

# TARGET

## Intelligence Report

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### **MAINLAND HEADWEAR HOLDINGS LTD: IF THE HEADWEAR FITS: WEAR IT !**

Mainland Headwear Holdings Ltd (飛達帽業控股有限公司) (Code: 1100, Main Board, The Stock Exchange of Hongkong Ltd) might not be the most-exciting, publicly listed corporate entity whose entire Issued and Fully Paid-Up Share Capital was ever listed on the premier equity market of the **Hongkong Special Administrative Region (HKSAR)** of The **People's Republic of China (PRC)**, but when times are tough, this Company continues to turn in a more-than reasonable profit.

Better yet, even though Senior Management accepts (and openly admits) that recent times have been extremely difficult – due to no situation of Management's making, as was, obviously, the situation, during the 2023 Financial Year, ended December 31 – Management had the chutzpah to take care of its shareholders, handing out dividends on a par of the like dividends, paid in the previous Financial Year.

At Page 43 of the 2023 Annual Report of the Company, with regard to the Financial Year, ended December 31, 2023, Management caused to publish and disseminate the following paragraph, under the heading, '**ABOUT THE REPORT:**'

*'Mainland Headwear Holdings Limited and its subsidiaries (collectively, the "**Group**") operate a diverse range of businesses in the USA, Europe, Bangladesh, Mexico, and the People's Republic of China, including trading, e-commerce, licensing, and manufacturing of headwear and other products such as bags and fashion accessories. In 2023, the global economy was affected by geopolitical tensions. In the first half of 2023, there was an unsatisfactory inventory digestion and a slump in production and sales worldwide. However, the market showed signs of recovery in the fourth quarter of last year. The group established a new factory in Mexico to grasp opportunities to reduce tariffs and transportation costs, and shorten the delivery lead time.'*

At Pages Three through to Five of the 2023 Annual Report, Mr Ngan Hei Keung (顏禧強), the Chairman of the Board of Directors of the Company, had this to impart to his shareholders:

### **'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%)...*

*'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.*

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