Immediate Release

Mainland Headwear Announces 2016 Annual Results

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Profit attributable to shareholders jumped by 36.2% to HK$71,586,000
Bangladesh factory has matured, spurring outstanding results again

(28 March 2017, Hong Kong) **Mainland Headwear Holdings Limited** ("Mainland Headwear" or the "Group") (stock code: 1100), a renowned designer, producer and retailer of headwear, has today announced its annual results for the year ended 31 December 2016.

During the year, the Group recorded stable turnover of HK$870,291,000, which was similar to last year. With the expansion of the Bangladesh factory's production capacity, coupled with increasingly widespread recognition and increased orders from customers, the Manufacturing Business remained as the major revenue source and growth engine of the Group, thereby offsetting the performance of the Trading Business and Retail Business which were dragged down by the poor market environment. Through the implementation of effective cost control measures, the Group successfully increased its gross profit by 8.6% to HK$288,017,000 and gross profit margin by 2.7 percentage points to 33.1% year-on-year. Benefiting from a significant improvement in production efficiency from the Bangladesh factory, profit attributable to shareholders jumped by 36.2% to HK$71,586,000.

The Board declared a final dividend of 3 HK cents per share for the year ended 31 December 2016. Together with an interim dividend of 2 HK cents per share, total dividend for the year will be 5 HK cents per share (2015: 3 HK cents per share).

Mr Ngan Hei Keung, Chairman of Mainland Headwear, said, "With a solid foundation built over three decades of operation complemented by flexible development strategies, Mainland Headwear's business has continued to grow and achieve encouraging results, profit attributable to shareholders rocketed by 36.2%. After establishing a factory in Bangladesh in 2013, a strategic move and significant milestone, the Group continued to expand production capacity to meet growing market demand for headwear products."

Business Review

Manufacturing Business

Supported by the greater production capacity and increasing production efficiency of the Bangladesh factory, the Manufacturing Business continued to be the Group's profit growth engine. Segment turnover increased by 10.4% to HK$596,140,000 (2015: HK$539,834,000), accounting for 68.5% of total turnover. With the improving production efficiency and quality of the Bangladesh factory, gross profit of this segment has risen by 13.8% to HK$158,457,000 (2015: HK$139,223,000). Since the Group enhanced operating efficiency and implemented effective cost saving measures, the operating profit of the Manufacturing Business has increased by 26.5% to HK$83,376,000 (2015: HK$65,927,000).

Through the dedicated efforts of the Group, the production technologies at the Bangladesh factory have matured and its workforce has grown to around 3,200 (2015: 3,100). Therefore, its monthly production capacity has increased to 2.25 million pieces of headwear products (2015: 1.8 million pieces monthly). The recognition that the factory has received from more and more customers is evident through the increase in orders.

Trading Business

The Trading Business, being engaged in activities covering diverse markets, was adversely affected by political and economic factors around the globe, including the weak exchange rate of the pound following Brexit. Consequently, turnover from the segment declined by 15.2% to HK$185,413,000 (2015: HK$218,617,000). With SDHC continuing as the Group's development focus, the Group has further enriched its product mix, which included the introduction of self-branded accessories that have higher gross profit margins. Consequently, this segment reported a turnaround which leads to its operating profit rocketed to HK$12,997,000 (2015: HK$322,000).

Retail Business

The continued slowdown in economic growth in Mainland China, lackluster consumption sentiment and depreciation of the RMB further weighed on the local retail market. Although the Group has captured immense business opportunities resulting from the increasing popularity of online shopping, has further accelerated development of the online sales platform, and at the same time, has strictly controlled the number of self-owned stores to reduce operating costs, the retail business was nevertheless affected. Turnover declined by 21.2% to HK$88,738,000 (2015: HK$112,547,000). However, to meet new consumption patterns, the Group has actively expanded the Sanrio online sales platform. An initial benefit of this expansion has been a doubling of online turnover within just a year.

Prospects

As for the Manufacturing Business, the Bangladesh factory will remain the Group's business focus. To complement business expansion, the Group is constructing a new factory with a gross area of about 350,000 sq. ft., which is scheduled to commence production in the first half of 2018. The Group will double the target number of employees at the Bangladesh factory to 5,000/6,000, which will consequently improve production capacity and be capable of handling more orders. As the production skills of the Bangladesh staff improve, the factory will be able to handle more high-end headwear orders. Meanwhile, the Shenzhen factory will continue to focus on the R&D and design of high-end products

With regards to the Trading Business, uncertainties such as the course of Brexit and interest hikes by the US have urged the management to prudently adjust the Group's business strategies in order to support its long-term business growth. The Group will also strive to broaden its product mix to meet changing market demand. It is expected that SDHC will remain the main revenue contributor to this business segment.

The retail markets in Mainland China and Hong Kong are unlikely to realise growth in the short term. As such, the Group will continue to implement prudent strategies to control the number of self-owned stores in order to lower operating expenses. Furthermore, given the success of the Sanrio online sales platform, it will be further optimised so as to help drive the performance of the Retail Business.

Mrs. Ngan Po Ling, Deputy Chairman and Managing Director of Mainland Headwear, said, "Well-rooted in China for three decades, the Group has built a solid business foundation and customer base. The outstanding performance of the Bangladesh factory in recent years and its increasing contribution to the Group serve as testimony to the success of the Group's 'Going Out' strategy'. Building on the flexible and pragmatic operating strategy, the Group is set to capture immense opportunities arising from the 'One Belt, One Road' national policy and reach new heights."

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About Mainland Headwear Holdings Limited (SEHK Stock Code : 1100)
Mainland Headwear was established in 1986 and listed on the Hong Kong Stock Exchange in 2000. The Group is principally engaged in the design, manufacture and distribution of quality headwear, with its own manufacturing plants in Shenzhen and an acquired factory in Bangladesh. In 2004, the Group commenced retail business to open headwear outlets in Hong Kong and the PRC. In 2005, the Group obtained the exclusive license to design, manufacture and sell all SANRIO products in the PRC. In 2008, the Group signed a seven-year manufacturing agreement with New Era Cap Co., Inc., the largest and fastest growing headwear manufacturer in the United States. In 2012, the Group acquired San Diego Hat Company, a leading high-end designer, importer and marketer of women's hats in the US, to expand self-owned brand business in the downstream market in Europe and the US, and the strategic partnership with New Era by entering into a five-year manufacturing agreement in 2014.
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