

**MAINLAND HEADWEAR HOLDINGS LTD :
A VERY GOOD, LITTLE FAMILY COMPANY ... THAT SHOULD STAY PRIVATE**

It is not very often that one sees a hatter, applying for a listing on a Recognised Stock Exchange of The Hongkong Special Administrative Region (HKSAR) of the People's Republic of China (PRC), especially a hatter that, relatively speaking, is a tiny little company.

But that is the case in respect of Mainland Headwear Holdings Ltd, Code 1100, the Main Board of The Stock Exchange of Hongkong Ltd.

By the looks of this Company's track record since 1997, it has done extraordinarily well, considering that, basically, it has just one product: The manufacture of baseball caps.

The Company Placed 30 million, New 10-cent Shares and Offered an equal amount of New Shares to investors of the HKSAR at a Premium to the Par Value of 90 cents per share, in both cases.

The Net Proceeds from this flotation, amounting to about \$HK47 million, is to be used, the Company's Prospectus states, as follows:

1. \$HK25 million *'to acquire plant and machinery for the expansion of the Group's production facilities ...'*;
2. \$HK10 million *'to acquire digitized embroidery machinery'*; and,
3. \$HK12 million *'as additional working capital of the Group'*.

This Company was founded in 1986 by Mr Ngan Hei Keung and his wife, Mrs Pauline Ngan Po Ling, the Chairman and Deputy Chairman, respectively. Mrs Pauline Ngan doubles as the Managing Director of the Group, also.

In view of the fact that this husband-and-wife team own 75 percent of the Issued and Fully Paid-Up Share Capital of the Company, it would be fair to say that they have very tight control of Mainland Headwear.

Unlike many other publicly listed entities in the HKSAR, where nepotism and sycophantism are the order of the day, Mr and Mrs Ngan do not appear to have abused their privileged positions when it comes to lining their pockets by taking large Directors' Fees and other emoluments.

According to the Prospectus, at Page 74, the Directors and Senior Executives' Total Emoluments, in aggregate, have been static at \$HK2.60 million per annum since 1997, at least.

For the Current Financial Year, ending December 31, 2000, Directors' Emoluments will be increased to about \$HK4 million, Page 123 of the Prospectus states.

Even so, considering that there are 4 Executive Directors, this amount of money for a full Year's work is more than reasonable.

As the opening paragraph of this analysis states, this Company is a hatter, but one particular type of hat appears to have brought home the bacon (or should that read, *'hot dogs'*?) since at least 1997. That hat type was the ever-popular baseball cap.

The following is a table, listing Mainland Headwear's Turnover by product:

	Financial Year ended December 31			
	1997	1998	1999	Five Months to May 31, 2000
	All Figures are Denominated in \$HK'000			
Baseball Caps	119,534	105,740	126,360	105,308
Other Hats and Caps	3,136	13,685	19,857	3,709
Other Traded Products	7,217	11,213	9,132	881
TURNOVER	129,887	130,638	155,349	109,898

As is only too obvious from the above table, dependency on the sales of baseball caps ranged from 92 percent in 1997 to 95.80 percent in the 5 months, ended May 31, 2000.

It is unlikely that baseball caps will go out of style in the near future because baseball is the national game of many countries, such as the United States and Japan, just to mention 2 of the largest economies in the world, today, whose 400 million youths and adults eat and sleep baseball – when they are not filling their mouths with hot dogs and hamburgers, that is.

While it is not everybody who thinks of investing in a company that has, basically, just one product, one has to admit that a manufacturer of baseball caps does appear to be a fairly safe bet for a 'one-horse' show (or, should that read, 'one pitch' show?).

As proof of Mainland Headwear's success in concentrating on the manufacture of just one product, the following are the Company's Trading Results for the past 41 months:

	Financial Year ended December 31			Five Months to May 31, 2000
	1997	1998	1999	2000
	All Figures Are Denominated in \$HK'000			
Turnover	129,887	130,638	155,349	109,898
Cost of Sales	(106,090)	(97,705)	(110,861)	(76,735)
Gross Profit	23,797	32,933	44,488	33,163
Other Income	2,163	1,178	1,120	728
Distribution Costs	(1,261)	(1,934)	(1,673)	(1,461)
Administration Expenses	(8,094)	(8,352)	(10,404)	(7,561)
Profit from Operations	16,605	23,825	33,531	24,869
Finance Costs	(142)	(176)	(202)	(1,020)
Share of Losses less Profits of Associates	Nil	Nil	Nil	(1,474)
Profit before Taxation	16,463	23,649	33,329	22,375
Taxation	(2,665)	(3,619)	(5,166)	(2,343)
Net Profit Attributable to Shareholders	13,798	20,030	28,163	20,032

For the Current Financial Year, ending December 31, 2000, the Company is forecasting a Net Profit Attributable to Shareholders of not less than \$HK40 million.

For the Current Year, therefore, this Company is looking for a growth in Net Profits of about 42 percent over the Financial Year, ended December 31, 1999.

The Pros And Cons

While everything in the ballpark may look good, at first glance ... [CLICK TO ORDER FULL ARTICLE](#)

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