.

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 2021.

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 2021.

By Order of the Board
Ngan Hei Keung
Chairman

Hong Kong, 24 August 2021

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.