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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 2022

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 2022.

#### CONSOLIDATED STATEMENT OF PROFIT OR LOSS

*For the year ended 31 December 2022*

	<i>Note</i>	<b>2022</b> <i>HK\$'000</i>	2021 <i>HK\$'000</i>
<b>Revenue</b>	2	<b>1,874,424</b>	1,600,255
Cost of sales		<u>(1,237,128)</u>	<u>(1,121,031)</u>
<b>Gross profit</b>		<b>637,296</b>	479,224
Other income		<b>28,420</b>	20,546
Other (losses)/gains — net	3	<b>(678)</b>	11,151
Selling and distribution costs		<b>(178,665)</b>	(150,083)
Administration expenses		<b>(196,997)</b>	(176,292)
Impairment of goodwill	5	<b>(22,511)</b>	–
Net impairment losses on financial assets		<u><b>(2,806)</b></u>	<u>(3,314)</u>
<b>Profit from operations</b>		<b>264,059</b>	181,232
Finance income	4	<b>574</b>	371
Finance costs	4	<u><b>(13,648)</b></u>	<u>(7,691)</u>
<b>Finance costs – net</b>		<u><b>(13,074)</b></u>	<u>(7,320)</u>

\* *For identification purpose only*

	<i>Note</i>	<b>2022</b> <i>HK\$'000</i>	2021 <i>HK\$'000</i>
<b>Share of loss from an investment accounted for using equity method</b>		<u>(124)</u>	<u>(799)</u>
<b>Profit before income tax</b>	5	<b>250,861</b>	173,113
<b>Income tax expense</b>	6	<u>(37,554)</u>	<u>(35,902)</u>
<b>Profit for the year</b>		<u><b>213,307</b></u>	<u>137,211</u>
<b>Profit attributable to:</b>			
Owners of the Company		<b>195,390</b>	128,076
Non-controlling interests		<u>17,917</u>	<u>9,135</u>
		<u><b>213,307</b></u>	<u>137,211</u>
		<b>2022</b> <i>HK\$'000</i>	2021 <i>HK\$'000</i> (restated)
<b>Earnings per share for the profit attributable to owners of the Company</b>			
Basic (HK cents per share)	7	<b>45.8728</b>	30.0938
Diluted (HK cents per share)		<u><b>45.0421</b></u>	<u>30.0307</u>

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2022

	<b>2022</b>	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Profit for the year</b>	<b>213,307</b>	137,211
<b>Other comprehensive income, net of tax</b>		
<b>Items that have been or may be subsequently reclassified to profit or loss:</b>		
Exchange differences on translation of financial statements of foreign operations	<b>(10,234)</b>	2,237
Fair value losses on cash flow hedges	<b>(2,314)</b>	—
<b>Total comprehensive income for the year, net of tax</b>	<b><u>200,759</u></b>	<b><u>139,448</u></b>
<b>Total comprehensive income attributable to:</b>		
Owners of the Company	<b>183,084</b>	130,313
Non-controlling interests	<b>17,675</b>	9,135
<b>Total comprehensive income for the year</b>	<b><u>200,759</u></b>	<b><u>139,448</u></b>

## CONSOLIDATED BALANCE SHEET

As at 31 December 2022

	Note	2022 HK\$'000	2021 HK\$'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment		499,684	416,029
Right-of-use assets		64,421	40,167
Investment properties		51,096	51,928
Goodwill		—	22,511
Other intangible assets		30,265	29,608
Deferred income tax assets		7,867	5,164
Investment accounted for using equity method		272	396
Financial assets at fair value through profit or loss		41,377	30,909
Other financial assets at amortised cost	9	2,109	1,561
		<u>697,091</u>	<u>598,273</u>
<b>Current assets</b>			
Inventories		523,646	451,904
Trade receivables	9	435,287	360,931
Financial assets at fair value through profit or loss		21,525	15,289
Other financial assets at amortised cost	9	6,810	8,620
Other current assets	10	23,755	32,289
Tax recoverable		3,251	3,324
Cash and cash equivalents		246,949	198,890
		<u>1,261,223</u>	<u>1,071,247</u>
<b>Total assets</b>		<u><b>1,958,314</b></u>	<u><b>1,669,520</b></u>
<b>EQUITY AND LIABILITIES</b>			
Equity attributable to owners of the Company			
Share capital		42,660	40,532
Other reserves		215,238	226,390
Retained earnings		768,269	609,985
		<u>1,026,167</u>	<u>876,907</u>
Non-controlling interests		42,814	25,214
<b>Total equity</b>		<u><b>1,068,981</b></u>	<u><b>902,121</b></u>

	<i>Note</i>	<b>2022</b> <i>HK\$'000</i>	2021 <i>HK\$'000</i>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Other payables	11	<b>18,140</b>	20,587
Borrowings		<b>14,393</b>	–
Lease liabilities		<b>54,741</b>	23,540
Deferred income tax liabilities		<b>6,365</b>	6,324
		<u><b>93,639</b></u>	<u>50,451</u>
<b>Current liabilities</b>			
Trade and other payables	11	<b>499,233</b>	393,185
Amount due to a non-controlling interest		<b>537</b>	537
Borrowings		<b>228,887</b>	275,384
Derivative financial instruments		<b>2,314</b>	–
Lease liabilities		<b>12,746</b>	18,826
Current income tax liabilities		<b>51,977</b>	29,016
		<u><b>795,694</b></u>	<u>716,948</u>
<b>Total liabilities</b>		<u><b>889,333</b></u>	<u>767,399</u>
<b>Total equity and liabilities</b>		<u><b>1,958,314</b></u>	<u>1,669,520</u>
<b>Net current assets</b>		<u><b>465,529</b></u>	<u>354,299</u>
<b>Total assets less current liabilities</b>		<u><b>1,162,620</b></u>	<u>952,572</u>

## 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”), derivative financial instruments 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 policies 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 2022:

- Annual improvements to HKFRSs 2018–2020 – Amendments to Annual improvements project
- Narrow-scope amendments – Amendments to HKFRS 3, HKAS 16 and HKAS 37
- Covid-19-Related Rent Concessions beyond 2021 – Amendments to HKFRS 16
- Revised accounting guideline 5 merger accounting for common control combinations – Accounting Guideline 5 (revised)

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.

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

Certain new accounting standards, amendments to 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 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 (losses)/gains on financial assets at FVPL, fair value gains on investment properties, share-based payment expenses, unallocated corporate income and expenses, finance income and costs, share of loss from an investment accounted for using equity method and income tax expense.

The executive directors assess 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 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.

	Manufacturing		Trading		Total	
	2022	2021	2022	2021	2022	2021
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue from external customers	<b>1,127,566</b>	844,256	<b>746,858</b>	755,999	<b>1,874,424</b>	1,600,255
Inter-segment revenue	<b>76,565</b>	84,276	—	—	<b>76,565</b>	84,276
Reportable segment revenue	<b>1,204,131</b>	928,532	<b>746,858</b>	755,999	<b>1,950,989</b>	1,684,531
Reportable segment profit/(loss)	<b>309,750</b>	174,981	<b>(59,079)</b>	(11,617)	<b>250,671</b>	163,364
Financial assets at fair value through profit or loss — fair value (losses)/gains					<b>(10,094)</b>	5,064
Fair value gains on investment properties					<b>1,176</b>	6,753
Share-based payment expenses					<b>(92)</b>	(447)
Unallocated corporate income					<b>28,329</b>	19,572
Unallocated corporate expenses					<b>(5,931)</b>	(13,074)
Profit from operations					<b>264,059</b>	181,232
Finance income					<b>574</b>	371
Finance costs					<b>(13,648)</b>	(7,691)
Share of loss from an investment accounted for using equity method					<b>(124)</b>	(799)
Income tax expense					<b>(37,554)</b>	(35,902)
Profit for the year					<b>213,307</b>	137,211
Depreciation of property, plant and equipment	<b>35,383</b>	28,641	<b>8,985</b>	9,660	<b>44,368</b>	38,301
Depreciation of right-of-use assets	<b>11,153</b>	12,631	<b>8,530</b>	7,257	<b>19,683</b>	19,888
Amortisation of other intangible assets	—	—	<b>26,201</b>	23,066	<b>26,201</b>	23,066
Impairment of goodwill	—	—	<b>22,511</b>	—	<b>22,511</b>	—



	Manufacturing		Trading		Total	
	2022	2021	2022	2021	2022	2021
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Reportable segment assets	<b>859,552</b>	658,796	<b>726,425</b>	704,810	<b>1,585,977</b>	1,363,606
Investment properties					<b>51,096</b>	51,928
Deferred income tax assets					<b>7,867</b>	5,164
Investment accounted for using equity method					<b>272</b>	396
Financial assets at fair value through profit or loss					<b>62,902</b>	46,198
Tax recoverable					<b>3,251</b>	3,324
Cash and cash equivalents					<b>246,949</b>	198,890
Other corporate assets					<b>—</b>	14
Total assets					<b><u>1,958,314</u></b>	<u>1,669,520</u>
Reportable segment liabilities	<b>365,100</b>	279,985	<b>210,665</b>	167,378	<b>575,765</b>	447,363
Deferred income tax liabilities					<b>6,365</b>	6,324
Current income tax liabilities					<b>51,977</b>	29,016
Borrowings					<b>243,280</b>	275,384
Other corporate liabilities					<b>11,946</b>	9,312
Total liabilities					<b><u>889,333</u></b>	<u>767,399</u>
Capital expenditure incurred during the year	<b><u>136,688</u></b>	<u>63,549</u>	<b><u>68,677</u></b>	<u>21,558</u>	<b><u>205,365</u></b>	<u>85,107</u>

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.

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

Capital expenditure incurred during the year comprises additions to property, plant and equipment, intangible assets and right-of-use assets.

(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:

	<b>2022</b>	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
USA	<b>1,646,338</b>	1,423,456
Europe	<b>157,639</b>	118,676
PRC	<b>16,528</b>	23,139
Hong Kong	<b>9,814</b>	7,135
Others	<b>44,105</b>	27,849
	<hr/>	<hr/>
Total	<b>1,874,424</b>	1,600,255
	<hr/> <hr/>	<hr/> <hr/>

During the year ended 31 December 2022, revenue derived from the Group's largest customer (who is a group of affiliated companies of a shareholder) amounted to HK\$761,903,000 or 40.6% of the Group's revenue from continuing operations (2021: HK\$576,140,000 or 36.0%). 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:

	<b>2022</b>	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
Bangladesh	<b>312,633</b>	209,797
USA	<b>246,758</b>	248,242
PRC	<b>36,963</b>	50,656
Europe	<b>6,121</b>	6,981
Hong Kong	<b>15,107</b>	16,916
	<hr/>	<hr/>
	<b>617,582</b>	532,592
Other intangible assets	<b>30,265</b>	29,608
Deferred income tax assets	<b>7,867</b>	5,164
Financial assets at fair value through profit or loss	<b>41,377</b>	30,909
	<hr/>	<hr/>
	<b>697,091</b>	598,273
	<hr/> <hr/>	<hr/> <hr/>

### 3. OTHER (LOSSES)/GAINS — NET

	<b>2022</b> <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Financial assets at fair value through profit or loss		
— fair value (losses)/gains	<b>(10,094)</b>	5,064
Net foreign exchange gain/(loss)	<b>7,760</b>	(621)
Fair value gains on investment properties	<b>1,176</b>	6,753
Loss on disposal of property, plant and equipment	—	(78)
Gain on lease termination	—	33
Gain on lease modification	<b>480</b>	—
	<u><b>(678)</b></u>	<u>11,151</u>

### 4. FINANCE COSTS — NET

	<b>2022</b> <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Interest on bank loans and other borrowings	<b>(10,053)</b>	(4,659)
Interest on lease liabilities	<b>(1,633)</b>	(1,230)
Interest accretion on licence fee payables	<b>(1,962)</b>	(1,802)
	<u><b>(13,648)</b></u>	<u>(7,691)</u>
Interest costs	<b>(13,648)</b>	(7,691)
Interest income	<b>574</b>	371
	<u><b>(13,074)</b></u>	<u>(7,320)</u>

## 5. PROFIT BEFORE INCOME TAX

Profit before income tax is stated after charging:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Depreciation of property, plant and equipment	44,368	38,301
Depreciation of right-of-use assets	19,683	19,888
Amortisation of other intangible assets	26,201	23,066
Net impairment losses on financial assets	2,806	3,314
Net provision for inventories	6,861	19,057
Impairment of goodwill ( <i>Note</i> )	22,511	–
	<u>22,511</u>	<u>–</u>

*Note:*

H3 is mainly engaged in the trading of various licensed headwear, apparel and related accessories to department stores in the USA. Its customers are mainly department stores, whose operation were significantly challenged by the macro environment during the year ended 31 December 2022. Despite H3 placed a significant amount of effort on marketing and advertising activities, its actual results fell short of expectation, and H3 suffered from an operational loss during the year ended 31 December 2022. In view of the loss suffered by H3, the uncertainties over the future profitability of its business model as well as the Group's resources to place on this operation, the management considers an impairment indicator existed as at 31 December 2022. For the purpose of goodwill impairment assessment, the Group revised its cash flow forecasts of this cash-generating unit ("CGU"). The management has assessed the recoverable amount of H3 as at 31 December 2022 based on the value in use. The recoverable amount is lower than the carrying amount of this CGU and this shortfall leads to full impairment of goodwill recognised in the consolidated statement of profit or loss for the year ended 31 December 2022.

## 6. INCOME TAX EXPENSE

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Current year		
— Hong Kong profits tax	5,170	10,320
— Overseas tax	38,643	25,551
	<u>43,813</u>	<u>35,871</u>
Over-provision in prior years		
— Hong Kong profits tax	(3,760)	–
	<u>40,053</u>	<u>35,871</u>
Deferred income tax	(2,499)	31
	<u>37,554</u>	<u>35,902</u>

Hong Kong profits tax has been provided at the rate of 16.5% (2021: 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. Macau complementary (corporate) tax has been provided at the rate of 12% (2021: 12%) on the estimated assessable profits for the year.

A subsidiary of the Group received queries from the Hong Kong Inland Revenue Department (“HKIRD”) in relation to its offshore claim for the previous years. A provision of HK\$5,100,000 and the potential penalty of HK\$3,500,000, were made during the year ended 31 December 2021. On 15 September 2022, HKIRD issued tax demand note for the Hong Kong Profit Tax provision of HK\$3,660,000 and tax penalty of HK\$1,180,000. As a result, over-provision of HK\$3,760,000 was recognised in the consolidated statement of profit or loss during the year ended 31 December 2022.

## 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. The basic earnings per share for the year ended 31 December 2021 is restated for the bonus issue during the year ended 31 December 2022.

	2022	2021 (restated)
Profit attributable to owners of the Company (HK\$'000)	<u>195,390</u>	<u>128,076</u>
Weighted average number of ordinary shares in issue	<u>405,672,155</u>	405,323,284
Adjustment for bonus issue	<u>20,266,164</u>	<u>20,266,164</u>
Weighted average number of ordinary share for basic earnings per share	<u>425,938,319</u>	<u>425,589,448</u>
Basic earnings per share (HK cents)	<u>45.8728</u>	<u>30.0938</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. The diluted earnings per share for the year ended 31 December 2021 is restated for the bonus issue during the year ended 31 December 2022.

	<b>2022</b>	2021 (restated)
Profit attributable to owners of the Company (HK\$'000)	<b><u>195,390</u></b>	<u>128,076</u>
Weighted average number of ordinary shares in issue	<b>405,672,155</b>	405,323,284
Adjustment for share options	<b>7,856,087</b>	893,738
Adjustment for bonus issue	<b><u>20,266,164</u></b>	<u>20,266,164</u>
Weighted average number of ordinary shares for diluted earnings per share	<b><u>433,794,406</u></b>	<u>426,483,186</u>
Diluted earnings per share (HK cents)	<b><u>45.0421</u></b>	<u>30.0307</u>

## 8. DIVIDENDS

A final dividend in respect of the year ended 31 December 2022 of 6 HK cents per share, amounting to a total dividend of HK\$25,596,000. These financial statements do not reflect this dividend payable. The amount of proposed final dividend were based on 426,601,448 (2021: 405,323,284) shares in issue as at 31 December 2022.

	<b>2022</b> <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Interim dividend of 3 HK cents (2021: 3 HK cents) per share	<b>12,787</b>	12,160
Proposed final dividend of 6 HK cents (2021: 4 HK cents) per share	<b>25,596</b>	16,213
Proposed special dividend of 2 HK cents per share in 2021	—	8,106
	<b>38,383</b>	36,479

## 9. TRADE RECEIVABLES AND OTHER FINANCIAL ASSETS AT AMORTISED COST

	<b>2022</b> <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Trade receivables	<b>449,289</b>	372,127
Less: provision for impairment losses	<b>(14,002)</b>	(11,196)
Trade receivables, net	<b>435,287</b>	360,931
Other financial assets at amortised cost	<b>8,919</b>	10,181
	<b>444,206</b>	371,112
Less: non-current portion of other financial assets at amortised cost	<b>(2,109)</b>	(1,561)
Current portion	<b>442,097</b>	369,551

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:

	<b>2022</b>	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 – 30 days	<b>127,622</b>	130,400
31 – 60 days	<b>122,207</b>	126,305
61 – 90 days	<b>85,906</b>	57,355
91 – 120 days	<b>48,464</b>	27,839
121 – 180 days	<b>46,831</b>	21,925
Over 180 days	<b>18,259</b>	8,303
	<b>449,289</b>	372,127

(b) **Impairment and risk exposure**

*Trade receivables*

The Group applies 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 of 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 2022, based on management's assessment, the Group recorded impairment loss for trade receivables of HK\$2,806,000 (2021: HK\$3,314,000) in the consolidated statement of profit or loss.



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

	<b>2022</b> <i>HK\$'000</i>	2021 <i>HK\$'000</i>
At 1 January	<b>11,196</b>	7,882
Net provision for impairment loss for the year	<b>2,806</b>	3,314
At 31 December	<b>14,002</b>	11,196

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

***Other financial assets at amortised cost***

As at 31 December 2022, the impact of expected loss is immaterial to the Group (2021: same).

As at 31 December 2021, the receivables from an investment accounted for using equity method of HK\$3,190,000 is unsecured, non-interest bearing and repayable on demand. This amount was included in other financial assets at amortised cost.

**10. OTHER CURRENT ASSETS**

	<b>2022</b> <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Other prepayments	<b>15,055</b>	13,022
Prepayments to suppliers	<b>8,700</b>	19,267
	<b>23,755</b>	32,289

## 11. TRADE AND OTHER PAYABLES

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Trade payables	233,579	219,760
Accrued charges and other payables	283,794	194,012
	<u>517,373</u>	<u>413,772</u>
Less: other non-current payables	(18,140)	(20,587)
	<u>499,233</u>	<u>393,185</u>

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

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
0 – 30 days	120,896	109,699
31 – 60 days	30,694	45,643
61 – 90 days	6,839	25,795
Over 90 days	75,150	38,623
	<u>233,579</u>	<u>219,760</u>

Contract liabilities of HK\$1,133,000 (2021: HK\$1,238,000) 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 year ended 31 December 2022 that was included in the contract liability at the beginning of the year amounted to HK\$1,238,000 (2021: HK\$471,000).

As at 31 December 2022, the payable to an investment accounted for using equity method of HK\$1,519,000 is unsecured, non-interest bearing and repayable on demand. This amount was included in the accrued charges and other payables.

## **BUSINESS REVIEW**

### **Overview**

In 2022, geopolitical tensions, slowdown of economic growth in major markets such as the United States and Europe, plus central banks around the world attempting to curb inflation by raising interest rates added burdens on the economy recovering from the COVID-19 pandemic. Retailers becoming more cautious in procurement, coupled with rising production costs, and logistics and transportation in chaos from strikes at various ports made the business environment even worse. Nevertheless, capable of quick production and delivery, the Group's Manufacturing Business gave full play to its production technology advantages in the challenging operating environment and obtained a large number of quick-turn orders. As for the Trading Business, it actively responded to market changes, strengthened its product portfolio and maintained resilience in operation. As such, the Group's total sales volume continued to grow vigorously with both revenue and net profit reaching new high.

## **FINANCIAL REVIEW**

During the year, the Group's revenue increased by 17.1% to HK\$1,874,424,000 from HK\$1,600,255,000 in 2021. Gross profit surged by 33.0% to HK\$637,296,000 (2021: HK\$479,224,000) and the gross profit margin climbed by 4.1 percentage points to 34.0%. Despite that part of the profit from Manufacturing Business was offset by the loss of the Trading Business, profit attributable to shareholders rose by a sharp 52.6% to HK\$195,390,000 (2021: HK\$128,076,000). The Board has resolved to recommend a final dividend of 6 HK cents per share (2021: final dividend of 4 HK cents; special dividend of 2 HK cents) for the year ended 31 December 2022. Together with the interim dividend of 3 HK cents per share (2021: interim dividend of 3 HK cents), the total dividend for the year amounted to 9 HK cents (2021: 9 HK cents).

The Group remained in a healthy financial position, with stable operating cash flows. It also held sufficient cash on hand and had un-utilized banking facilities amounting to approximately HK\$246,949,000 and HK\$579,450,000, respectively, as at 31 December 2022 (2021: HK\$198,900,000 and HK\$216,900,000, respectively).

## **BUSINESS REVIEW**

### **Manufacturing Business**

The business segment is equipped with advanced automated machinery and a large pool of highly skilled and experienced workers. In particular, the factory in Bangladesh boosted production efficiency during the year by adding manpower and optimizing project management. Thus, it was able to raise production efficiency and meet more quick-turn orders of higher margin. Revenue from the Manufacturing Business increased by 33.6% to HK\$1,127,566,000 (2021: HK\$844,256,000). Moreover, with the Bangladesh local currency Taka depreciating rather sharply during the year, the segment's cost of sales dropped. Gross profit margin of the business rose to 34.7%, 5.9 percentage points more than that in 2021 and the segment's operating profit surged by 77.0% to HK\$309,750,000 (2021: HK\$174,981,000).

During the year, the Bangladesh factory also actively pushed forward with its expansion plan involving the construction of a new production facilities and relocation of a warehouse. As for the factory in Shenzhen, it focused on the design, development and production of high-end products and supporting the Group in material procurement and production techniques.

For the year, the share of revenue contribution of Manufacturing Business to the Group's total revenue increased to 60.2% (2021: 52.8%).

As at 31 December 2022, the Bangladesh and Shenzhen factories had around 9,000 and 300 employees, respectively (31 December 2021: around 7,200 employees and 400 employees, respectively).

### **Trading Business**

As for Trading Business, the Group's subsidiaries boast a comprehensive product portfolio, comprising own brands and licensed products. During the year, to seize post-pandemic opportunities in the European and American markets, the segment restructured its product portfolio to promote business development. Revenue for the year was HK\$746,858,000, similar to that in 2021, accounting for 39.8% (2021: 47.2%) of the Group's total revenue.

Affected by frequent strikes in Europe and the United States and repeated logistics shutdowns at ports, a large number of containers with imported cargo were stranded at port and in warehouses. The Group had to time and again revise shipping routes to cope, which led to an increase in sales and management expenses of the business, as such the segment recorded an operating loss, including impairment of goodwill, of HK\$59,079,000 (2021: HK\$11,617,000).

During the year, the Group made HK\$22.5 million for impairment of goodwill of H3 Sportgear LLC.

## **PROSPECTS**

Looking ahead, with the Russian-Ukrainian conflict unresolved, inflation lingering on high in the European and American markets, the market is full of uncertainties. Despite that, as consumer spending has continued to grow and demand continues to be strong, retail companies have a good window to clear inventories built up from shipping halt last year. Retailers are expected to resume ordering in the middle of this year, which means sales are likely to steadily climb.

The pandemic and stagnant logistics have turned consumer goods buyers to quick-turn orders in smaller quantities and with short production cycles. They have been more inclined to work with manufacturers who afford high production flexibility, so they can purchase less at a time and lessen inventory. As one of the few manufacturers capable of quick turnaround manufacturing in the headwear market, the Group is well poised to benefit from the strong demand in the quick-turn orders market.

To meet the keen customer demand, the Group will continue to optimize deployment of production capacity and improve efficiency. In Bangladesh, the Group's expansion plan, which includes building new production facilities and relocating warehouses, is almost completed with operation expected to start in the second quarter of this year. Having an additional 100 new embroidery machines and about 3,000 workers, the new factory when in operation will boost the Group's production capacity by 20%.

In addition, the Group also plans to build a manufacturing base in Mexico to further bolster its production capacity for handling quick-turn orders, as well as explore new customer sources. In early March this year, the Group signed a collaboration agreement with the relevant local government in Mexico and related construction is about to begin and expected to be completed by the end of this year, and production will take place afterwards in stages. As the factory in Mexico will be in a free trade zone less than two kilometers from the US border, the Group expects to be able to deliver orders to the US much faster, saving much of the logistics costs and import duty, when the factory is in operation. By then, the Group will have even more obvious advantage in handling quick-turn orders.

To tackle the operating challenges brought by soaring raw material prices and wages, the Group will continue to implement various cost control measures. While expanding its supply chain and localizing procurement to mitigate rising cost pressure and disperse supply risks, it will also introduce more automated and intelligent technologies to optimize work processes and staff deployment, and in turn improve overall production efficiency.

For its Trading Business, efforts will be made to enrich its product offerings and operating the Group's own brands and licensed products will be its focus. The Group believes after the business segment is restructured, it will be able to better control sales and administrative costs, hence substantially improve profitability and has a solid foundation for sustainable growth.

Over the past 36 years, the Group has ridden out various economic cycles and challenges and become a market leader in the headwear manufacturing industry. With market leadership, a well-thought out production layout, a balanced product portfolio and shrewd business sense, the Group remains confident of its ability to weather any harsh conditions and create long-term value for its customers and shareholders.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **Liquidity and Financial Resources**

As at 31 December 2022, the Group had cash and cash equivalents, a portfolio of liquid investments totaling HK\$268.5 million (2021: HK\$204.7 million). About 56.9%, 27.6% and 6.4% of these liquid funds were denominated in United States dollars, Renminbi and Hong Kong dollars respectively and the remaining were mainly in Bangladesh Taka and Pound Sterling.

As at 31 December 2022, the Group had banking facilities of HK\$788.7 million (2021: HK\$490.8 million), of which HK\$579.5 million (2021: HK\$216.9 million) was not utilised.

The borrowings over equity ratio of the Group was 22.8% (2021: 30.5%). 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\$123.8 million (2021: HK\$45.0 million) on additions to plant and equipment to upgrade its manufacturing capability and expansion in the Bangladesh factory. The Group also incurred HK\$5.3 million (2021: HK\$1.6 million) on equipments and systems of Trading business.

The Group budgeted HK\$123.5 million for capital expenditures of which HK\$120.5 million is estimated to be used for the construction of a factory in Mexico and 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. As at 31 December 2022, the Group has capital expenditure contracted but not provided for of HK\$10.5 million (2021: HK\$29.7 million).

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 is expected to reduce the gross margin of the Manufacturing Business by about 0.25%. As rental income in the PRC and domestic sales grow, the expected positive contribution provides a hedge against the adverse effect of any appreciation of Renminbi to the manufacturing costs.

## **Employees and Remuneration Policies**

At 31 December 2022, the Group employed 397 (2021: 448) employees in the PRC (include Hong Kong), 8,802 (2021: 7,236) employees in Bangladesh and a total of 183 (2021: 161) employees in the USA and the United Kingdom. The expenditures for employees during the year were approximately HK\$398.8 million (2021: HK\$340.2 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 6 HK cents (2021: final dividend of 4 HK cents per share and a special dividend of 2 HK cents per share) in respect of the year ended 31 December 2022. Subject to the approval at the forthcoming annual general meeting, the final dividend will be payable on or after 23 June 2023 to the shareholders whose names appear on the register of members at the close of the business on 6 June 2023, being the record date for determination of entitlements to the final dividend.

To determine the identity of members who are entitled to the final dividend of the Company for the year ended 31 December 2022, the register of members of the Company will be closed from 1 June 2023 to 6 June 2023 (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 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong for registration not later than 4:30 p.m. on 31 May 2023.

## **ANNUAL GENERAL MEETING**

To determine the identity of members who are entitled to attend and vote at the forthcoming Annual General Meeting which will be held on 25 May 2023, the register of members of the Company will be closed from 22 May 2023 to 25 May 2023 (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 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong for registration not later than 4:30 p.m. on 19 May 2023.

## **PURCHASE, SALES OR REDEMPTION OF THE COMPANY’S LISTED SECURITIES**

During the year ended 31 December 2022, 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 2022.

## **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 2022.

## **REVIEW OF FINANCIAL STATEMENTS**

The Audit Committee has reviewed the Group’s consolidated financial statements for the year ended 31 December 2022, 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 2022 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 and consequently no opinion or assurance conclusion has been expressed by PricewaterhouseCoopers on the preliminary announcement.

By Order of the Board  
**Ngan Hei Keung**  
*Chairman*

Hong Kong, 22 March 2023

*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.*