



**MAINLAND HEADWEAR HOLDINGS LIMITED**

飛達帽業控股有限公司\*

(Incorporated in Bermuda with limited liability)

**Mainland Headwear Announces 2019 Annual Results**

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**Revenue Achieves a Satisfactory Growth of 29.4% to HK\$1.1 Billion  
Trading Business Soars by 123.6% to HK\$476.5 Million**

Financial Highlights

	Year ended 31 December	
	2019 (HK\$ million)	2018 (HK\$ million)
<b><u>Continuing operations</u></b>		
Revenue	1,146.8	885.9
Gross profit	346.2	266.3
Gross profit margin (%)	30.2%	30.1%
Profit for the year	61.7	81.0
<b><u>Profit attributable to shareholders</u></b>	58.2	62.5
<b><u>Earnings per share (HK cents)</u></b>		
- Basic	14.36	15.42
- Diluted	14.35	15.27
<b><u>Total dividend per share (HK cents)</u></b>	5	5
- interim	2	2
- final	3	3

(31 March 2020, Hong Kong) **Mainland Headwear Holdings Limited** (“Mainland Headwear” or the “Group”) (HKEX: 1100), a renowned designer, producer and distributor of headwear and accessories, has today announced its annual results for the year ended 31 December 2019.

The past financial year has been turbulent for the global economy owing to the protracted China-US trade dispute. In spite of the challenges, the Group was able to record a marked revenue growth of 29.4% for continuing operations, achieving a turnover of HK\$1,146,834,000 (2018: HK\$885,933,000). The upturn was clear evidence that the Group’s Manufacturing Business continued to deliver a stable revenue stream, and the expanding Trading Business generated encouraging growth.

Gross profit from continuing operations was up 30.0% to HK\$346,212,000 (2018: HK\$266,291,000) owing to the outstanding performance of the Trading Business. Correspondingly, gross profit margin for continuing operations improved, reaching 30.2% (2018: 30.1%). Owing to the non-cash impairment loss on goodwill in relation to San Diego Hat Company (“SDHC”) of around HK\$11,310,000, profit from continuing operations fell by 23.8% to HK\$61,671,000 (2018: HK\$80,965,000). Profit attributable to shareholders also fell by 6.9% to HK\$58,213,000 (2018: HK\$62,513,000).

The Board has resolved to propose a final dividend of 3 HK cents (2018: 3 HK cents) per share for the year. Together with the interim dividend of 2 HK cents per share (2018: 2 HK cents), total dividend for the year amounted to 5 HK cents (2018: 5 HK cents).

**Mr Ngan Hei Keung, Chairman of Mainland Headwear**, said, “The stable top-line growth of our Manufacturing Business clearly testifies to our foresight in establishing our production stronghold in Bangladesh as early as 2013, by grasping the opportunities arising from the ‘Belt and Road’ strategic initiative. Our Bangladesh factory has since become a major competitive advantage. We are pleased that the construction of Phase II of the Bangladesh factory has been substantially completed in late 2019, which has enabled us to have more space to house more automated machinery. As a result, the production capacity increased by 12% year-on-year. As for the Trading Business, the investments made in the previous years have also yielded fruit.”

## **BUSINESS REVIEW**

### ***Manufacturing: bolstered by Phase II of the Bangladesh factory and contract renewal with New Era Cap Co., Inc. (“New Era”)***

During the year, the Manufacturing Business achieved segment revenue of HK\$743,161,000 (2018: HK\$728,934,000), while revenue from external customers declined mildly by 0.4% to HK\$670,327,000 (2018: HK\$672,790,000), accounting for approximately 58.5% of the Group’s total revenue for continuing operations. Operating profit of the segment decreased by 3.4% to HK\$104,951,000 (2018: HK\$108,673,000). This was mainly due to the increase in the minimum wage in the Bangladesh garments industry. To mitigate the rising labour cost, the Group introduced automation and information technology-enabled production equipment, which has improved production efficiency.

The Group is delighted to report that the construction of Phase II of the Bangladesh factory has been largely completed in late 2019, which has enabled the Group to have more space to house more automated machinery. As a result of expanded production capacity, reinforced by a higher level of automation and thus improvement in efficiency, the total monthly capacity of headwear products increased by approximately 12% to about 4.5 million pieces. Production at the Bangladesh factory achieved a significant increase to over 90% of the Group’s total capacity.

Another piece of good news is that the Group and New Era, the largest manufacturer and marketer of sports and fashion headwear and apparel in the United States, have extended their strategic partnership by signing a five-year manufacturing agreement in November 2019. The agreement outlines planned production supplied to New Era of not less than US\$47 million in the first year, and an annually reviewed minimum purchase amount in the coming years. New Era is a long-standing

partner of the Group and a substantial shareholder of Mainland Headwear owning 19.64% of the issued share capital.

The renewal and the substantially completed construction of Phase II of the Bangladesh factory can bolster its manufacturing business development to a new level as well as promote synergies and benefit both the Group and New Era.

***Trading: investments made in the previous years have yielded fruit***

Despite being impacted by the lackluster US and UK retail markets and shadowed by the China-US trade dispute and Brexit, top-line growth of the Trading Business still soared by 123.6% to HK\$476,507,000 (2018: HK\$213,143,000), accounting for 41.5% of the Group's total revenue for continuing operations. The surge was mainly attributable to (i) H3 seeing double-digit growth in orders, strong evidence of its successful business consolidation strategy, especially under such an uneasy environment; (ii) consolidation of the financial results of Aquarius Ltd. ("Aquarius") from 1 June 2019 subsequent to the Group's acquisition; and (iii) the burgeoning e-commerce business that the Group entered into last year.

Owing to the non-cash impairment loss on goodwill and the increase in advertisement and marketing costs so as to promote its e-commerce business, operating loss of the business amounted to HK\$21,986,000 (2018: loss of HK\$19,218,000).

***Discontinued operations***

Following the retreat from the Hong Kong retail market in the first half year, the Group has also terminated its PRC retail operation by transferring the whole retail operation in the PRC to Sanrio Co., Ltd. With the cessation of all retail operations, the Group has been able to direct greater attention and resources towards the profitable and expanding Manufacturing and Trading segments.

**PROSPECTS**

The outbreak of COVID-19 will likely impact the global economy in the coming year. Already, the pandemic has led to the season suspension of some major sporting events, including the NBA and NHL. That said, with the coronavirus being a near-term concern, the management remains cautiously optimistic.

More importantly, the Bangladesh factory has underpinned the Group's long-term growth. Following the substantially completed construction of Phase II at the Bangladesh factory, the monthly capacity is set to reach five million pieces of headwear products in the future. The management is confident that this factory would bring greater contributions to the Group as production efficiency will increase. Such confidence is supported by the extended strategic partnership with New Era for another five years, which shores up the stability of its Manufacturing Business.

As for the Trading Business, the Group expects that the fruitful results of investment during previous years will be fully realised. With a full-fledged sales team following the consolidation of H3, the maturing e-commerce business is expected to benefit from the rise of online consumption and greater synergies brought by Aquarius, thus the management is confident that the Trading Business will steadily grow.

**Mrs. Pauline Ngan Po Ling, BBS, JP, Deputy Chairman and Managing Director of Mainland Headwear**, said, “Given our strengthened presence in Bangladesh and broadened product portfolio, we possess the strengths as well as the growth momentum necessary to prudently yet confidently face the future. We will continue 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.”

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**About Mainland Headwear Holdings Limited (HKEX: 1100)**

Mainland Headwear Holdings Limited was established in 1986 and listed on the Main Board of The Stock Exchange of Hong Kong in 2000. The Group is principally engaged in the design, manufacture and distribution of quality headwear and accessories. Headquartered in Hong Kong, with factories in Shenzhen, PRC and Bangladesh, the Group manufactures an exclusive wide range of licensed casual headwear products and accessories. The Group has established a long-term business partnership with New Era Cap Co., Inc. by entering into a manufacturing agreement.

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