Immediate Release

Mainland Headwear Announces 2017 Interim Results

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Continuous Growth of Production Capacity and Production Efficiency of the Bangladesh Factory Boosts Net Profit by 7.1% to HK$39,403,000

(24 August 2017, Hong Kong) **Mainland Headwear Holdings Limited** ("Mainland Headwear" or the "Group") (HKEX: 1100), a renowned designer, producer and retailer of headwear, has today announced its interim results for the six months ended 30 June 2017.

Driven by the expansion of production capacity at the Bangladesh factory, the Manufacturing Business has remained the Group's primary income source and profit growth driver, and has offset the consolidation of the Trading Business and the performance of the Retail Business which was adversely affected by market conditions during the Period. Consequently, the Group managed to maintain turnover and profit at a similar level to last year. During the Period, the Group achieved a turnover of HK$444,996,000 (2016 Interim: HK$451,532,000). Due to a greater decline in turnover from the Retail Business, which carries higher gross profit margin, the Group's gross profit margin slightly decreased by 1.2 percentage points from 33.6% last year to 32.4%. Gross profit for the Period was HK$144,173,000 (2016 Interim: HK$151,837,000). Since production efficiency and capacity at the Bangladesh factory has continued to increase, and the Group has effectively reduced fixed operating costs of the Retail Business, profit attributable to shareholders has climbed by 7.1% to HK$39,403,000 (2016 Interim: HK$36,799,000).

The Board of Directors has declared an interim dividend of 2 HK cents per share for the six months ended 30 June 2017 (2016 Interim: 2 HK cents per share).

Mr. Ngan Hei Keung, Chairman of Mainland Headwear, said, "Leveraging the solid foundation built over the past three decades and tapping opportunities presented by the nation's Belt and Road initiative, Mainland Headwear has advanced its business in line with the national policy of 'Going Out' in 2013 by investing in construction of a factory in Bangladesh which also serves as the key to the Group's successful long-term development."

Business Review

Manufacturing Business

Riding on the Group's longstanding and stable business relations with existing clients complemented by a steady growth in market demand for the Group's headwear products, turnover from the Manufacturing Business grew steadily by 3.2% to HK$311,547,000 (2016 Interim: HK$301,804,000), accounting for 70.0% of total turnover. The production efficiency and quality of the Bangladesh factory have continuously improved, raising gross profit of this segment by 4.6% to HK$92,905,000 (2016 Interim: HK$88,805,000). Benefiting from the ongoing increase in operating efficiency and effective cost control measures, the operating profit of the Manufacturing Business rose by 4.2% to HK$54,416,000 (2016 Interim: HK$52,233,000).

Despite being affected by the reduction of production days in the first half year due to local festivals, production technology and capacity of the Bangladesh factory were improving with the continuous expansion of the workforce. The factory has around 3,500 workers as at 30 June 2017 (2016 Interim: around 3,000), rapidly boosting the production capacity of the Bangladesh factory from 1.8 million pieces of headwear products per month to 2.3 million pieces.

Trading Business

The Trading Business, encompassing diverse markets, has been hit by global economic instability as well as business consolidation. As a result, turnover from the Trading Business amounted to HK$97,711,000 (2016 Interim: HK$102,794,000), accounting for 22.0% of total turnover, with operating profit of HK$3,477,000 (2016 Interim: HK$3,849,000). The Group started consolidating H3 Sportgear LLC ("H3") at the end of 2016, including strengthening the team's capabilities and adjusting the sales strategy. Although the consolidation has affected business performance in the short run, it will be conducive to the long-term development of H3.

Retail Business

The Group has strictly controlled the number of self-owned stores while at the same time has further developed the online sales platform to reduce operating costs and boost sales volume. Still, amid ongoing sluggish consumer sentiment in the PRC and Hong Kong, the Group's Retail Business was invariably affected. Turnover during the Period amounted to HK$35,738,000 (2016 Interim: HK$46,934,000), accounting for 8.0% of total turnover, with an operating loss of HK$5,419,000 (2016 Interim: a loss of HK$4,262,000). To meet the rapidly changing consumption model in the PRC, the Group has continued to consolidate underperforming self-owned stores in a bid to reduce operating costs and actively develop the Sanrio online sales platform in order to increase its income sources. Turnover from online sales has increased by more than 10.0% when compared with the same period last year.

Prospects

On the Manufacturing Business front, the Group continues to direct its business development focus on its Bangladesh factory and has accelerated construction of a second phase. However, since approval time from the local government is longer than expected, the operation of the new factory is expected to be postponed until the second half of 2018. The target number of workers at the Bangladesh factory will double to around 6,000, further improving the production capacity accordingly. Furthermore, as Bangladesh's production technologies have improved, the factory is able to handle a greater volume of high-end headwear orders, with the target client segment rising from mid-range-to-low end to mid-range-to-high end. Quality and profitability of the factory is likely to be further enhanced. Meanwhile, the Shenzhen factory will continue to focus on R&D, as well as the design and support of high-end products.

The year 2017 is an investment period for the Trading Business, with San Diego Hat Company ("SDHC") as its core development. SDHC has entered into several agreements on 20 July 2017, including the acquisition of a vacant land parcel and the design and construction of a building in California, US, at a total consideration of US$15,419,000 (equivalent to approximately HK$119,957,000). The building is to be used by SDHC as its office and warehouse. The base building and all interior improvements are expected to be completed by the end of 2018. After completion of the new building, SDHC and its subsidiaries could consolidate all warehouses in one location so as to strengthen control and management of inventories.

As for H3, through the implementation of a series of restructuring measures, the Group is confident in enhancing its business performance and profitability, which will underpin the long-term growth of the Trading Business. Subsequent to the Period, H3 has not only obtained several new licenses, but also, more noteworthy, secured an order with a multinational retail company in the US that represents double-digit quantity growth. This contribution to revenue is expected to be reflected in the first half of 2018.

With regard to the Retail Business, the Group expects retail market conditions in the PRC and Hong Kong to undergo no obvious improvement in the short term. The Group will strategically allocate resources in order to reduce operating costs. Meanwhile, the Group will continue to optimise and expand the Sanrio online sales platform in a bid to improve business performance.

Madam Pauline Ngan, BBS, JP, Deputy Chairman and Managing Director of Mainland Headwear, concluded, "Looking back, Mainland Headwear has maintained its leading position by persevering through ups and downs, and subsequently growing stronger. This progress can be attributed to the Group's solid business foundation and the success of its strategy consistent with its 'Going Out' strategy. Looking ahead, we are confident in our ability to lead the Group to new horizons and generate greater value for our shareholders by leveraging our first-mover competitive advantages under the Belt and Road initiative."

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About Mainland Headwear Holdings Limited (HKEX: 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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