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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 2023

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 2023.

#### CONSOLIDATED STATEMENT OF PROFIT OR LOSS

*For the year ended 31 December 2023*

	<i>Note</i>	<b>2023</b> <i>HK\$'000</i>	2022 <i>HK\$'000</i>
<b>Revenue</b>	2	<b>1,418,994</b>	1,874,424
Cost of sales		<u>(942,630)</u>	<u>(1,237,128)</u>
<b>Gross profit</b>		<b>476,364</b>	637,296
Other income		<b>30,953</b>	28,420
Other gains/(losses) — net	3	<b>44,965</b>	(678)
Selling and distribution costs		<b>(159,972)</b>	(178,665)
Administration expenses		<b>(198,356)</b>	(196,997)
Impairment of goodwill		—	(22,511)
Net impairment losses on financial assets		<u>(3,750)</u>	<u>(2,806)</u>
<b>Profit from operations</b>		<b>190,204</b>	264,059
Finance income	4	<b>2,103</b>	574
Finance costs	4	<u>(15,280)</u>	<u>(13,648)</u>
<b>Finance costs – net</b>		<u>(13,177)</u>	<u>(13,074)</u>

\* *For identification purpose only*

	<i>Note</i>	<b>2023</b> <i>HK\$'000</i>	2022 <i>HK\$'000</i>
<b>Share of profit/(loss) from an investment accounted for using equity method</b>		<u>150</u>	<u>(124)</u>
<b>Profit before income tax</b>	5	177,177	250,861
<b>Income tax expense</b>	6	<u>(49,369)</u>	<u>(37,554)</u>
<b>Profit for the year</b>		<u><b>127,808</b></u>	<u>213,307</u>
<b>Profit attributable to:</b>			
Owners of the Company		117,949	195,390
Non-controlling interests		<u>9,859</u>	<u>17,917</u>
		<u><b>127,808</b></u>	<u>213,307</u>
<b>Earnings per share for the profit attributable to owners of the Company</b>			
Basic (HK cents per share)	7	27.5473	45.8728
Diluted (HK cents per share)		<u>26.9886</u>	<u>45.0421</u>

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2023

	<b>2023</b> <i>HK\$'000</i>	2022 <i>HK\$'000</i>
<b>Profit for the year</b>	<b>127,808</b>	213,307
<b>Other comprehensive income, net of tax</b>		
<b>Items that have been or may be subsequently reclassified to profit or loss:</b>		
Exchange differences on translation of financial statements of foreign operations	(262)	(10,234)
Fair value gains/(losses) on cash flow hedges	<u>2,314</u>	<u>(2,314)</u>
<b>Total comprehensive income for the year, net of tax</b>	<b><u>129,860</u></b>	<b><u>200,759</u></b>
<b>Total comprehensive income attributable to:</b>		
Owners of the Company	<b>119,871</b>	183,084
Non-controlling interests	<b><u>9,989</u></b>	<u>17,675</u>
<b>Total comprehensive income for the year</b>	<b><u>129,860</u></b>	<b><u>200,759</u></b>

## CONSOLIDATED BALANCE SHEET

As at 31 December 2023

	<i>Note</i>	<b>2023</b> <i>HK\$'000</i>	2022 <i>HK\$'000</i>
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment		<b>551,407</b>	499,684
Right-of-use assets		<b>50,467</b>	64,421
Investment properties		<b>50,065</b>	51,096
Other intangible assets		<b>14,685</b>	30,265
Deferred income tax assets		<b>6,850</b>	7,867
Investment accounted for using equity method		<b>422</b>	272
Financial assets at fair value through profit or loss		<b>42,233</b>	41,377
Other financial assets at amortised cost	9	<b>2,012</b>	2,109
Other non-current assets		<b>6,881</b>	–
		<b>725,022</b>	697,091
<b>Current assets</b>			
Inventories		<b>373,652</b>	523,646
Trade receivables	9	<b>321,399</b>	435,287
Financial assets at fair value through profit or loss		<b>4,219</b>	21,525
Other financial assets at amortised cost	9	<b>8,176</b>	6,810
Other current assets	10	<b>24,080</b>	23,755
Tax recoverable		<b>3,251</b>	3,251
Short-term deposits		<b>8,955</b>	–
Cash and cash equivalents		<b>317,849</b>	246,949
		<b>1,061,581</b>	1,261,223
<b>Total assets</b>		<b>1,786,603</b>	1,958,314
<b>EQUITY AND LIABILITIES</b>			
Equity attributable to owners of the Company			
Share capital		<b>42,916</b>	42,660
Other reserves		<b>220,015</b>	215,238
Retained earnings		<b>847,642</b>	768,269
		<b>1,110,573</b>	1,026,167
Non-controlling interests		<b>50,610</b>	42,814
<b>Total equity</b>		<b>1,161,183</b>	1,068,981

	<i>Note</i>	<b>2023</b> <i>HK\$'000</i>	2022 <i>HK\$'000</i>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Other payables	11	<b>6,595</b>	18,140
Borrowings		<b>7,197</b>	14,393
Lease liabilities		<b>41,175</b>	54,741
Deferred income tax liabilities		<b>21,453</b>	6,365
		<u><b>76,420</b></u>	<u>93,639</u>
<b>Current liabilities</b>			
Trade and other payables	11	<b>332,755</b>	499,233
Amount due to a non-controlling interest		<b>537</b>	537
Borrowings		<b>153,506</b>	228,887
Derivative financial instruments		<b>–</b>	2,314
Lease liabilities		<b>13,595</b>	12,746
Current income tax liabilities		<b>48,607</b>	51,977
		<u><b>549,000</b></u>	<u>795,694</u>
<b>Total liabilities</b>		<u><b>625,420</b></u>	<u>889,333</u>
<b>Total equity and liabilities</b>		<u><b>1,786,603</b></u>	<u>1,958,314</u>
<b>Net current assets</b>		<u><b>512,581</b></u>	<u>465,529</u>
<b>Total assets less current liabilities</b>		<u><b>1,237,603</b></u>	<u>1,162,620</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”), other non-current assets, derivative financial instruments 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.

#### (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 2023:

- Definition of Accounting Estimates — Amendments to HKAS 8
- International Tax Reform — Pillar Two Model Rules — Amendments to HKAS 12
- Deferred Tax related to Assets and Liabilities arising from a Single Transaction — Amendments to HKAS 12
- Insurance Contracts — HKFRS 17
- Amendments to Insurance Contract — Amendments to HKFRS 17
- Initial Application of HKFRS 17 and HKFRS 9 — Comparative Information
- Disclosure of Accounting Policies — Amendments to HKAS 1 and HKFRS Practice Statement 2

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) *New and amended standards and interpretations not yet adopted 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 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), which excludes fair value losses on financial assets at FVPL, fair value (losses)/gains on investment properties, gain on disposal of property, plant and equipment, share-based payment expenses, unallocated corporate income and expenses, finance income and costs, share of gain/(loss) from an investment accounted for using equity method and income tax expense.

The executive directors assess 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 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.

	Manufacturing		Trading		Total	
	2023	2022	2023	2022	2023	2022
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue from external customers	<b>821,760</b>	1,127,566	<b>597,234</b>	746,858	<b>1,418,994</b>	1,874,424
Inter-segment revenue	<b>55,202</b>	76,565	–	–	<b>55,202</b>	76,565
Reportable segment revenue	<b>876,962</b>	1,204,131	<b>597,234</b>	746,858	<b>1,474,196</b>	1,950,989
Reportable segment profit/(loss)	<b>186,886</b>	309,750	<b>(56,563)</b>	(59,079)	<b>130,323</b>	250,671
Financial assets at fair value through profit or loss						
— fair value losses					<b>(5,521)</b>	(10,094)
Fair value (losses)/gains on investment properties					<b>(205)</b>	1,176
Gain on disposal of property, plant and equipment					<b>53,897</b>	–
Share-based payment expenses					–	(92)
Unallocated corporate income					<b>30,329</b>	28,329
Unallocated corporate expenses					<b>(18,619)</b>	(5,931)
Profit from operations					<b>190,204</b>	264,059
Finance income					<b>2,103</b>	574
Finance costs					<b>(15,280)</b>	(13,648)
Share of gain/(loss) from an investment accounted for using equity method					<b>150</b>	(124)
Income tax expense					<b>(49,369)</b>	(37,554)
Profit for the year					<b>127,808</b>	213,307
Depreciation of property, plant and equipment	<b>42,793</b>	35,383	<b>8,450</b>	8,985	<b>51,243</b>	44,368
Depreciation of right-of-use assets	<b>5,315</b>	11,153	<b>8,659</b>	8,530	<b>13,974</b>	19,683
Amortisation of other intangible assets	–	–	<b>21,293</b>	26,201	<b>21,293</b>	26,201
Impairment of goodwill	–	–	–	22,511	–	22,511



	Manufacturing		Trading		Total	
	2023	2022	2023	2022	2023	2022
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Reportable segment assets	<b>794,939</b>	859,552	<b>557,820</b>	726,425	<b>1,352,759</b>	1,585,977
Investment properties					<b>50,065</b>	51,096
Deferred income tax assets					<b>6,850</b>	7,867
Investment accounted for using equity method					<b>422</b>	272
Financial assets at fair value through profit or loss					<b>46,452</b>	62,902
Tax recoverable					<b>3,251</b>	3,251
Short-term deposits					<b>8,955</b>	–
Cash and cash equivalents					<b>317,849</b>	246,949
Total assets					<b>1,786,603</b>	1,958,314
Reportable segment liabilities	<b>186,589</b>	365,100	<b>199,900</b>	210,665	<b>386,489</b>	575,765
Deferred income tax liabilities					<b>21,453</b>	6,365
Current income tax liabilities					<b>48,607</b>	51,977
Borrowings					<b>160,703</b>	243,280
Other corporate liabilities					<b>8,168</b>	11,946
Total liabilities					<b>625,420</b>	889,333
Capital expenditure incurred during the year	<b>145,653</b>	136,688	<b>7,986</b>	68,677	<b>153,639</b>	205,365

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, 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.

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.

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 of the customers.

	<b>2023</b>	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>
USA	<b>1,229,812</b>	1,646,338
Europe	<b>149,395</b>	157,639
PRC	<b>9,487</b>	16,528
Hong Kong	<b>8,193</b>	9,814
Others	<b>22,107</b>	44,105
	<hr/>	<hr/>
Total	<b>1,418,994</b>	1,874,424
	<hr/> <hr/>	<hr/> <hr/>

During the year ended 31 December 2023, revenue derived from the Group's largest customer (who is a group of affiliated companies of a shareholder) amounted to HK\$598,728,000 or 42.2% of the Group's revenue (2022: HK\$761,903,000 or 40.6%). 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:

	<b>2023</b>	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>
Bangladesh	<b>297,205</b>	312,633
USA	<b>188,223</b>	246,758
Mexico	<b>113,577</b>	–
PRC	<b>35,116</b>	36,963
Hong Kong	<b>20,768</b>	15,107
Europe	<b>6,365</b>	6,121
	<hr/>	<hr/>
	<b>661,254</b>	617,582
Other intangible assets	<b>14,685</b>	30,265
Deferred income tax assets	<b>6,850</b>	7,867
Financial assets at fair value through profit or loss	<b>42,233</b>	41,377
	<hr/>	<hr/>
	<b>725,022</b>	697,091
	<hr/> <hr/>	<hr/> <hr/>

### 3. OTHER GAINS/(LOSSES) — NET

	<b>2023</b> <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Financial assets at fair value through profit or loss		
— fair value losses	<b>(5,521)</b>	(10,094)
Net foreign exchange gain	<b>621</b>	7,760
Fair value (losses)/gains on investment properties	<b>(205)</b>	1,176
Gain on disposal of property, plant and equipment	<b>53,897</b>	—
Loss on other non-current asset	<b>(3,827)</b>	—
Gain on lease modification	<b>—</b>	480
	<u><b>44,965</b></u>	<u>(678)</u>

### 4. FINANCE COSTS — NET

	<b>2023</b> <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Interest on bank loans and other borrowings	<b>(10,723)</b>	(10,053)
Interest on lease liabilities	<b>(1,663)</b>	(1,633)
Interest accretion on licence fee payables	<b>(2,894)</b>	(1,962)
	<u><b>(15,280)</b></u>	<u>(13,648)</u>
Interest costs	<b>(15,280)</b>	(13,648)
Interest income	<b>2,103</b>	574
	<u><b>(13,177)</b></u>	<u>(13,074)</u>

## 5. PROFIT BEFORE INCOME TAX

Profit before income tax is stated after charging:

	<b>2023</b>	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>
Depreciation of property, plant and equipment	<b>51,243</b>	44,368
Depreciation of right-of-use assets	<b>13,974</b>	19,683
Amortisation of other intangible assets	<b>21,293</b>	26,201
Net impairment losses on financial assets	<b>3,750</b>	2,806
Net provision for inventories	<b>3,716</b>	6,861
	<b><u>          </u></b>	<b><u>          </u></b>

## 6. INCOME TAX EXPENSE

	<b>2023</b>	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current year		
— Hong Kong profits tax	—	5,170
— Overseas tax	<b>29,821</b>	38,643
	<b><u>          </u></b>	<b><u>          </u></b>
	<b>29,821</b>	43,813
Under/(over)-provision in prior years		
— Hong Kong profits tax	<b>3,321</b>	(3,760)
— Overseas tax	<b>(200)</b>	—
	<b><u>          </u></b>	<b><u>          </u></b>
	<b>32,942</b>	40,053
Deferred income tax	<b>16,427</b>	(2,499)
	<b><u>          </u></b>	<b><u>          </u></b>
	<b>49,369</b>	37,554
	<b><u>          </u></b>	<b><u>          </u></b>

Hong Kong profits tax has been provided at the rate of 16.5% (2022: 16.5%) on the estimated assessable profits for the year.

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. Macau complementary (corporate) tax has been provided at the rate of 12% (2022: 12%) on the estimated assessable profits for the year. The corporate income tax of the United States subsidiaries are subject to both federal income tax rate and state income tax rate, which are 21% and 1.22% (2022: 21% and 1.20%) respectively for the year.

## 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.

	2023	2022
Profit attributable to owners of the Company ( <i>HK\$'000</i> )	<u><b>117,949</b></u>	<u>195,390</u>
Weighted average number of ordinary shares in issue	<u><b>428,168,589</b></u>	405,672,155
Adjustment for bonus issue	<u>–</u>	<u>20,266,164</u>
Weighted average number of ordinary share for basic earnings per share	<u><b>428,168,589</b></u>	<u>425,938,319</u>
Basic earnings per share ( <i>HK cents</i> )	<u><b>27.5473</b></u>	<u>45.8728</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.

	<b>2023</b>	2022
Profit attributable to owners of the Company ( <i>HK\$'000</i> )	<b><u>117,949</u></b>	<u>195,390</u>
Weighted average number of ordinary shares in issue	<b>428,168,589</b>	405,672,155
Adjustment for share options	<b>8,864,647</b>	7,856,087
Adjustment for bonus issue	–	<u>20,266,164</u>
Weighted average number of ordinary shares for diluted earnings per share	<b><u>437,033,236</u></b>	<u>433,794,406</u>
Diluted earnings per share ( <i>HK cents</i> )	<b><u>26.9886</u></b>	<u>45.0421</u>

## 8. DIVIDENDS

A final dividend in respect of the year ended 31 December 2023 of 6 HK cents per share, amounting to a total dividend of HK\$25,750,000. These financial statements do not reflect this dividend payable. The amount of proposed final dividend were based on 429,164,448 (2022: 426,601,448) shares in issue as at 31 December 2023.

	<b>2023</b> <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Interim dividend of 3 HK cents (2022: 3 HK cents) per share	<b>12,874</b>	12,787
Proposed final dividend of 6 HK cents (2022: 6 HK cents) per share	<b>25,750</b>	25,596
	<b>38,624</b>	38,383

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

	<b>2023</b> <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Trade receivables	<b>339,151</b>	449,289
Less: provision for impairment losses	<b>(17,752)</b>	(14,002)
Trade receivables, net	<b>321,399</b>	435,287
Other financial assets at amortised cost	<b>10,188</b>	8,919
	<b>331,587</b>	444,206
Less: non-current portion of other financial assets at amortised cost	<b>(2,012)</b>	(2,109)
Current portion	<b>329,575</b>	442,097

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:

	<b>2023</b>	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 – 30 days	<b>122,466</b>	127,622
31 – 60 days	<b>96,349</b>	122,207
61 – 90 days	<b>53,259</b>	85,906
91 – 120 days	<b>19,328</b>	48,464
121 – 180 days	<b>17,261</b>	46,831
Over 180 days	<b>30,488</b>	18,259
	<b>339,151</b>	449,289

Trade receivables are amounts due from customers for goods sold in the ordinary course of business. Trade receivables are generally due for settlement within 30–180 days and therefore are all classified as current.

(b) **Impairment and risk exposure**

*Trade receivables*

When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against “net impairment losses on financial assets” in the consolidated statement of profit or loss.

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

	<b>2023</b>	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 January	<b>14,002</b>	11,196
Net provision for impairment loss for the year	<b>3,750</b>	2,806
At 31 December	<b>17,752</b>	14,002

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



***Other financial assets at amortised cost***

As at 31 December 2023, the impact of expected loss is immaterial to the Group (2022: same).

As at 31 December 2022, 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. The amount was fully settled during the year ended 31 December 2023.

**10. OTHER CURRENT ASSETS**

	<b>2023</b>	2022
	<b><i>HK\$'000</i></b>	<i>HK\$'000</i>
Other prepayments	<b>14,504</b>	15,055
Prepayments to suppliers	<b>9,576</b>	8,700
	<b>24,080</b>	23,755

## 11. TRADE AND OTHER PAYABLES

	<b>2023</b>	2022
	<b>HK\$'000</b>	HK\$'000
Trade payables	<b>169,544</b>	233,579
Accrued charges and other payables	<b>169,806</b>	283,794
	<b>339,350</b>	517,373
Less: other non-current payables	<b>(6,595)</b>	(18,140)
Current portion	<b>332,755</b>	499,233

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

	<b>2023</b>	2022
	<b>HK\$'000</b>	HK\$'000
0 – 30 days	<b>76,350</b>	120,896
31 – 60 days	<b>26,702</b>	30,694
61 – 90 days	<b>14,375</b>	6,839
Over 90 days	<b>52,117</b>	75,150
	<b>169,544</b>	233,579

Contract liabilities of HK\$1,031,000 (2022: HK\$1,133,000) 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 2023 that was included in the contract liability at the beginning of the year amounted to HK\$1,133,000 (2022: HK\$1,238,000).

As at 31 December 2022, the payable to an investment accounted for using equity method of HK\$1,519,000 is unsecured, non-interest bearing and repayable on demand. This amount was included in the accrued charges and other payables.

## **12. GOVERNMENT GRANT IN FORM OF LAND**

The Group entered into a collaboration agreement (the “Agreement”) on 2 March 2023, with the Sonora Government, a state government of Mexico, and H. City Hall, a territorial division and political and administrative organisation of the municipality of Agua Prieta of Sonora, Mexico, regarding the construction and development of various infrastructures, at a 150-hectare plot of land in Mexico (the “Land”) within a five-year period. The Group is required to utilise the Land within a specified timeframe for the purposes of the construction and operation of a factory with a specified number of employees, the construction of a warehouse, residential units, roads and infrastructure, fences, and walls on the Land (the “Conditions”).

If the Group meets the Conditions under the Agreement, the legal ownership of the Land will be transferred to the Group, free of charge and free of any contribution.

As at 31 December 2023, the Group has assessed that it is too early to conclude whether the Group can comply with all the Conditions. Accordingly, no government grants have been recognised for the year ended 31 December 2023.

## **BUSINESS REVIEW**

### **Overview**

In 2023, affected by the tense international situation and slower economic growth in major markets such as the United States and Europe, procurement activities became more cautious. At the same time, overall retail sales fell short of expectations as the market continued to clear inventory from last year's overbuying. Amid this challenging operating environment, the Group utilized its quick production and delivery capabilities and secured a large number of quick-turn orders with higher selling prices. In addition, the Group's focus on streamlining management and improving efficiency resulted in effective cost control, and the gross profit margin remained stable during the year. The new factory in Mexico was completed and commenced production in mid-December, laying a solid foundation for the Group to fully leverage its advantage of rapid production and expand its market share in the headwear market.

### **FINANCIAL REVIEW**

During the year, the Group's revenue was HK\$1,418,994,000 (2022: HK\$1,874,424,000). Gross profit was HK\$476,364,000 (2022: HK\$637,296,000), down by 25.3% year-on-year. As a result of the Group's effective cost control measures, the gross profit margin decreased slightly by 0.4 percentage points to 33.6% (2022: 34.0%). Profit attributable to shareholders amounted to HK\$117,949,000 (2022: HK\$195,390,000), representing a year-on-year decrease of 39.6%. The Board has resolved to recommend a final dividend of 6 HK cents per share for the year ended 31 December 2023 (2022: final dividend of 6 HK cents). Together with the interim dividend of 3 HK cents per share (2022: interim dividend of 3 HK cents), the total dividend for the year amounted to 9 HK cents (2022: 9 HK cents).

The Group maintained a healthy financial position, with stable operating cash flows. It also held cash on hand and unutilized banking facilities, amounting to approximately HK\$317,849,000 and HK\$733,700,000, respectively, as at 31 December 2023 (2022: HK\$246,949,000 and HK\$579,600,000, respectively).

## **BUSINESS REVIEW**

### **Manufacturing Business**

As one of the few manufacturers in the headwear market capable of quick production and delivery, the Group boasts advanced automated production facilities, and a large number of skillful workers in its Bangladesh factory, with a monthly production capacity of 6 million pieces. The Shenzhen factory continued to focus on the design, development and production of high-end headwear products.

During the year, purchasing activity slowed significantly as retailers in Europe and the United States were still digesting last year's inventory backlog. Consumer sentiment was also suppressed by factors such as interest rate hikes, resulting in a weak retail market. Revenue from the Manufacturing Business amounted to HK\$821,760,000 (2022: HK\$1,127,566,000), representing a year-on-year decrease of 27.1%. The segment's operating profit was HK\$186,886,000 (2022: HK\$309,750,000), down by 39.7% year-on-year. The share of revenue contribution of Manufacturing Business to the Group's total revenue was 57.9% (2022: 60.2%).

During the year, the Group vigorously optimized the operational flow of its factories and made use of automated production equipment to reduce production costs while leveraging the complementary advantages of each factory to maintain high gross profit margins.

In addition, the Group built a new factory in Mexico during the year to further bolster its production capacity, especially in terms of quick-turn orders, and explore new customer segments. The new plant is located in Sonora, Mexico. Situated less than two kilometers away from the United States border, it significantly shortens the lead time for products destined for the United States, and reduces logistics costs and tariffs associated with such orders. The new plant was completed and put into operation at the end of last year as scheduled.

As at 31 December 2023, there were approximately 7,600 and 300 employees in the Bangladesh and Shenzhen factories, respectively (2022: approximately 9,000 and 300 employees). The new plant in Mexico had approximately 100 employees.

## **Trading Business**

The Group's subsidiaries of the Trading Business boast a product portfolio covering headwear and accessories such as wallet and belt, both under its own brand and as licensed products. During the year, sales were sluggish due to the downturn in the retail market and continued inventory digestion, with revenue decreasing by 20.0% to HK\$597,234,000 (2022: HK\$746,858,000), accounting for 42.1% of the Group's total revenue.

The trading segment actively sought measures to optimize its manpower structure and improve operational efficiency to control sales and distribution costs, as well as administrative expenses. However, the decrease in sales revenue exceeded the reduction in costs, resulting in an operating loss of HK\$56,563,000 (2022: HK\$59,079,000).

## **PROSPECTS**

Given the unstable international situation and challenging economic environment, coupled with concerns about political changes due to general elections in countries such as the United States, consumer demand for sports events is expected to decline significantly, which may affect sales of sports related products in Europe and the United States. However, the destocking cycle, which has lasted for more than half a year, is coming to an end, and the market showed signs of recovery in the fourth quarter of last year. With its edge in quick production and solid customer partnerships, the Group's production efficiency and competitiveness have been further strengthened after its new plant in Mexico commenced operation. Therefore, the Group remains cautiously optimistic about the sales outlook for consumer products such as headwear in 2024.

The Mexico plant will actively explore new customers in the country and the United States, and create synergies with the plant in Bangladesh, thus jointly strengthening the Group's production efficiency. The close proximity to the United States offers the advantages of fast delivery and lower logistics costs in serving the American market. Although the production cost is higher, there is huge room to produce and sell products with higher selling prices and in small quantities. The Bangladesh factory holds an advantage in mass production of cheaper products, and will continue to focus on handling large-volume orders. Complementary to each other, the two plants enable the Group to take advantage of the time difference to achieve round-the-clock production, handling urgent orders promptly and achieving higher profits. It is expected that by the end of this year, the workforce at the Mexico plant will increase to approximately 1,000 employees, with a monthly production capacity reaching 1 million pieces.

To further enhance production efficiency, the Bangladesh factory commenced the production of accessories such as wallets and belts in the first quarter of this year. These finished products are available for sale through the Trading Business, which can save costs on external procurement and achieves faster delivery, leveraging the synergies of the Group's combined production and trading capabilities.

For the Trading Business, the Group will continue to optimize its product mix and operational efficiency. In January 2024, the Group acquired a property in Missouri, the United States to use as a warehouse, which is expected to be put into use in the fourth quarter of 2024. Once operational, the spacious facility will not only help to avoid rental expenses for third-party offices and warehouses, but also help to improve operational efficiency and meet the future development of the Group's trading business.

The Group also plans to leverage the geographical advantage of the Mexican plant to develop cross-border e-commerce logistics business to extend the supply chain layout and create new sources of income.

In response to the operational challenges posed by the increase in minimum wage by about 60% in Bangladesh since December 2023 and the rising raw material prices, the Group will continue to implement various cost control measures, streamline the operating structure, improve efficiency, broaden the supply chain and localize procurement in order to ease the pressure of rising costs and mitigate supply risks.

The Group has established a solid and long-term business relationship with leading retail brands. In the future, it will focus on the sustainable development of the Company, implement strategies to stabilize prices for customers and protect its premium brand image.

Over the past 37 years, Mainland Headwear has weathered various economic cycles and challenges and become a market leader in the headwear manufacturing industry. With its leading market position, diversified production layout, broad product portfolio ranging from headwear to accessories, and business acumen, the Group is confident that it can overcome the various challenges and create long-term value for its customers and shareholders.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **Liquidity and Financial Resources**

As at 31 December 2023, the Group had cash and cash equivalents, short-term deposits and a portfolio of liquid investments totaling HK\$331.0 million (2022: HK\$268.5 million). About 65.4% and 19.4% of these liquid funds were denominated in United States dollars and Renminbi respectively and the remaining were mainly in Bangladesh Taka, Pound Sterling and Hong Kong dollars.

As at 31 December 2023, the Group had banking facilities of HK\$842.7 million (2022: HK\$788.7 million), of which HK\$733.7 million (2022: HK\$579.5 million) was not utilised.

The borrowings over equity ratio of the Group was 13.8% (2022: 22.8%). 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\$145.4 million (2022: HK\$123.8 million) on the construction of a factory in Mexico, and additions to plant and equipment to upgrade its manufacturing capability and expansion in the Bangladesh factory. The Group also incurred HK\$2.3 million (2022: HK\$5.3 million) on equipments and systems of Trading business.

The Group budgeted HK\$262.0 million for capital expenditures in 2024 of which HK\$133.6 million is estimated for the construction of a warehouse and dormitory in Mexico and expansion in the Bangladesh under Manufacturing business. The Group also authorised a capital commitment of HK\$128.4 million for the acquisition of a warehouse in Missouri, the USA and the equipment upgrades for Trading business. As at 31 December 2023, the Group has capital expenditure contracted but not provided for of HK\$3.9 million (2022: HK\$10.5 million).

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 0.28%. 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 2023, the Group employed 357 (2022: 397) employees in the PRC (include Hong Kong), 7,631 (2022: 8,802) employees in Bangladesh, 101 employees in Mexico (2022: nil) and a total of 162 (2022: 183) employees in the USA and the United Kingdom. The expenditures for employees during the year were approximately HK\$343.1 million (2022: HK\$398.8 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 6 HK cents per share (2022: 6 HK cents per share) in respect of the year ended 31 December 2023. Subject to the approval at the forthcoming annual general meeting, the final dividend will be payable on or after 21 June 2024 to the shareholders whose names appear on the register of members at the close of the business on 5 June 2024, being the record date for determination of entitlements to the final dividend.

To determine the identity of members who are entitled to the final dividend of the Company for the year ended 31 December 2023, the register of members of the Company will be closed from 31 May 2024 to 5 June 2024 (both dates inclusive). In order to qualify for the proposed final 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 30 May 2024.

## **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 24 May 2024, the register of members of the Company will be closed from 21 May 2024 to 24 May 2024 (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 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong for registration not later than 4:30 p.m. on 20 May 2024.

## **PURCHASE, SALES OR REDEMPTION OF THE COMPANY’S LISTED SECURITIES**

During the year ended 31 December 2023, 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 2023.

## **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 2023.

## **REVIEW OF FINANCIAL STATEMENTS**

The Audit Committee has reviewed the Group’s consolidated financial statements for the year ended 31 December 2023, 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 2023 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 and consequently no opinion or assurance conclusion has been expressed by PricewaterhouseCoopers on the preliminary announcement.

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

Hong Kong, 26 March 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, Thomas and Mr. Andrew Ngan; and three are Independent Non-executive Directors, namely Mr. Gordon Ng, Mr. Cheung Tei Sing Jamie and Mr. Li Yinquan.*