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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 2024

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 2024 (the “Period”) together with comparative figures for the corresponding period in 2023.

#### Interim Condensed Consolidated Statement of Profit or Loss (Unaudited)

For the six months ended 30 June 2024

	<i>Note</i>	Six months ended 30 June	
		2024 (Unaudited) <i>HK\$'000</i>	2023 (Unaudited) <i>HK\$'000</i>
<b>Revenue</b>	3	<b>687,114</b>	780,258
Cost of sales		<b>(467,604)</b>	(506,328)
Gross profit		<b>219,510</b>	273,930
Other income		<b>15,700</b>	15,713
Other gains/(losses) – net		<b>5,298</b>	(4,008)
Selling and distribution costs		<b>(71,705)</b>	(77,650)
Administration expenses		<b>(101,592)</b>	(105,933)
Net impairment on financial assets		<b>(2,163)</b>	(2,052)
<b>Profit from operations</b>	4(a)	<b>65,048</b>	100,000

\* For identification purpose only

		<b>Six months ended 30 June</b>	
		<b>2024</b>	2023
		<b>(Unaudited)</b>	(Unaudited)
	<i>Note</i>	<b>HK\$'000</b>	<b>HK\$'000</b>
Finance income		<b>2,047</b>	516
Finance costs		<b>(8,637)</b>	(8,890)
Finance costs – net	4(b)	<b>(6,590)</b>	(8,374)
Share of loss from an investment accounted for using equity method		<b>(15)</b>	(14)
<b>Profit before income tax</b>		<b>58,443</b>	91,612
Income tax expense	5	<b>(18,464)</b>	(20,009)
<b>Profit for the period</b>		<b>39,979</b>	71,603
<b>Attributable to:</b>			
Owners of the Company		<b>35,269</b>	65,075
Non-controlling interests		<b>4,710</b>	6,528
		<b>39,979</b>	71,603
<b>Earnings per share attributable to owners of the Company</b>			
Basic (HK cents per share)	6(a)	<b>8.218</b>	15.230
Diluted (HK cents per share)	6(b)	<b>8.141</b>	14.900

## Interim Condensed Consolidated Statement of Comprehensive Income (Unaudited)

For the six months ended 30 June 2024

	Six months ended 30 June	
	2024 (Unaudited) <i>HK\$'000</i>	2023 (Unaudited) <i>HK\$'000</i>
<b>Profit for the period</b>	<b>39,979</b>	71,603
<b>Other comprehensive income</b>		
<b>Items that may be subsequently reclassified to profit or loss:</b>		
Exchange differences on translation of financial statements of foreign operations	(1,906)	(1,131)
Fair value losses on cash flow hedges	—	(3,554)
<b>Total comprehensive income for the period, net of tax</b>	<b>38,073</b>	<b>66,918</b>
<b>Attributable to:</b>		
Owners of the Company	33,363	60,273
Non-controlling interests	4,710	6,645
<b>Total comprehensive income for the period</b>	<b>38,073</b>	<b>66,918</b>

## Interim Condensed Consolidated Balance Sheet (Unaudited)

As at 30 June 2024

		<b>30 June 2024</b>	31 December 2023
		<b>(Unaudited)</b>	(Audited)
	<i>Note</i>	<b>HK\$'000</b>	<b>HK\$'000</b>
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	8	<b>649,795</b>	551,407
Right-of-use assets	9	<b>44,451</b>	50,467
Investment properties	8	<b>49,455</b>	50,065
Other intangible assets	8	<b>31,368</b>	14,685
Deferred income tax assets		<b>6,209</b>	6,850
Investment accounted for using equity method		<b>407</b>	422
Financial assets at fair value through profit or loss		<b>45,679</b>	42,233
Other financial assets at amortised cost	10	<b>2,012</b>	2,012
Other non-current assets		<b>7,016</b>	6,881
		<b>836,392</b>	725,022
<b>Current assets</b>			
Inventories		<b>349,537</b>	373,652
Trade receivable	10	<b>352,257</b>	321,399
Financial assets at fair value through profit or loss		<b>4,146</b>	4,219
Other financial assets at amortised cost	10	<b>5,203</b>	8,176
Other current assets		<b>23,899</b>	24,080
Tax recoverable		<b>3,251</b>	3,251
Short-term deposits		<b>12,438</b>	8,955
Cash and cash equivalents		<b>188,628</b>	317,849
		<b>939,359</b>	1,061,581
<b>Total assets</b>		<b>1,775,751</b>	1,786,603

		<b>30 June 2024 (Unaudited) HK\$'000</b>	31 December 2023 (Audited) HK\$'000
	<i>Note</i>		
<b>EQUITY AND LIABILITIES</b>			
Equity attributable to owners of the Company			
Share capital		<b>42,916</b>	42,916
Other reserves		<b>218,109</b>	220,015
Retained earnings		<b>857,161</b>	847,642
		<b>1,118,186</b>	1,110,573
Non-controlling interests		<b>55,320</b>	50,610
<b>Total equity</b>		<b>1,173,506</b>	1,161,183
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Other payables	11	<b>18,427</b>	6,595
Borrowings		<b>7,197</b>	7,197
Lease liabilities	9	<b>34,952</b>	41,175
Deferred income tax liabilities		<b>21,427</b>	21,453
		<b>82,003</b>	76,420
<b>Current liabilities</b>			
Trade and other payables	11	<b>299,530</b>	332,755
Amount due to a non-controlling interest		<b>537</b>	537
Borrowings		<b>150,459</b>	153,506
Lease liabilities	9	<b>14,023</b>	13,595
Current income tax liabilities		<b>55,693</b>	48,607
		<b>520,242</b>	549,000
<b>Total liabilities</b>		<b>602,245</b>	625,420
<b>Total equity and liabilities</b>		<b>1,775,751</b>	1,786,603
<b>Net current assets</b>		<b>419,117</b>	512,581
<b>Total assets less current liabilities</b>		<b>1,255,509</b>	1,237,603

## 1. BASIS OF PREPARATION

This interim condensed consolidated financial information for the six months ended 30 June 2024 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 consolidated 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 2023, 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 2023, as described in those annual consolidated financial statements, except for adoption of new and amended standards and the accounting policy for investment in an insurance contract set out below.

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, 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 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 gain/(loss) on financial assets at fair value through profit or loss (“FVPL”), change in value of investment in insurance contracts, finance income and costs, share of loss 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:

- (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, Mexico and Shenzhen, the People’s Republic of China (“PRC”). Customers are mainly located in the United States (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 H3 Sportgear LLC (“H3”), San Diego Hat Company (“SDHC”) and Aquarius Ltd. (“Aquarius”) which focus on the USA market, and Drew Pearson International (Europe) Ltd., (“DPI”) which focuses on the Europe market.

	Manufacturing		Trading		Total	
	Six months ended 30 June		Six months ended 30 June		Six months ended 30 June	
	2024	2023	2024	2023	2024	2023
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$’000	HK\$’000	HK\$’000	HK\$’000	HK\$’000	HK\$’000
Revenue from external customers	445,769	469,233	241,345	311,025	687,114	780,258
Inter-segment revenue	23,954	30,163	-	-	23,954	30,163
Reportable segment revenue	<u>469,723</u>	<u>499,396</u>	<u>241,345</u>	<u>311,025</u>	<u>711,068</u>	<u>810,421</u>
Reportable segment profit/(loss)	93,178	129,083	(37,739)	(28,039)	55,439	101,044
Fair value gain/(loss) on financial assets at FVPL					2,322	(1,191)
Change in value of investment in insurance contracts					135	(4,166)
Unallocated corporate income					14,710	15,042
Unallocated corporate expenses					(7,558)	(10,729)
Profit from operations					65,048	100,000
Finance costs – net					(6,590)	(8,374)
Share of loss from an investment accounted for using equity method					(15)	(14)
Income tax expense					(18,464)	(20,009)
Profit for the period					<u>39,979</u>	<u>71,603</u>

Segment assets exclude investment properties, deferred income tax assets, investment accounted for using equity method, financial assets at FVPL, tax recoverable, short-term deposits 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 2024 (Unaudited) HK\$'000	31 December 2023 (Audited) HK\$'000	30 June 2024 (Unaudited) HK\$'000	31 December 2023 (Audited) HK\$'000	30 June 2024 (Unaudited) HK\$'000	31 December 2023 (Audited) HK\$'000
Reportable segment assets	813,237	794,939	652,301	557,820	1,465,538	1,352,759
Investment properties					49,455	50,065
Deferred income tax assets					6,209	6,850
Investment accounted for using equity method					407	422
Financial assets at FVPL					49,825	46,452
Tax recoverable					3,251	3,251
Short-term deposits					12,438	8,955
Cash and cash equivalents					188,628	317,849
Total assets					<u>1,775,751</u>	<u>1,786,603</u>

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.

	Manufacturing		Trading		Total	
	30 June 2024 (Unaudited) HK\$'000	31 December 2023 (Audited) HK\$'000	30 June 2024 (Unaudited) HK\$'000	31 December 2023 (Audited) HK\$'000	30 June 2024 (Unaudited) HK\$'000	31 December 2023 (Audited) HK\$'000
Reportable segment liabilities	169,904	186,589	190,966	199,900	360,870	386,489
Deferred income tax liabilities					21,427	21,453
Current income tax liabilities					55,693	48,607
Borrowings					157,656	160,703
Other corporate liabilities					6,599	8,168
					<u>602,245</u>	<u>625,420</u>
Capital expenditure incurred during the period/year	24,164	145,653	133,326	7,986	157,490	153,639



#### 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:

	<b>Six months ended 30 June</b>	
	<b>2024</b>	<b>2023</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
<b>(a) Operating profit</b>		
Fair value (gain)/loss on financial assets at FVPL	(2,322)	1,191
Change in value of investment in insurance contracts	(135)	4,166
Net exchange gain	(2,841)	(1,349)
Depreciation of property, plant and equipment	28,078	25,675
Depreciation of right-of-use assets	7,101	9,807
Short-term lease expenses	3,938	3,550
Amortisation of other intangible assets	11,995	13,664
Net provision for inventories ( <i>note (i)</i> )	1,162	1,936
Net impairment on trade receivables ( <i>note (ii)</i> )	2,163	2,052
	<u>                    </u>	<u>                    </u>

*Notes:*

- (i) Provision for obsolete inventories of HK\$1,162,000 has been made during the six months ended 30 June 2024 (six months ended 30 June 2023: HK\$1,936,000), 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 2024 was mainly related to the trade receivables of customers in the USA and Europe after assessing the customers' business outlook and past repayment pattern. Based on the assessment of expected credit loss, the Group has made a provision of HK\$2,163,000 during the period ended 30 June 2024 (six months ended 30 June 2023: HK\$2,052,000).

	<b>Six months ended 30 June</b>	
	<b>2024</b>	<b>2023</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
<b>(b) Finance costs – net</b>		
Interest on bank loans, overdrafts and other borrowings	(6,655)	(7,458)
Interest accretion on license fee payables	(1,239)	(563)
Interest on lease liabilities	(743)	(869)
	<u>                    </u>	<u>                    </u>
Finance costs	(8,637)	(8,890)
Finance income	2,047	516
	<u>                    </u>	<u>                    </u>
Finance costs – net	<u>                    </u>	<u>                    </u>
	<u>                    </u>	<u>                    </u>

## 5. INCOME TAX EXPENSE

	Six months ended 30 June	
	2024 (Unaudited) <i>HK\$'000</i>	2023 (Unaudited) <i>HK\$'000</i>
Current year		
– Hong Kong profits tax	770	1,110
– Overseas tax	<u>17,079</u>	<u>18,486</u>
	17,849	19,596
Deferred income tax	<u>615</u>	<u>413</u>
	<u><u>18,464</u></u>	<u><u>20,009</u></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 2023: 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	
	2024 (Unaudited)	2023 (Unaudited)
Profit attributable to owners of the Company ( <i>HK\$'000</i> )	<u>35,269</u>	<u>65,075</u>
Weighted average number of ordinary shares in issue	<u>429,164,448</u>	<u>427,289,401</u>
Basic earnings per share ( <i>HK cents</i> )	<u>8.218</u>	<u>15.230</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 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:

	<b>Six months ended 30 June</b>	
	<b>2024</b> <b>(Unaudited)</b>	<b>2023</b> <b>(Unaudited)</b>
Profit attributable to owners of the Company (HK\$'000)	<u><b>35,269</b></u>	<u>65,075</u>
Weighted average number of ordinary shares in issue	<b>429,164,448</b>	427,289,401
Adjustment for share options	<u><b>4,077,891</b></u>	<u>9,452,381</u>
Weighted average number of ordinary shares for diluted earnings per share	<u><b>433,242,339</b></u>	<u>436,741,782</u>
Diluted earnings per share (HK cents)	<u><b>8.141</b></u>	<u>14.900</u>

## 7. DIVIDENDS

### (a) Dividends attributable to the period

	<b>Six months ended 30 June</b>	
	<b>2024</b> <b>(Unaudited)</b> <b>HK\$'000</b>	<b>2023</b> <b>(Unaudited)</b> <b>HK\$'000</b>
Interim dividend declared of 3 HK cents (2023: 3 HK cents) per share	<u><b>12,875</b></u>	<u>12,861</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 2024. The amount of proposed interim dividend was based on 429,164,448 (30 June 2023: 428,684,448) shares in issued as at 30 June 2024.

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

	<b>Six months ended 30 June</b>	
	<b>2024</b>	<b>2023</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Final dividend paid in respect of 2023 of 6 HK cents (2022: 6 HK cents) per share	<b>25,750</b>	<b>25,703</b>

**8. CAPITAL EXPENDITURE**

During the six months ended 30 June 2024, the Group acquired property, plant and equipment of HK\$127,615,000 (six months ended 30 June 2023: HK\$23,685,000) and intangible assets of HK\$28,678,000 (six months ended 30 June 2023: HK\$5,581,000).

As at 30 June 2024, other intangible assets represent licensing rights for the use of certain licensed trademark, brands and logos in the Group's products of HK\$31,368,000 (31 December 2023: HK\$14,672,000) and acquired customer relationship of HK\$Nil (31 December 2023: HK\$13,000).

The Group's investment properties were revalued at 31 December 2023. 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 2023: 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:

	At 30 June 2024 (Unaudited) <i>HK\$'000</i>	At 31 December 2023 (Audited) <i>HK\$'000</i>
<b>Right-of-use assets</b>		
Properties	<u>44,451</u>	<u>50,467</u>
<b>Lease liabilities</b>		
Non-current	34,952	41,175
Current	<u>14,023</u>	<u>13,595</u>
	<u>48,975</u>	<u>54,770</u>

Additions to the right-of-use assets during the six months ended 30 June 2024 is HK\$1,197,000 (six months ended 30 June 2023: nil).

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

	<b>30 June 2024 (Unaudited) HK\$'000</b>	31 December 2023 (Audited) HK\$'000
Trade receivables	<b>370,820</b>	339,151
Less: provision for impairment losses	<u>(18,563)</u>	<u>(17,752)</u>
Trade receivables, net	<b>352,257</b>	321,399
Other financial assets at amortised cost	<u>7,215</u>	<u>10,188</u>
	<b>359,472</b>	331,587
Less: non-current portion of other financial assets at amortised cost	<u>(2,012)</u>	<u>(2,012)</u>
Current portion	<u><b>357,460</b></u>	<u>329,575</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:

	<b>30 June 2024 (Unaudited) HK\$'000</b>	31 December 2023 (Audited) HK\$'000
0–30 days	<b>114,403</b>	122,466
31–60 days	<b>107,156</b>	96,349
61–90 days	<b>64,915</b>	53,259
91–120 days	<b>32,439</b>	19,328
121–180 days	<b>14,039</b>	17,261
Over 180 days	<u>37,868</u>	<u>30,488</u>
	<u><b>370,820</b></u>	<u>339,151</u>

## 11. TRADE AND OTHER PAYABLES

	<b>30 June 2024 (Unaudited) HK\$'000</b>	31 December 2023 (Audited) HK\$'000
Trade payables	<b>150,752</b>	169,544
Accrued charges and other payables	<b>167,205</b>	169,806
	<b>317,957</b>	339,350
Less: other non-current payables	<b>(18,427)</b>	(6,595)
Current portion	<b>299,530</b>	332,755

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

	<b>30 June 2024 (Unaudited) HK\$'000</b>	31 December 2023 (Audited) HK\$'000
0–30 days	<b>79,654</b>	76,350
31–60 days	<b>21,652</b>	26,702
61–90 days	<b>12,699</b>	14,375
Over 90 days	<b>36,747</b>	52,117
	<b>150,752</b>	169,544

Contract liabilities of HK\$75,000 (31 December 2023: HK\$1,031,000) 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 2024 that was included in the contract liabilities balance at the beginning of the period amounted to HK\$1,031,000 (six months ended 30 June 2023: HK\$1,133,000). The Group recognised its contract liabilities under other payables and accruals in the interim condensed consolidated balance sheet.



## **12. SUBSEQUENT EVENT**

On 23 August 2024, the Group acquired 55% equity interest of Difuzed B.V., a company incorporated in the Netherlands, at the total consideration of Euro 5,000,000 (approximately HK\$42,500,000). The ultimate beneficial owner of the 45% equity interest of Difuzed B.V. is Mr. El-Kalaani. He owns 10% shareholding in H3 Sportgear LLC which is a non-wholly owned subsidiary of the Group.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

The Board of Directors (the “Board” or the “Directors”) of Mainland Headwear Holdings Limited (the “Company”) hereby presents the unaudited interim results of the Company and its subsidiaries (collectively, “Mainland Headwear” or the “Group”) for the six months ended 30 June 2024 (the “Period”).

### **FINANCIAL REVIEW**

During the first half of 2024, global manufacturers and trading companies faced the challenge of a weaker-than-expected economic recovery, with sales generally under considerable pressure. Amid a relatively sluggish macro environment, the Group leveraged its superior production technologies to stabilize its existing manufacturing and trading businesses, while making timely acquisitions and improving plant operations to facilitate the Group’s sustainable development.

During the Period, the Group’s revenue amounted to HK\$687,114,000 (2023 interim: HK\$780,258,000), gross profit decreased by 19.9% to HK\$219,510,000 (2023 interim: HK\$273,930,000), and gross profit margin decreased by 3.2 percentage points to 31.9% (2023 interim: 35.1%). Profit attributable to shareholders contracted by 45.8% to HK\$35,269,000 (2023 interim: HK\$65,075,000).

The Board of Directors has resolved to declare an interim dividend of 3 HK cents per share (2023 interim: 3 HK cents). The Group is in a healthy financial position with stable operating cash flows. As at 30 June 2024, it also held sufficient cash on hand and total unutilized banking facilities amounting to approximately HK\$188,628,000 and HK\$803,700,000, respectively (31 December 2023: HK\$317,849,000 and HK\$733,700,000, respectively).

### **BUSINESS REVIEW**

#### **Manufacturing Business**

During the Period, revenue from the manufacturing business slid by 5.0% to HK\$445,769,000 (2023 interim: HK\$469,233,000), accounting for approximately 64.9% of the Group’s total revenue. The decline was principally due to the weak retail consumer confidence in Europe and the US, as well as slow sales as major customers were still reducing the large inventories amassed previously.

For the Group's factories, production and sales volume at the Bangladesh factory fell year-on-year as there were two major traditional festivals concentrated in the first half of the year, hence raising the number of days off during the Period. In order to capitalize on its production advantages, the Bangladesh factory started to produce accessories such as wallets and belts for the trading business during the Period. It also bolstered automation of production, reduced manpower, improved operational processes and enhanced production efficiency, which successfully alleviated the pressure on labor costs caused by the drastic rise in minimum wage in the country, as well as maintained a higher gross profit margin level. As for the Shenzhen factory, the combination of lower volume of orders and existing level of overhead and expenses led to an increase in average costs. The factory in Mexico remains at an early production stage, and the newly recruited local staff are grappling with workflow. With production yet to run smoothly, this has translated into high operating costs, resulting in an operating loss for the Period. The Mexico factory will require a longer period of time to expand to the expected level.

Operating profit of the segment amounted to HK\$93,178,000, a decline of 27.8% from HK\$129,083,000 for the same period last year.

As at 30 June 2024, the Bangladesh and Shenzhen factories had approximately 7,200 and 200 employees, respectively (31 December 2023: approximately 7,600 and 300 employees respectively). The Mexican plant had approximately 400 employees.

### **Trading Business**

The trading business was also affected by the weak retail market during the Period, and achieved lower year-on-year sales. Its revenue declined by 22.4% to HK\$241,345,000 (2023 interim: HK\$311,025,000), accounting for 35.1% of the Group's total revenue.

During the Period, the trading segment actively promoted budget management, streamlined structure and reduced manpower, which resulted in an increase in gross profit margin by 2.3 percentage points year-on-year. However, as distribution costs remained high, the segment recorded an operating loss of HK\$37,739,000 (2023 interim: operating loss of HK\$28,039,000).

In order to expand market coverage and enrich its product portfolio, the Group during the Period acquired a property in Missouri, the US, for warehousing. It also acquired 55% interest in a Dutch design company to support subsidiaries of the Group that are engaged in trading and distribution in the UK, help explore the European and other overseas markets, and drive greater synergies.

## PROSPECTS

Looking ahead, geopolitical tensions and the US presidential election will add uncertainties to global economic growth, consumer confidence will continue to be weak, and the business environment will be fraught with challenges. Nonetheless, the Group remains cautiously optimistic about its prospects as it believes that the appeal of headwear and accessories is enduring. The Group will leverage its production edge, flexibly respond to market changes, seize opportunities, optimize its business layout, and continue to expand in scale.

Regarding the manufacturing business, the Group will further improve operations and enhance overall efficiency. With respect to the factory in Mexico, the Group will focus on refining factory processes and enhancing production stability. It will also strengthen staff training to improve worker attendance and product quality, so as to eliminate losses, reduce costs, and increase competitiveness. After the Bangladesh factory introduces production lines for wallets and belts, it will reinforce cooperation between various production lines to further boost production efficiency.

Although the Mexico factory is still at an initial stage of operation and will require time to rationalize the production plan, it has already received a large number of inquiries from customers. The positive market response shows that the business outlook for the factory is quite promising, and is expected to provide a good foundation for the Group's future business growth. The Group will actively explore new sources of customers in Mexico and the US through its new factory, and cooperate with the Bangladesh factory to jointly improve the efficiency and flexibility of the overall supply chain and further enhance the Group's competitiveness in the global market.

In respect of the trading business, the Group will take advantage of its acquisition of a Dutch design company this year to expand market coverage. The target company possesses extensive experience in developing and distributing clothing and fashion accessories under entertainment, fashion, sports and consumer goods brands, and has grown to become one of the biggest licensee organizations in Europe, Middle East and Africa (EMEA). The Group trusts that through this acquisition, the trading business will expand its market coverage from Europe and the US at present, to the Middle East and Africa, and obtain more brand licenses to generate greater overall sales revenue.

The warehouse property in Missouri, the US, acquired by the Group during the Period is expected to commence operation in the fourth quarter of 2024. The spacious facility will not only help the Group to cut the costs of renting offices and warehouses from third parties, but also help to improve operational efficiency and cater for the future development of its trading business.

At the same time, the Group will continue to implement various cost control measures, simplify its operating structure to improve efficiency and alleviate rising cost pressure, and mitigate risks by diversifying supply.

Over the past thirty-eight years, Mainland Headwear has successfully weathered various economic cycles and challenges to become a market leader in the headwear manufacturing industry. With its leading market position, diversified production layout, extensive product portfolio covering headwear and accessories, and business insights, the Group is confident that it can overcome various challenges and create long-term value for its customers and shareholders.

## **LIQUIDITY AND FINANCIAL RESOURCES**

As at 30 June 2024, the Group had cash and bank balances (including short-term deposits) and a portfolio of liquid investments totaling Hong Kong dollars (“HK\$”) 205.2 million (31 December 2023: HK\$331.0 million). About 60.6%, 17.4% and 8.1% of these liquid funds were denominated in United States dollars, Renminbi and Hong Kong dollars respectively. As at 30 June 2024, the Group had banking facilities of HK\$912.1 million (31 December 2023: HK\$842.7 million), of which HK\$803.7 million (31 December 2023: HK\$733.7 million) were not utilised.

The borrowings over total equity ratio of the Group is at 13.4% (31 December 2023: 13.8%). 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\$102.4 million to acquire a property in Missouri, the USA as office and warehouse. The Group also spent HK\$24.2 million (30 June 2023: HK\$23.7 million) on additions to equipment and machineries to further upgrade and expand its manufacturing capabilities. Also the Group spent HK\$1.0 million (30 June 2023: HK\$5.6 million) on additions of equipment and systems of Trading Business.

As at 30 June 2024, the Group had authorised a capital commitment of HK\$122.7 million for the construction of a warehouse and dormitory in Mexico and expansion in Bangladesh under manufacturing business. The Group had also authorised a capital commitment of HK\$26.3 million in respect of the renovation of the warehouse acquired in Missouri, the USA and equipment upgrade for Trading business.

## **ACQUISITION OF A SUBSIDIARY**

On 23 August 2024, the Group acquired 55% equity interest of Difuzed B.V., a company incorporated in the Netherlands, at the total consideration of Euro 5,000,000. The ultimate beneficial owner of the 45% equity interest of Difuzed B.V. is Mr. El-Kalaani. He owns 10% shareholding in H3 Sportgear LLC which is a non-wholly owned subsidiary of the Group.

By acquiring Difuzed B.V., the Group will broaden its market geographical coverage to include European Union, Middle East and Africa whilst the Difuzed B.V. can take advantage of the Group's US establishment and enter its products and services to the US market. This acquisition also allows the Group to diversify its product lines focusing on headwear only to a more comprehensive full range of apparel and accessory lines.

## **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/depreciation of Bangladesh Taka is expected to reduce/increase the gross margin of the Manufacturing Business by about 0.28%. Rental income in the PRC provides a hedge against the adverse effect of any appreciation of Renminbi to the manufacturing costs.

## **EMPLOYEES AND REMUNERATION POLICIES**

As at 30 June 2024, the Group employed a total of 335 (30 June 2023: 386) workers and employees in the PRC ("People's Republic of China") (include Hong Kong), 7,222 (30 June 2023: 8,830) workers and employees in Bangladesh, 389 workers and employees in Mexico (30 June 2023: nil), and 158 (30 June 2023: 163) employees in the USA ("United States of America") and the UK ("United Kingdom"). The expenditures for the employees during the Period were approximately HK\$192.3 million (30 June 2023: HK\$181.8 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 (2023: 3 HK cents) per share, payable on or after 10 October 2024.

## **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 2024, the register of members of the Company will be closed from 17 September 2024 to 20 September 2024 (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 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong for registration not later than 4:30 p.m. on 16 September 2024.

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

During the six months ended 30 June 2024, 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 2024.

## **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 2024.

## **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 2024.

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

Hong Kong, 27 August 2024

*As at the date hereof, the Board of Directors of the Company comprises nine directors, of which six are Executive Directors, namely Mr. Ngan Hei Keung, Madam Ngan Po Ling, Pauline, BBS, JP, Mr. James S. Patterson, Mr. Ngan Siu Hon, Alexander, Mr. Lai Man Sing and Mr. Andrew Ngan; and three are Independent Non-executive Directors, namely Mr. Gordon Ng, Mr. Cheung Tei Sing Jamie and Mr. Li Yinquan.*