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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 2022

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 2022 (the “Period”) together with comparative figures for the corresponding period in 2021.

Interim Condensed Consolidated Statement of Profit or Loss (Unaudited)

For the six months ended 30 June 2022

		Six months ended 30 June	
		2022	2021
		(Unaudited)	(Unaudited)
	Note	HK\$'000	HK\$'000
Revenue	3	941,912	741,658
Cost of sales		(638,195)	(498,928)
Gross profit		303,717	242,730
Other income		13,865	10,009
Other gains/(losses) – net		2,187	(2,001)
Selling and distribution costs		(92,299)	(68,175)
Administration expenses		(106,632)	(93,802)
Net (impairment)/reversal on financial assets		(2,425)	788
Profit from operations	4(a)	118,413	89,549

* For identification purpose only

		Six months ended 30 June	
		2022	2021
		(Unaudited)	(Unaudited)
	<i>Note</i>	HK\$'000	HK\$'000
Finance income		144	246
Finance costs		(4,855)	(3,917)
Finance costs – net	4(b)	(4,711)	(3,671)
Share of loss from an investment accounted for using equity method		(78)	–
Profit before income tax		113,624	85,878
Income tax expense	5	(22,367)	(15,196)
Profit for the period		91,257	70,682
Attributable to:			
Owners of the Company		84,486	66,084
Non-controlling interests		6,771	4,598
		91,257	70,682
Earnings per share attributable to owners of the Company			
Basic (<i>HK cents per share</i>)	6(a)	20.804	16.304
Diluted (<i>HK cents per share</i>)	6(b)	20.422	16.298

Interim Condensed Consolidated Statement of Comprehensive Income (Unaudited)

For the six months ended 30 June 2022

	Six months ended 30 June	
	2022	2021
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Profit for the period	91,257	70,682
Other comprehensive income		
Items that may be subsequently reclassified to profit or loss:		
Exchange differences on translation of financial statements of foreign operations	<u>(3,228)</u>	<u>1,069</u>
Total comprehensive income for the period, net of tax	<u>88,029</u>	<u>71,751</u>
Attributable to:		
Owners of the Company	81,448	67,064
Non-controlling interests	<u>6,581</u>	<u>4,687</u>
Total comprehensive income for the period	<u>88,029</u>	<u>71,751</u>

Interim Condensed Consolidated Balance Sheet (Unaudited)

As at 30 June 2022

		30 June 2022	31 December 2021
		(Unaudited)	(Audited)
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
ASSETS			
Non-current assets			
Property, plant and equipment	8	425,545	416,029
Right-of-use assets	9	66,195	40,167
Investment properties	8	50,891	51,928
Goodwill		22,511	22,511
Other intangible assets	8	28,572	29,608
Deferred income tax assets		4,985	5,164
Investment accounted for using equity method		318	396
Financial assets at fair value through profit or loss		40,668	30,909
Other financial assets at amortised cost	10	2,178	1,561
		641,863	598,273
Current assets			
Inventories		456,180	451,904
Trade receivable	10	438,801	360,931
Financial assets at fair value through profit or loss		15,368	15,289
Other financial assets at amortised cost	10	9,723	8,620
Other current assets		40,294	32,289
Tax recoverable		2,963	3,324
Cash and cash equivalents		240,056	198,890
		1,203,385	1,071,247
Total assets		1,845,248	1,669,520

		30 June 2022 (Unaudited) HK\$'000	31 December 2021 (Audited) HK\$'000
	<i>Note</i>		
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company			
Share capital		42,559	40,532
Other reserves		223,514	226,390
Retained earnings		670,152	609,985
		<u>936,225</u>	<u>876,907</u>
Non-controlling interests		31,720	25,214
		<u>967,945</u>	<u>902,121</u>
LIABILITIES			
Non-current liabilities			
Other payables	11	17,253	20,587
Lease liabilities	9	52,722	23,540
Deferred income tax liabilities		6,194	6,324
		<u>76,169</u>	<u>50,451</u>
Current liabilities			
Trade and other payables	11	405,985	393,185
Amount due to a non-controlling interest		537	537
Borrowings		329,500	275,384
Lease liabilities	9	16,021	18,826
Current income tax liabilities		49,091	29,016
		<u>801,134</u>	<u>716,948</u>
Total liabilities		<u>877,303</u>	<u>767,399</u>
Total equity and liabilities		<u>1,845,248</u>	<u>1,669,520</u>
Net current assets		<u>402,251</u>	<u>354,299</u>
Total assets less current liabilities		<u>1,044,114</u>	<u>952,572</u>

1. BASIS OF PREPARATION

This interim condensed consolidated financial information for the six months ended 30 June 2022 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 consolidation 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 2021, 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 2021, as described in those annual consolidated financial statements, except for estimation of income tax and the adoption of new and amended standards.

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 loss on financial assets at fair value through profit or loss (“FVPL”), share-based payment expenses, finance income and costs 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 (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		Six months ended		Six months ended	
	2022	2021	2022	2021	2022	2021
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$’000	HK\$’000	HK\$’000	HK\$’000	HK\$’000	HK\$’000
Revenue from external customers	561,969	392,618	379,943	349,040	941,912	741,658
Inter-segment revenue	58,139	48,684	-	-	58,139	48,684
Reportable segment revenue	<u>620,108</u>	<u>441,302</u>	<u>379,943</u>	<u>349,040</u>	<u>1,000,051</u>	<u>790,342</u>
Reportable segment profit/(loss)	141,885	89,087	(23,097)	7,631	118,788	96,718
Fair value loss on financial assets at FVPL					(218)	(1,677)
Share-based payment expenses					(92)	(223)
Unallocated corporate income					13,563	9,452
Unallocated corporate expenses					(13,628)	(14,721)
Profit from operations					118,413	89,549
Finance costs – net					(4,711)	(3,671)
Share of loss from an investment accounted for using equity method					(78)	-
Income tax expense					(22,367)	(15,196)
Profit for the period					<u>91,257</u>	<u>70,682</u>

Segment assets exclude investment properties, deferred income tax assets, investment accounted for using equity method, financial assets at FVPL, 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.

	Manufacturing		Trading		Total	
	30 June 2022 (Unaudited) HK\$'000	31 December 2021 (Audited) HK\$'000	30 June 2022 (Unaudited) HK\$'000	31 December 2021 (Audited) HK\$'000	30 June 2022 (Unaudited) HK\$'000	31 December 2021 (Audited) HK\$'000
Reportable segment assets	711,289	658,796	778,710	704,810	1,489,999	1,363,606
Investment properties					50,891	51,928
Deferred income tax assets					4,985	5,164
Investment accounted for using equity method					318	396
Financial assets at FVPL					56,036	46,198
Tax recoverable					2,963	3,324
Cash and cash equivalents					240,056	198,890
Other corporate assets					–	14
Total assets					<u>1,845,248</u>	<u>1,669,520</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 2022 (Unaudited) HK\$'000	31 December 2021 (Audited) HK\$'000	30 June 2022 (Unaudited) HK\$'000	31 December 2021 (Audited) HK\$'000	30 June 2022 (Unaudited) HK\$'000	31 December 2021 (Audited) HK\$'000
Reportable segment liabilities	278,570	279,985	204,693	167,378	483,263	447,363
Deferred income tax liabilities					6,194	6,324
Current income tax liabilities					49,091	29,016
Borrowings					329,500	275,384
Other corporate liabilities					9,255	9,312
					<u>877,303</u>	<u>767,399</u>
Capital expenditure incurred during the period/year	32,515	63,549	44,040	21,558	<u>76,555</u>	<u>85,107</u>

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:

	Six months ended 30 June	
	2022	2021
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
(a) Operating profit		
Fair value loss on financial assets at FVPL	218	1,677
Net exchange (gain)/loss	(2,405)	324
Depreciation of property, plant and equipment	20,176	18,871
Depreciation of right-of-use assets	9,878	10,022
Short-term lease expenses	1,191	564
Amortisation of other intangible assets	10,548	9,218
Net provision for inventories (<i>note (i)</i>)	2,674	733
Net impairment/(reversal) on trade receivables (<i>note (ii)</i>)	2,425	(788)
	<u>2,425</u>	<u>(788)</u>

Notes:

- (i) Provision for obsolete inventories of HK\$2,674,000 has been made during the six months ended 30 June 2022 (six months ended 30 June 2021: HK\$733,000), 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 2022 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\$2,425,000 during the period ended 30 June 2022 (six months ended 30 June 2021: a reversal of HK\$788,000).

	Six months ended 30 June	
	2022	2021
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
(b) Finance costs – net		
Interest on bank loans, overdrafts and other borrowings	(3,519)	(2,706)
Interest accretion on license fee payables	(804)	(592)
Interest on lease liabilities	(532)	(619)
	<u>(4,855)</u>	<u>(3,917)</u>
Finance costs	(4,855)	(3,917)
Finance income	144	246
	<u>144</u>	<u>246</u>
Finance costs – net	<u>(4,711)</u>	<u>(3,671)</u>

5. INCOME TAX EXPENSE

	Six months ended 30 June	
	2022 (Unaudited) <i>HK\$'000</i>	2021 (Unaudited) <i>HK\$'000</i>
Current year		
– Hong Kong profits tax	1,585	1,001
– Overseas tax	<u>20,603</u>	<u>11,867</u>
	22,188	12,868
Under-provision in prior years		
– Hong Kong profits tax	<u>–</u>	<u>3,500</u>
	22,188	16,368
Deferred income tax	<u>179</u>	<u>(1,172)</u>
	<u><u>22,367</u></u>	<u><u>15,196</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 2021: 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	
	2022	2021
	(Unaudited)	(Unaudited)
Profit attributable to owners of the Company (HK\$'000)	<u>84,486</u>	<u>66,084</u>
Weighted average number of ordinary shares in issue	<u>406,107,058</u>	<u>405,323,284</u>
Basic earnings per share (HK cents)	<u>20.804</u>	<u>16.304</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:

	Six months ended 30 June	
	2022 (Unaudited)	2021 (Unaudited)
Profit attributable to owners of the Company (HK\$'000)	84,486	66,084
Weighted average number of ordinary shares in issue	406,107,058	405,323,284
Adjustment for share options	7,589,165	140,472
Weighted average number of ordinary shares for diluted earnings per share	413,696,223	405,463,756
Diluted earnings per share (HK cents)	20.422	16.298

7. DIVIDENDS

(a) Dividends attributable to the period

	Six months ended 30 June	
	2022 (Unaudited) HK\$'000	2021 (Unaudited) HK\$'000
Interim dividend declared of 3 HK cents (2021: 3 HK cents) per share	12,768	12,160

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 2022. The amount of proposed interim dividend was based on 425,589,448 (30 June 2021: 405,323,284) shares in issued as at 30 June 2022.

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

	Six months ended 30 June	
	2022	2021
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Final dividend paid in respect of 2021 of 4 HK cents (2020: 3 HK cents) per share	16,213	12,160
Special dividend paid in respect of 2021 of 2 HK cents (2020: Nil)	8,106	—
	24,319	12,160

8. CAPITAL EXPENDITURE

During the six months ended 30 June 2022, the Group acquired property, plant and equipment of HK\$30,528,000, (six months ended 30 June 2021: HK\$5,645,000) and intangible assets of HK\$9,580,000 (six months ended 30 June 2021: HK\$6,247,000).

As at 30 June 2022, other intangible assets represent acquired customer relationship of HK\$389,000 (31 December 2021: HK\$865,000) and licensing rights for the use of certain licensed trademark, brands and logos in the Group's products of HK\$28,183,000 (31 December 2021: HK\$28,743,000).

The Group's investment properties were revalued at 31 December 2021. 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 2021: 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 and a motor vehicle:

	At 30 June 2022 (Unaudited) HK\$'000	At 31 December 2021 (Audited) HK\$'000
Right-of-use assets		
Properties	66,005	39,881
Motor vehicle	190	286
	66,195	40,167
Lease liabilities		
Non-current	52,722	23,540
Current	16,021	18,826
	68,743	42,366

Lease liabilities as at 30 June 2022 of HK\$121,000 (31 December 2021: HK\$222,000) of the Group was secured by a legal charge on a motor vehicle of the Group recognised as right-of-use assets with carrying amount of HK\$190,000 (31 December 2021: HK\$286,000).

Additions to the right-of-use assets during the six months ended 30 June 2022 is HK\$36,447,000 (six months ended 30 June 2021: HK\$11,353,000).

10. TRADE RECEIVABLES AND OTHER FINANCIAL ASSETS AT AMORTISED COST

	30 June 2022 (Unaudited) HK\$'000	31 December 2021 (Audited) HK\$'000
Trade receivables	452,031	372,127
Less: provision for impairment losses	(13,230)	(11,196)
	<hr/>	<hr/>
Trade receivables, net	438,801	360,931
Other financial assets at amortised cost	11,901	10,181
	<hr/>	<hr/>
	450,702	371,112
Less: non-current portion of other financial assets at amortised cost	(2,178)	(1,561)
	<hr/>	<hr/>
Current portion	448,524	369,551
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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:

	30 June 2022 (Unaudited) HK\$'000	31 December 2021 (Audited) HK\$'000
0–30 days	185,525	130,400
31–60 days	103,508	126,305
61–90 days	89,491	57,355
91–120 days	36,091	27,839
Over 120 days	37,416	30,228
	<hr/>	<hr/>
	452,031	372,127
	<hr/> <hr/>	<hr/> <hr/>

11. TRADE AND OTHER PAYABLES

	30 June 2022 (Unaudited) HK\$'000	31 December 2021 (Audited) HK\$'000
Trade payables	200,032	219,760
Accrued charges and other payables	223,206	194,012
	423,238	413,772
Less: other non-current payables	(17,253)	(20,587)
Current portion	405,985	393,185

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

	30 June 2022 (Unaudited) HK\$'000	31 December 2021 (Audited) HK\$'000
0–30 days	95,962	109,699
31–60 days	23,191	45,643
61–90 days	22,193	25,795
Over 90 days	58,686	38,623
	200,032	219,760

12. DISPOSAL OF EQUITY INTEREST IN A SUBSIDIARY

On 30 April 2022, the Group disposed 10% issued share capital of H3 to an independent third party in exchange for exclusive distribution rights in the USA and Canada of selling certain license headwear products under the license portfolio. As a result of this transaction, the equity interest in H3 of the Group decreased from 100% to 90%. The difference between the fair value of the exclusive distribution rights acquired and the share of net liability value of H3 transferred to the non-controlling interests, of HK\$2,097,000 is recognised as other reserve within the interim condensed consolidated statement of changes in equity.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

In 2022, geopolitical tensions, interest rate hikes, high inflation and uncertain global market prospects have added variables to the economy recovering from the COVID-19 pandemic. Consumer confidence has weakened and retailers have become more cautious in procurement. With its manufacturing business capable of quick production and delivery, the Group was able to give full play to its production technology advantages and obtained a large number of quick-turn orders in the challenging operating environment. As for trading business, it actively responded to market changes, established partnerships with customers and maintained resilience while expanding operation. The hard work of the two businesses together allowed the Group to record encouraging business growth in the first half year.

During the Period, the Group's revenue reached record high, up 27.0% year-on-year to HK\$941,912,000 (2021 interim: HK\$741,658,000). This was mainly attributable to the high production efficiency of the Bangladesh factory, which allowed the Group to quickly respond to and meet the needs of customers, and benefit further from the growth in quick-turn order demand. While gross profit increased by a significant 25.1% to HK\$303,717,000 (2021 interim: HK\$242,730,000), at risen costs, gross profit margin was down slightly by 0.5 percentage point to 32.2% (2021 interim: 32.7%). To meet the demand for quick-turn orders with short production cycle, the Group actively improved the efficiency of its Bangladesh factory by raising the level of automation and optimizing management at the factory. Profit attributable to shareholders increased by 27.8% to HK\$84,486,000 (2021 interim: HK\$66,084,000).

The Board resolved to declare an interim dividend of 3 HK cents per share (2021 interim: 3 HK cents). The Group remained in a healthy financial position and had stable operating cash flows. It also had sufficient cash on hand and unutilised banking facilities of approximately HK\$240,056,000 and HK\$317,600,000, respectively, as at 30 June 2022 (31 December 2021: HK\$198,900,000 and HK\$216,900,000, respectively).

BUSINESS REVIEW

Manufacturing business

During the Period, revenue from the manufacturing business surged by 43.1% to HK\$561,969,000 (2021 interim: HK\$392,618,000), accounting for approximately 59.7% of the Group's total revenue. The growth was mainly due to the continuous strong demand for quick-turn orders from customers. The Bangladesh factory not only provided headwear boasting excellent craftsmanship to customers, affording quick production and delivery, it also helped customers reduce inventories and improve capital flexibility, and in turn was able to build solid cooperative relations with customers. Growing sales, plus the higher proportion of quick-turn orders, explained the significant 59.3% rise in the segment's operating profit to HK\$141,885,000 (2021 interim: HK\$89,087,000).

During the Period, the Bangladesh factory bolstered production capability and efficiency by optimizing management and recruiting additional manpower. As for the Shenzhen factory, it focused on the design, development and production of high-end products. As at 30 June 2022, the two factories had approximately 8,100 and 360 employees, respectively (31 December 2021: about 7,200 employees and 400 employees, respectively).

Trading Business

Revenue from the trading business increased by 8.9% to HK\$379,943,000 (2021 interim: HK\$349,040,000), accounting for 40.3% of the Group's total revenue. The growth was mainly attributable to efforts of the Group's subsidiaries to capture opportunities in the markets recovering from the pandemic in Europe and the USA and, via its portfolio of licensed brands, to drive business growth.

During the Period, the segment adjusted its delivery schedule heeding sales situations of customers. However, with transportation and logistics costs risen, cost of sales saw a sharp increase and as a result, trading business recorded operating loss of HK\$23,097,000 (2021 interim: operating profit of HK\$7,631,000).

PROSPECTS

The Russian-Ukrainian war, plus the various sanctions imposed on Russia have continued to affect global energy supply and the bulk commodity supply chains. Commodity prices have surged, with inflation in Europe and the USA hitting 40-year high. Economies have been under pressure on both the consumption and production fronts, and so have supply chains from upstream to downstream. Moreover, the COVID-19 pandemic has not yet subsided completely, and facing a new round of macroeconomic fluctuation, economic recovery is expected to slow down a bit.

The new economic situation is reshaping production and marketing modes. Consumer goods buyers are growingly attracted to quick-turn orders and are not buying so much a time to reduce inventory. Production flexibility has also been the top priority of manufacturers. As one of the few manufacturers in the headwear market capable of quick production and delivery, the Group is set to further benefit from the demand-rich quick-turn order market.

To satisfy the quickly climbing demand for quick-turn orders, the Group will continue to optimize its production capacity layout and improve efficiency. In Bangladesh, it has actively rolled out its production facility expansion plan, with establishment of a new factory in full swing and expected to be completed in the fourth quarter of this year. The new factory will be equipped with around 100 new embroidery machines and have an about 3,000-strong workforce. The Group's production capacity will increase by 20% when the factory is completed. The Group is also considering setting up quick-turn order production base outside Bangladesh to expand production capacity and realize synergies.

As for trading business, with online shopping becoming a habit and the market gradually recovering, prospects are expected for the Group's trading subsidiaries in the USA and the UK. The Group will continue to optimize the segment's product mix, with the aim of improving resource allocation and operational efficiency. The e-commerce unit will continue to focus on operating the Group's own-brand and licensed products.

To cope with the operating challenges brought by the shortage and hence soaring prices of raw materials, and rising freight rates, the Group will continue to implement various cost control measures, while stepping up its supply chain and procurement localization strategy to mitigate rising cost pressure and diversify supply risks.

In the past 36 years, Mainland Headwear has ridden out various economic cycles and challenges and established itself as a market leader in the headwear manufacturing industry.

Priding market leadership, well-laid-out production prowess in Bangladesh, a wide product portfolio covering from headwear to accessories and shrewd business acumen, the Group remains confident of its ability to overcome different challenges and create long-term value for customers and shareholders.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2022, the Group had cash and bank balances and a portfolio of liquid investments totaling Hong Kong dollars (“HK\$”) 245.6 million (31 December 2021: HK\$204.7 million). About 49%, 28% and 13% of these liquid funds were denominated in United States dollars, Renminbi and Hong Kong dollars respectively. As at 30 June 2022, the Group had banking facilities of HK\$618.5 million (31 December 2021: HK\$490.8 million), of which HK\$317.6 million (31 December 2021: HK\$216.9 million) were not utilised.

The borrowings over total equity ratio of the Group is at 34.0% (31 December 2021: 30.5%). 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\$28.5 million (30 June 2021: HK\$4.6 million) on additions to equipment and machineries to further upgrade and expand its manufacturing capabilities. Also the Group spent HK\$2.0 million (30 June 2021: HK\$1.0 million) on additions of equipment and systems of Trading Business.

As at 30 June 2022, the Group had authorised a capital commitment of HK\$60.5 million in respect of manufacturing plants and equipment. The Group had also authorised a capital commitment of HK\$3.0 million in respect of equipment upgrade for Trading business.

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 0.2%.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2022, the Group employed a total of 418 (30 June 2021: 482) workers and employees in the PRC (include Hong Kong), 8,120 (30 June 2021: 6,290) workers and employees in Bangladesh, and 181 (30 June 2021: 157) employees in the USA and the UK. The expenditures for the employees during the Period were approximately HK\$214.3 million (30 June 2021: HK\$165.5 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 (2021: 3 HK cents) per share, payable on or after 14 October 2022.

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 2022, the register of members of the Company will be closed from 21 September 2022 to 23 September 2022 (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 20 September 2022.

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

During the six months ended 30 June 2022, 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 2022.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules. All Directors have confirmed, following enquiries by the Company, that they have complied with the required standard set out in Model Code throughout the period ended 30 June 2022.

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 2022.

By Order of the Board
Ngan Hei Keung
Chairman

Hong Kong, 30 August 2022

As at the date hereof, the Board of Directors of the Company 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.