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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 2021

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 2021 .

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2021

	<i>Note</i>	2021 HK\$'000	2020 HK\$'000
Revenue	2	1,600,255	1,048,006
Cost of sales		<u>(1,121,031)</u>	<u>(729,317)</u>
Gross profit		479,224	318,689
Other income		20,546	14,219
Other gains — net	3	11,151	746
Selling and distribution costs		(150,083)	(108,482)
Administration expenses		(176,292)	(153,037)
Net impairment losses on financial assets		(3,314)	(8,286)
Profit from operations		181,232	63,849
Finance income	4	371	637
Finance costs	4	(7,691)	(11,137)
Finance costs — net		(7,320)	(10,500)
Share of (loss)/profit from an investment accounted for using equity method		(799)	495
Profit before income tax	5	173,113	53,844
Income tax expense	6	(35,902)	(3,806)
Profit for the year		137,211	50,038

* *For identification purpose only*

	<i>Note</i>	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Profit attributable to:			
Owners of the Company		128,076	45,895
Non-controlling interests		9,135	4,143
		<u>137,211</u>	<u>50,038</u>
		2021	2020
Earnings per share for the profit attributable to owners of the Company			
Basic (HK cents per share)	7	31.5985	11.3231
Diluted (HK cents per share)		31.5723	11.3229

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2021

	2021	2020
<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit for the year	137,211	50,038
Other comprehensive income/(loss), net of tax		
Items that have been or may be subsequently reclassified to profit or loss:		
Exchange differences on translation of financial statements of foreign operations	2,237	3,292
Release of exchange reserve upon deregistration of a subsidiary	<u>—</u>	<u>(1,553)</u>
Total comprehensive income for the year, net of tax	<u>139,448</u>	<u>51,777</u>
Total comprehensive income attributable to:		
Owners of the Company	130,313	47,582
Non-controlling interests	<u>9,135</u>	<u>4,195</u>
Total comprehensive income for the year	<u>139,448</u>	<u>51,777</u>

CONSOLIDATED BALANCE SHEET

As at 31 December 2021

	<i>Note</i>	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
ASSETS			
Non-current assets			
Property, plant and equipment		416,029	407,737
Right-of-use assets		40,167	42,183
Investment properties		51,928	44,523
Goodwill		22,511	22,511
Other intangible assets		29,608	32,774
Deferred income tax assets		5,164	3,500
Investment accounted for using equity method		396	1,195
Financial assets at fair value through profit or loss		30,909	8,943
Other financial assets at amortised cost	9	1,561	1,489
		598,273	564,855
Current assets			
Inventories		451,904	276,830
Trade receivables	9	360,931	335,320
Financial assets at fair value through profit or loss		15,289	6,556
Other financial assets at amortised cost	9	8,620	8,254
Other current assets	10	32,289	18,745
Tax recoverable		3,324	3,477
Cash and cash equivalents		198,890	219,461
		1,071,247	868,643
Total assets		1,669,520	1,433,498
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company			
Share capital		40,532	40,532
Other reserves		226,390	223,800
Retained earnings		609,985	506,135
		876,907	770,467
Non-controlling interests		25,214	17,946
Total equity		902,121	788,413

	<i>Note</i>	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
LIABILITIES			
Non-current liabilities			
Other payables	11	20,587	20,862
Lease liabilities		23,540	27,374
Deferred income tax liabilities		6,324	4,563
		<u>50,451</u>	<u>52,799</u>
Current liabilities			
Trade and other payables	11	393,185	270,187
Amount due to a non-controlling interest		537	537
Borrowings		275,384	293,677
Lease liabilities		18,826	16,294
Current income tax liabilities		29,016	11,591
		<u>716,948</u>	<u>592,286</u>
Total liabilities		<u>767,399</u>	<u>645,085</u>
Total equity and liabilities		<u>1,669,520</u>	<u>1,433,498</u>
Net current assets		<u>354,299</u>	<u>276,357</u>
Total assets less current liabilities		<u>952,572</u>	<u>841,212</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”) 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 policy 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 2021:

- Interest Rate Benchmark Reform-Phase 2 — Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16
- COVID-19-Related Rent Concessions — Amendments to HKFRS 16

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 the 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 gains and interest income on financial assets at FVPL, loss on disposal of 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 profit 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 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.

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	
	2021	2020	2021	2020	2021	2020
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue from external customers	844,256	533,728	755,999	514,278	1,600,255	1,048,006
Inter-segment revenue	84,276	58,892	—	—	84,276	58,892
Reportable segment revenue	<u>928,532</u>	<u>592,620</u>	<u>755,999</u>	<u>514,278</u>	<u>1,684,531</u>	<u>1,106,898</u>
Reportable segment profit/(loss)	174,981	87,625	(11,617)	(21,984)	163,364	65,641
Financial assets at fair value through profit or loss						
— fair value gains					5,064	711
— interest income					—	207
Loss on disposal of financial assets at fair value through profit or loss					—	(2,806)
Fair value gains on investment properties					6,753	758
Share-based payment expenses					(447)	(968)
Unallocated corporate income					19,572	12,959
Unallocated corporate expenses					(13,074)	(12,653)
Profit from operations					181,232	63,849
Finance income					371	637
Finance costs					(7,691)	(11,137)
Share of (loss)/profit from an investment accounted for using equity method					(799)	495
Income tax expense					(35,902)	(3,806)
Profit for the year					<u>137,211</u>	<u>50,038</u>
Depreciation of property, plant and equipment	28,641	27,113	9,660	10,223	38,301	37,336
Depreciation of right-of-use assets	12,631	10,771	7,257	6,269	19,888	17,040
Amortisation of other intangible assets	—	—	23,066	20,520	23,066	20,520

	Manufacturing		Trading		Total	
	2021	2020	2021	2020	2021	2020
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Reportable segment assets	658,796	563,563	704,810	580,889	1,363,606	1,144,452
Investment properties					51,928	44,523
Deferred income tax assets					5,164	3,500
Investment accounted for using equity method					396	1,195
Financial assets at fair value through profit or loss					46,198	15,499
Tax recoverable					3,324	3,477
Cash and cash equivalents					198,890	219,461
Other corporate assets					14	1,391
Total assets					<u>1,669,520</u>	<u>1,433,498</u>
Reportable segment liabilities	279,985	192,891	167,378	134,864	447,363	327,755
Deferred income tax liabilities					6,324	4,563
Current income tax liabilities					29,016	11,591
Borrowings					275,384	293,677
Other corporate liabilities					9,312	7,499
Total liabilities					<u>767,399</u>	<u>645,085</u>
Capital expenditure incurred during the year	<u>63,549</u>	<u>25,715</u>	<u>21,558</u>	<u>53,909</u>	<u>85,107</u>	<u>79,624</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.

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:

	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
USA	1,423,456	924,714
Europe	118,676	68,359
PRC	23,139	10,975
Hong Kong	7,135	7,804
Others	27,849	36,154
	<hr/>	<hr/>
Total	1,600,255	1,048,006
	<hr/> <hr/>	<hr/> <hr/>

During the year ended 31 December 2021, revenue derived from the Group's largest customer (who is a group of affiliated companies of a shareholder) amounted to HK\$576,140,000 or 36.0% of the Group's revenue from continuing operations (2020: HK\$360,083,000 or 34.4%). 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:

	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
USA	248,242	262,000
Bangladesh	209,797	196,569
PRC	50,656	47,581
Europe	6,981	7,193
Hong Kong	16,916	6,295
	<hr/>	<hr/>
	532,592	519,638
Other intangible assets	29,608	32,774
Deferred income tax assets	5,164	3,500
Financial assets at fair value through profit or loss	30,909	8,943
	<hr/>	<hr/>
	598,273	564,855
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3. OTHER GAINS — NET

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Financial assets at fair value through profit or loss		
— fair value gains	5,064	711
— interest income of unlisted convertible bonds in Hong Kong	—	207
Loss on disposal of financial assets at fair value through profit or loss	—	(2,806)
Net foreign exchange (loss)/gain	(621)	530
Fair value gains on investment properties	6,753	758
Loss on disposal of property, plant and equipment	(78)	(207)
Gain on deregistration of a subsidiary	—	1,553
Gain on lease termination	33	—
	<u>11,151</u>	<u>746</u>

4. FINANCE COSTS — NET

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Interest on bank loans and other borrowings	(4,659)	(8,224)
Interest on lease liabilities	(1,230)	(1,226)
Interest accretion on licence fee payables	(1,802)	(1,687)
	<u>(7,691)</u>	<u>(11,137)</u>
Interest costs	(7,691)	(11,137)
Interest income	371	637
	<u>(7,320)</u>	<u>(10,500)</u>

5. PROFIT BEFORE INCOME TAX

Profit before income tax is stated after charging:

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Depreciation of property, plant and equipment	38,301	37,336
Depreciation of right-of-use assets	19,888	17,040
Amortisation of other intangible assets	23,066	20,520
Net impairment losses on financial assets	3,314	8,286
Net provision for inventories	19,057	1,853
	<u>38,301</u>	<u>37,336</u>

6. INCOME TAX EXPENSE

	2021 HK\$'000	2020 HK\$'000
Current year		
— Hong Kong profits tax	10,320	—
— Overseas tax	25,551	4,666
	<u>35,871</u>	4,666
Deferred income tax	31	(860)
	<u>35,902</u>	<u>3,806</u>

Hong Kong profits tax has been provided at the rate of 16.5% (2020: 16.5%) on the estimated assessable profits for the year. A subsidiary of the Group received queries from Hong Kong Inland Revenue Department (“HKIRD”) in relation to its offshore claim for the previous years. The Directors have consulted with the tax advisors and a Hong Kong Profits Tax provision has been made by the subsidiary in this regard.

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.

The abolishment of the Macau Offshore Law has been approved by the Macau Legislative Assembly and became effective on 28 December 2018. All offshore operating licenses of Macau off-shore companies (“MOCs”) became invalid on 1 January 2021. As a result, the Group’s subsidiary with such license is subject to Macau Complementary Tax of 12% in 2021.

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.

	2021	2020
Profit attributable to owners of the Company (HK\$'000)	<u>128,076</u>	<u>45,895</u>
Weighted average number of ordinary shares in issue	405,323,284	405,323,284
Basic earnings per share (HK cents)	<u>31.5985</u>	<u>11.3231</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.

	2021	2020
Profit attributable to owners of the Company (HK\$'000)	<u>128,076</u>	<u>45,895</u>
Weighted average number of ordinary shares in issue	405,323,284	405,323,284
Adjustment for share options	<u>335,554</u>	<u>7,156</u>
Weighted average number of ordinary shares for diluted earnings per share	<u>405,658,838</u>	<u>405,330,440</u>
Diluted earnings per share (HK cents)	<u>31.5723</u>	<u>11.3229</u>

8. DIVIDENDS

A final dividend and a special dividend in respect of the year ended 31 December 2021 of 4 HK cents and 2 HK cents respectively per share, amounting to a total dividend of HK\$16,213,000 and HK\$8,106,000 respectively. Bonus issue are to be proposed at the upcoming annual general meeting and will be made on the basis of one share of HK\$0.1 each credited as fully paid for every twenty existing shares. These financial statements do not reflect these dividend payable and bonus issue. The amount of proposed final dividend, special dividend and bonus issue for 2021 were based on 405,323,284 (2020: 405,323,284) shares in issue as at 31 December 2021.

	2021	2020
	HK\$'000	HK\$'000
Interim dividend of 3 HK cents (2020: 2 HK cents) per share	12,160	8,106
Proposed final dividend of 4 HK cents (2020: 3 HK cents) per share	16,213	12,160
Proposed special dividend of 2 HK cents (2020: nil) per share	8,106	–
	<u>36,479</u>	<u>20,266</u>

9. TRADE RECEIVABLES AND OTHER FINANCIAL ASSETS AT AMORTISED COST

	2021	2020
	HK\$'000	HK\$'000
Trade receivables	372,127	343,202
Less: provision for impairment losses	(11,196)	(7,882)
	<hr/>	<hr/>
Trade receivables, net	360,931	335,320
Other financial assets at amortised cost	10,181	9,743
	<hr/>	<hr/>
	371,112	345,063
Less: non-current portion of other financial assets at amortised cost	(1,561)	(1,489)
	<hr/>	<hr/>
Current portion	369,551	343,574
	<hr/> <hr/>	<hr/> <hr/>

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:

	2021	2020
	HK\$'000	HK\$'000
0 – 30 days	130,400	117,463
31 – 60 days	126,305	78,436
61 – 90 days	57,355	52,138
91 – 120 days	27,839	27,068
Over 121 days	30,228	68,097
	<hr/>	<hr/>
	372,127	343,202
	<hr/> <hr/>	<hr/> <hr/>

(b) **Impairment and risk exposure**

Trade receivables

The Group applies the 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 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 2021, based on management's assessment, the Group recorded impairment loss for trade receivables of HK\$3,314,000 (2020: HK\$8,286,000) in the consolidated statement of profit or loss.

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

	2021	2020
	HK\$'000	HK\$'000
At 1 January	7,882	5,288
Net provision for impairment loss for the year	3,314	8,286
Uncollectible amounts written off	—	(5,692)
	<hr/>	<hr/>
At 31 December	<u>11,196</u>	<u>7,882</u>

Trade receivables of HK\$5,692,000, which are still subject to enforcement activity were determined as uncollectible and were written off against trade receivables during the year ended 31 December 2020.

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

Other financial assets at amortised cost

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.

As at 31 December 2021, the impact of expected loss is immaterial to the Group (2020: same).

10. OTHER CURRENT ASSETS

	2021 HK\$'000	2020 HK\$'000
Prepayments	8,657	8,238
Deposits and others	<u>23,632</u>	<u>10,507</u>
	<u><u>32,289</u></u>	<u><u>18,745</u></u>

Deposits and others mainly represent trade deposits to suppliers.

11. TRADE AND OTHER PAYABLES

	2021 HK\$'000	2020 HK\$'000
Trade payables	219,760	140,232
Accrued charges and other payables	<u>194,012</u>	<u>150,817</u>
	413,772	291,049
Less: other non-current payables	<u>(20,587)</u>	<u>(20,862)</u>
Current portion	<u><u>393,185</u></u>	<u><u>270,187</u></u>

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

	2021 HK\$'000	2020 HK\$'000
0 – 30 days	109,699	51,593
31 – 60 days	45,643	43,910
61 – 90 days	25,795	19,394
Over 90 days	<u>38,623</u>	<u>25,335</u>
	<u><u>219,760</u></u>	<u><u>140,232</u></u>

Contract liabilities of HK\$1,238,000 (2020: HK\$471,000) 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 2021 that was included in the contract liability at the beginning of the year amounted to HK\$471,000 (2020: HK\$165,000).

As at 31 December 2020, the payable to an investment accounted for using equity method of HK\$1,487,000 is unsecured, non-interest bearing and repayable on demand. This amount was included in the accrued charges and other payables.

BUSINESS REVIEW

Overview

The novel coronavirus (COVID-19) pandemic continued to rage around the world and led to the implementation of control measures such as social-distancing restrictions as well as logistics bottlenecks, both of which hampered business activities. US retail sales showed signs of improvement since the beginning of the year and economic activity gradually returned to normal as government stimulus packages boosted consumer demand and business confidence. Likewise, the UK economy began to experience growth in the spring after suffering economic contractions amid the first wave of the pandemic. The majority of the Group's customers gradually adapted to the new normal of the late-pandemic era, and all major sports seasons were resumed. The turnaround in sentiment in these major economies paved the way for competitive market players to get ahead of their peers.

Leveraging its established manufacturing operations and seasoned product portfolio, the Group was able to grasp the opportunities presented by the market recovery during the year.

As one of only a few manufacturers with quick turnaround manufacturing capabilities in the headwear market, the Group's Manufacturing Business saw a surge in speed-to-market orders as soon as the market began to pick up. The strong business ties that we have developed with our customers adding our avant-garde designs further enabled us to benefit from this quick rebound in demands. With advanced automated machinery and a sufficient pool of highly skilled workers, the Group's factories were responsive and adaptable to customer demand. In particular, our Bangladesh factory attained outstanding production efficiency on the back of increased labour hours and pre-eminent project management during the year.

In regard to the Trading Business, the majority of the Group's subsidiaries, such as H3 Sportgear LLC, performed well and recorded significant growth in their revenues during the year. Backed by the Group's strong production capabilities, they remained competitive with edges in distribution and stable supply of products. The Group's comprehensive product portfolio, comprising both its own brands and licensed products, provided its subsidiaries with easier access to consumers.

FINANCIAL REVIEW

Thanks to its agile manufacturing capabilities and effective marketing management, Mainland Headwear saw an increase in its sales volume in both the Manufacturing and Trading business segments for the year.

Correspondingly, the Group's revenue surged to HK\$1,600,255,000, a leap of 52.7% from the HK\$1,048,006,000 recorded in 2020. Gross profit rose appreciably by 50.4% to HK\$479,224,000 (2020: HK\$318,689,000) and the gross profit margin maintained at 29.9% (2020: 30.4%). Profit attributable to shareholders soared by 179.1% to HK\$128,076,000 (2020: HK\$45,895,000).

The Board has resolved to recommend a final dividend of 4 HK cents per share (2020: 3 HK cents) for the year ended 31 December 2021. Given the Group's positive development and good profit in tough time, the Board has recommended the payment of a special dividend of 2 HK cents per share. The Directors also propose to make a bonus issue of one new share of HK\$0.10 each credited as fully paid for every twenty shares held. Together with an interim dividend of 3 HK cents per share (2020 Interim: 2 HK cents), the total dividend for the year amounted to 9 HK cents (2020: 5 HK cents).

The Group remains in a healthy financial position, and has stable operating cash flows. It also held sufficient cash on hand and unutilised banking facilities amounting to approximately HK\$198.9 million and HK\$216.9 million, respectively, as of 31 December 2021 (31 December 2020: HK\$219.5 million and HK\$219.3 million, respectively).

BUSINESS REVIEW

Manufacturing Business

Revenue from the Manufacturing Business surged by 58.2% to HK\$844,256,000 (2020: HK\$533,728,000). The increase was mainly due to the rapid rebound in customer purchases, supported by the increased production capacity of its Bangladesh factory. Surging demand, reinforced by the increasing proportion of fast orders, resulted in the segment's operating profit doubling to HK\$174,981,000 (2020: HK\$87,625,000).

To meet the strong demand for fast orders with short production cycles, the Group not only actively stepped up the efficiency of its Bangladesh factory by implementing a higher level of automation and optimising its management, but also resumed recruitment. Our Shenzhen factory focused on design and development in addition to the production of high-end products.

We worked closely with customers to make necessary adjustments to delivery schedules. These efforts proved effective, as the retail customers that we had established strong business ties with placed more orders once their business had picked up.

As a result, the Manufacturing Business contributed around 52.8% of the Group's total revenue, up from 50.9% in 2020.

As of 31 December 2021, the Bangladesh and Shenzhen factories had more than 7,200 and 400 employees, respectively (31 December 2020: around 5,300 employees and 500 employees, respectively).

Trading Business

Revenue from the Trading Business increased by 47.0% to HK\$755,999,000 (2020: HK\$514,278,000), accounting for 47.2% of the Group's total revenue. The surge was mainly attributable to significant sales growth in the Group's trading subsidiaries in the US and the UK, where the economies rebounded and consumer confidence recovered following the easing of pandemic restrictions.

In an effort to capture opportunities amid the market consolidation, the Group expanded its portfolio of licensed brands to propel the growth of the Trading Business. The investments in licensing, combined with the escalating transportation costs driven by logistics disruptions caused by insufficient shipping capacity amid the pandemic led to a sharp increase in cost of sales. The headwinds resulting from supply chain disruptions weighed heavily on the performance of the e-commerce unit. In the face of port congestion and a shortage of containers, the unit experienced substantial delays in seasonal categories. As a result, the operating loss of this segment amounted to HK\$11,617,000 (2020 : HK\$21,984,000).

PROSPECTS

Looking ahead, the management believes the growth momentum will continue into the next few months as the market has adapted to the "new normal" of living with COVID-19 even though pandemic-related uncertainties persist. Specifically, European economies have enjoyed a strong recovery on the back of the rapid pace of vaccine rollouts and reduced restrictions on mobility and activity. The US, meanwhile, has launched one of the largest economic stimulus packages in its history to stabilise the economy through the pandemic, and, as a result, consumer demand and business confidence has remained at a high level. The resumption of all major sports seasons has also given rise to a new optimism in our markets.

In order to meet the keen demand from its customers, the Group will continue to improve the layout of its production capacity to enhance efficiency. In Bangladesh, the Group has pushed forward with an expansion plan involving the construction of a new production facility and relocation of a warehouse. The existing warehouse will be moved away from the plant to a nearby plot of land that the Group acquired in previous year and the new production facility will be built on the area where the original warehouse is situated. Approximately 3,000 workers will be hired. The new facility is expected to commence operation by the first half of 2023 and will enlarge the Group's production capacity by 20%.

The Group is mindful of shortages and the soaring prices of raw materials, and the rising freight costs and tightening of transportation capacity. To this end, the management is gradually implementing a local sourcing strategy in order to mitigate the impact of rising freight costs and save warehousing expenses, as well as reduce supply risks.

For the Trading Business, the Group expects the satisfactory growth experienced by its trading subsidiaries in the US and the UK to continue as they further benefit from the permanent shift to online shopping and gradual market recovery.

To improve resource allocation and operational efficiency, the Group will attach more importance to the optimisation of its product offerings in the Trading Business. The expansion of its licensed brand portfolio under the trading umbrella will continue, given that it allows the Group to stand out from its competitors and drive sales. The e-commerce unit will adjust its strategy to predominantly focus on our own brands and licensed products. The management believes that a streamlined product assortment is conducive to better inventory management and schedule reliability, resulting in a sustainable foundation for growth.

Over the past 35 years, the Group has ridden out various economic cycles and challenges and established itself as a market leader in the headwear manufacturing industry. With its leading market position, strengthened presence in Bangladesh, balanced product portfolio and shrewd business acumen, the Group remains confident in its ability to weather whatever conditions may come and create long-term value for its customers and shareholders.

MANAGEMENT DISCUSSION AND ANALYSIS

Liquidity and Financial Resources

As at 31 December 2021, the Group had cash and cash equivalents, a portfolio of liquid investments totaling HK\$204.7 million (2020: HK\$226.0 million). About 49.7%, 30.2% and 10.4% of these liquid funds were denominated in United States dollars, Renminbi and Hong Kong dollars respectively and the remaining were mainly in Pound Sterling and Bangladesh Taka.

As at 31 December 2021, the Group had banking facilities of HK\$490.8 million (2020: HK\$513.4 million), of which HK\$216.9 million (2020: HK\$219.3 million) was not utilised.

The bank borrowing over equity ratio of the Group was 30.5% (2020: 37.2%). 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\$45.0 million (2020: HK\$16.6 million) on additions to plant and equipment to upgrade its manufacturing capability and expansion in the Bangladesh factory. The Group also incurred HK\$1.6 million (2020: HK\$2.9 million) on equipments and systems of Trading business. On 15 December 2021, the Group executed a capital contribution agreement in relation to a contribution of HK\$36.6 million to a limited partnership established in the PRC (the “Fund”). The contribution by the Group represents about 2% of the targeted contribution of the Fund. A partnership agreement was signed for the purpose of the establishment of the partnership on 28 January 2022.

The Group budgeted HK\$95.5 million for capital expenditures of which HK\$92.5 million is estimated to be used for the 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.

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 0.2%. 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 2021, the Group employed 448 (2020: 558) employees in the PRC (include Hong Kong), 7,236 (2020: 5,328) employees in Bangladesh and a total of 161 (2020: 147) employees in the USA and the United Kingdom. The expenditures for employees during the year were approximately HK\$340.2 million (2020: HK\$251.8 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 4 HK cents (2020: 3 HK cents) per share and a special dividend of 2 HK cents (2020: nil) per share in respect of the year ended 31 December 2021. Subject to the approval at the forthcoming annual general meeting, the final and special dividend will be payable on or after 24 June 2022 to the shareholders whose names appear on the register of members at the close of the business on 7 June 2022, being the record date for determination of entitlements to the final and special dividend.

The Directors also propose to make a bonus issue of one new share of HK\$0.1 each credited as fully paid for every twenty shares held to the shareholders whose names appear on the register of members at the close of the business on 7 June 2022. Subject to the approval at the forthcoming annual general meeting, share certificates for the bonus issue will be posted to the shareholders on or after 24 June 2022.

To determine the identity of members who are entitled to the final dividend, special dividend and bonus issue of the Company for the year ended 31 December 2021, the register of members of the Company will be closed from 1 June 2022 to 7 June 2022 (both dates inclusive). In order to qualify for the proposed final dividend, special dividend and bonus issue, all transfers, accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong Branch Share Registrar, Tricor Tengis Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on 31 May 2022.

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 26 May 2022, the register of members of the Company will be closed from 23 May 2022 to 26 May 2022 (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 Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on 20 May 2022.

PURCHASE, SALES OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year ended 31 December 2021, 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 2021.

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 2021.

REVIEW OF FINANCIAL STATEMENTS

The Audit Committee has reviewed the Group's consolidated financial statements for the year ended 31 December 2021, 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 2021 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 in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on the preliminary announcement.

By Order of the Board
Ngan Hei Keung
Chairman

Hong Kong, 28 March 2022

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.