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# BEST PACIFIC

## Best Pacific International Holdings Limited

超盈國際控股有限公司

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 2111)**

### **ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2022 AND PROPOSED AMENDMENTS TO THE MEMORANDUM AND ARTICLES OF ASSOCIATION**

#### **HIGHLIGHTS**

- The Group's revenue for the year ended 31 December 2022 amounted to approximately HK\$4,492.8 million, representing a decrease of approximately 6.3% when compared to the year ended 31 December 2021.
- Gross profit margin of the Group dropped by approximately 4.3 percentage points for the year ended 31 December 2022.
- The Group recorded a net profit margin of approximately 6.3% for the year ended 31 December 2022, representing a decrease of approximately 2.1 percentage points, as compared to the year ended 31 December 2021.
- Profit attributable to owners of the Company amounted to approximately HK\$299.2 million, representing a decrease of approximately 25.5%, as compared to the year ended 31 December 2021.
- Basic earnings per share was approximately HK28.77 cents for the year ended 31 December 2022, representing a decrease of approximately 25.5% from approximately HK38.64 cents for the year ended 31 December 2021.
- Proposed to declare a final dividend of HK4.22 cents per share in respect of the year ended 31 December 2022 (2021: HK11.8 cents).

The board (the “**Board**”) of directors (the “**Directors**”) of Best Pacific International Holdings Limited (the “**Company**” or “**Best Pacific**” or “**We**”) announces the consolidated results of the Company and its subsidiaries (the “**Group**”) for the year ended 31 December 2022, together with the comparative figures for the year ended 31 December 2021, as follows:

## **CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**

*For the year ended 31 December 2022*

	<i>Notes</i>	<b>2022</b> <b>HK\$'000</b>	2021 <i>HK\$'000</i>
Revenue	3	<b>4,492,790</b>	4,792,661
Cost of sales		<u><b>(3,642,877)</b></u>	<u>(3,680,829)</u>
Gross profit		<b>849,913</b>	1,111,832
Other income		<b>49,425</b>	50,694
Other gains and losses		<b>58,522</b>	1,906
Net remeasurement of credit loss allowance for trade receivables		<b>2,670</b>	(11,967)
Selling and distribution expenses		<b>(182,788)</b>	(202,647)
Administrative expenses		<b>(286,637)</b>	(336,170)
Research and development costs		<b>(101,178)</b>	(99,205)
Share of result of a joint venture		<b>2,539</b>	3,906
Finance costs		<u><b>(75,794)</b></u>	<u>(61,732)</u>
Profit before taxation	5	<b>316,672</b>	456,617
Income tax expense	6	<u><b>(33,194)</b></u>	<u>(55,271)</u>
<b>Profit for the year</b>		<u><b>283,478</b></u>	<u>401,346</u>
<b>Profit (loss) for the year attributable to</b>			
– Owners of the Company		<b>299,199</b>	401,794
– Non-controlling interests		<u><b>(15,721)</b></u>	<u>(448)</u>
		<u><b>283,478</b></u>	<u>401,346</u>
<b>Earnings per share</b>	8		
– Basic (HK cents)		<u><b>28.77</b></u>	<u>38.64</u>

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
<b>Profit for the year</b>	<u>283,478</u>	<u>401,346</u>
<b>Other comprehensive (expense) income:</b>		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences arising on translation of foreign operations	(340,456)	98,201
Share of translation reserve of a joint venture	(873)	918
Items that will not be reclassified to profit or loss:		
Remeasurement of retirement benefit obligations, net of tax	<u>(1,228)</u>	<u>1,887</u>
<b>Other comprehensive (expense) income for the year</b>	<u>(342,557)</u>	<u>101,006</u>
<b>Total comprehensive (expense) income for the year</b>	<u><u>(59,079)</u></u>	<u><u>502,352</u></u>
<b>Total comprehensive (expense) income for the year attributable to</b>		
– Owners of the Company	(42,848)	502,086
– Non-controlling interests	<u>(16,231)</u>	<u>266</u>
	<u><u>(59,079)</u></u>	<u><u>502,352</u></u>

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2022

	Notes	2022 HK\$'000	2021 HK\$'000
<b>Non-current assets</b>			
Property, plant and equipment		2,818,476	2,925,355
Right-of-use assets		287,229	350,376
Interest in a joint venture		39,417	38,669
Deposits		39,409	58,349
Deferred tax assets		9,071	5,576
		<u>3,193,602</u>	<u>3,378,325</u>
<b>Current assets</b>			
Inventories		1,135,776	1,456,797
Trade and bills receivables	9	654,745	849,430
Other receivables, deposits and prepayments		127,460	128,194
Tax recoverables		4,526	4,783
Pledged bank deposits		68,428	121,607
Short term bank deposits		36,954	163,814
Bank balances and cash		1,051,165	898,868
		<u>3,079,054</u>	<u>3,623,493</u>
<b>Current liabilities</b>			
Trade payables	10	301,525	370,193
Bills payables	10	227,611	444,038
Other payables and accrued charges		289,707	357,062
Contract liabilities		41,049	34,855
Bank borrowings	11	1,992,685	1,511,615
Lease liabilities		38,177	42,743
Tax payables		10,191	46,745
Derivative financial instrument		–	1,092
		<u>2,900,945</u>	<u>2,808,343</u>
<b>Net current assets</b>		<u>178,109</u>	<u>815,150</u>
<b>Total assets less current liabilities</b>		<u>3,371,711</u>	<u>4,193,475</u>

	<i>Notes</i>	<b>2022</b> <b>HK\$'000</b>	2021 <i>HK\$'000</i>
<b>Non-current liabilities</b>			
Bank and other borrowings	<i>11</i>	<b>105,515</b>	648,789
Lease liabilities		<b>93,369</b>	128,972
Deferred income		<b>14,294</b>	15,390
Deferred tax liabilities		<b>9,735</b>	9,698
Retirement benefit obligations		<b>8,191</b>	9,789
Other liabilities		<b>2,160</b>	7,591
		<u><b>233,264</b></u>	<u>820,229</u>
<b>Net assets</b>		<u><b>3,138,447</b></u>	<u>3,373,246</u>
<b>Capital and reserves</b>			
Share capital		<b>10,398</b>	10,398
Reserves		<b>3,029,817</b>	3,271,060
<b>Equity attributable to owners of the Company</b>		<b>3,040,215</b>	3,281,458
<b>Non-controlling interests</b>		<b>98,232</b>	91,788
<b>Total equity</b>		<u><b>3,138,447</b></u>	<u>3,373,246</u>

# NOTES TO THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME AND STATEMENT OF FINANCIAL POSITION

*For the year ended 31 December 2022*

## 1. GENERAL INFORMATION

The Company is a public company incorporated as an exempted company and registered in the Cayman Islands with limited liability under the Companies Law Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands on 14 June 2013. Its immediate and ultimate holding company is Grandview Capital Investment Limited, which is incorporated in the British Virgin Islands and is wholly owned by Mr. Lu Yuguang, who is the Chairman and executive director of the Company. The Company's shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") since 23 May 2014.

The principal activities of the Company and its subsidiaries are manufacturing and trading of elastic fabric, lace and elastic webbing.

The functional currency of the Company is Hong Kong dollar ("**HK\$**"), which is the same as the presentation currency of the consolidated financial statements.

## 2. APPLICATION OF AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("**HKFRSs**")

### **Amendments to HKFRSs that are mandatorily effective for the current year**

In the current year, the Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") for the first time, which are mandatorily effective for the Group's annual period beginning on 1 January 2022 for the preparation of the consolidated financial statements:

Amendments to HKFRS 3	Reference to the Conceptual Framework
Amendment to HKFRS 16	Covid-19-Related Rent Concessions beyond 30 June 2021
Amendments to HKAS 16	Property, Plant and Equipment – Proceeds before Intended Use
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018-2020

The application of the amendments to HKFRSs in the current year has had no material impact on the Group's financial positions and performance for the current and prior years and/or on the disclosures set out in the consolidated financial statements.

### 3. REVENUE

The Group's revenue is derived from manufacturing and trading of elastic fabric, lace and elastic webbing in Mainland China, Hong Kong, the Socialist Republic of Vietnam ("Vietnam") and the Democratic Socialist Republic of Sri Lanka ("Sri Lanka"), net of discounts and sales related taxes.

#### Disaggregation of revenue from contracts with customers

Revenue from manufacturing and trading of elastic fabric, lace and elastic webbing are recognised at a point in time.

*For the year ended 31 December 2022*

<b>Types of goods</b>	<b>Manufacturing and trading of elastic fabric and lace <i>HK\$'000</i></b>	<b>Manufacturing and trading of elastic webbing <i>HK\$'000</i></b>	<b>Total <i>HK\$'000</i></b>
<b>Sales of products</b>			
Elastic Fabric			
– Sportswear and apparel	2,146,456	–	2,146,456
– Lingerie	1,292,507	–	1,292,507
	<u>3,438,963</u>	<u>–</u>	<u>3,438,963</u>
Lace	76,267	–	76,267
Elastic webbing	–	977,560	977,560
	<u>3,515,230</u>	<u>977,560</u>	<u>4,492,790</u>

For the year ended 31 December 2021

<b>Types of goods</b>	Manufacturing and trading of elastic fabric and lace <i>HK\$'000</i>	Manufacturing and trading of elastic webbing <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>Sales of products</b>			
Elastic Fabric			
– Sportswear and apparel	2,438,897	–	2,438,897
– Lingerie	1,183,780	–	1,183,780
	<u>3,622,677</u>	<u>–</u>	<u>3,622,677</u>
Lace	89,784	–	89,784
Elastic webbing	–	1,080,200	1,080,200
	<u>3,712,461</u>	<u>1,080,200</u>	<u>4,792,661</u>

#### 4. SEGMENT INFORMATION

The financial information reported to executive directors of the Company, being the chief operating decision makers (“CODM”), for the purpose of assessment of segment performance and resources allocation focuses on types of goods delivered.

The Group’s operating and reportable segments under HKFRS 8 *Operating Segments* are as follows:

- Manufacturing and trading of elastic fabric and lace

This segment derives its revenue from manufacturing and trading of elastic fabric and lace made from synthetic fibres that are commonly used in high-end knitted lingerie, sportswear and apparel products.

- Manufacturing and trading of elastic webbing

This segment derives its revenue from manufacturing and trading of elastic webbing made from synthetic fibres that are commonly used as shoulder straps, lingerie trims and waistbands.

## Segment revenue and results

The following is an analysis of the Group's revenue and results by operating and reportable segments:

### *For the year ended 31 December 2022*

	<b>Manufacturing and trading of elastic fabric and lace <i>HK\$'000</i></b>	<b>Manufacturing and trading of elastic webbing <i>HK\$'000</i></b>	<b>Total <i>HK\$'000</i></b>
Segment revenue from external customers	<u>3,515,230</u>	<u>977,560</u>	<u>4,492,790</u>
Segment gross profit	<u>622,201</u>	<u>227,712</u>	<u>849,913</u>
Segment profit	<u>226,453</u>	<u>116,708</u>	343,161
Unallocated other income			24,283
Unallocated other gains and losses			58,949
Unallocated corporate expenses			(36,466)
Share of result of a joint venture			2,539
Finance costs			(75,794)
Profit before taxation			<u>316,672</u>

### *For the year ended 31 December 2021*

	<b>Manufacturing and trading of elastic fabric and lace <i>HK\$'000</i></b>	<b>Manufacturing and trading of elastic webbing <i>HK\$'000</i></b>	<b>Total <i>HK\$'000</i></b>
Segment revenue from external customers	<u>3,712,461</u>	<u>1,080,200</u>	<u>4,792,661</u>
Segment gross profit	<u>763,743</u>	<u>348,089</u>	<u>1,111,832</u>
Segment profit	<u>327,072</u>	<u>207,991</u>	535,063
Unallocated other income			27,542
Unallocated other gains and losses			2,041
Unallocated corporate expenses			(50,203)
Share of result of a joint venture			3,906
Finance costs			(61,732)
Profit before taxation			<u>456,617</u>

The accounting policies of the operating and reportable segments are the same as the Group's accounting policies. Segment profit represents the results of each segment without allocation of corporate items including mainly bank interest income, change in fair value of a derivative financial instrument, net foreign exchange gain, corporate expenses, share of result of a joint venture and finance costs. Corporate expenses include directors' remuneration paid or payable by the Group and certain administrative expenses for corporate function. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

## Geographical information

The Group's operations are located in Mainland China, Hong Kong, Vietnam, Sri Lanka and the United States of America (the "U.S."). The Group's revenue from external customers based on the location of the customers are detailed below:

	Year ended 31 December	
	2022	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong	1,015,613	989,605
Mainland China	912,809	961,213
Sri Lanka	850,102	909,576
Vietnam	405,096	423,498
South Korea	248,618	328,232
Taiwan	207,845	322,406
Thailand	151,808	78,339
Bangladesh	115,225	113,473
Indonesia	101,249	157,547
Macau	97,499	136,328
Others	386,926	372,444
	<u>4,492,790</u>	<u>4,792,661</u>

Non-current assets (excluding financial assets and deferred tax assets) by geographical location of assets are detailed below:

	As at 31 December	
	2022	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
Mainland China	1,639,411	1,822,655
Vietnam	838,010	883,533
Sri Lanka	667,964	606,209
Hong Kong	26,346	35,208
	<u>3,171,731</u>	<u>3,347,605</u>

## Information about major customers

Revenue from customers contributing over 10% of the total revenue of the Group for the years ended 31 December 2022 and 2021 are as follows:

	Year ended 31 December	
	2022	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue from manufacturing and trading of elastic fabric and lace		
– customer A	533,696	616,527
– customer B	492,619	441,546
Revenue from manufacturing and trading of elastic webbing		
– customer A	70,877	54,479
– customer B	94,022	112,103
	<u>70,877</u>	<u>112,103</u>

## 5. PROFIT BEFORE TAXATION

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Profit before taxation has been arrived at after charging (crediting):		
Auditors' remuneration	2,479	2,510
Staff costs		
Directors' remuneration	29,380	37,243
Other staff costs		
– salaries and other benefits	775,656	820,997
– contributions to retirement benefits schemes	57,783	60,464
	<b>862,819</b>	<b>918,704</b>
Depreciation of property, plant and equipment	327,107	333,972
Depreciation of right-of-use assets	46,410	30,689
Depreciation capitalised in inventories	(299,216)	(288,210)
	<b>74,301</b>	<b>76,451</b>
Cost of inventories recognised as an expense	<b>3,642,877</b>	<b>3,680,829</b>

## 6. INCOME TAX EXPENSE

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Current tax:		
Hong Kong Profits Tax	24,821	34,724
The People's Republic of China (the "PRC") Enterprise Income Tax ("EIT")	6,519	13,965
Withholding tax on dividends from subsidiaries	3,884	943
Income tax in other jurisdictions	3,198	193
(Over)under provision in prior years:		
Hong Kong Profits Tax	(219)	1,783
The PRC EIT	(2,727)	784
Deferred taxation	35,476	52,392
	(2,282)	2,879
	<b>33,194</b>	<b>55,271</b>

Under the two-tiered profits tax rates regime of the Hong Kong Profits Tax, the first HK\$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK\$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%. Accordingly, the Hong Kong Profits Tax for the qualifying group entity had been calculated at 8.25% on the first HK\$2 million of the estimated assessable profits and at 16.5% on the estimated assessable profits above HK\$2 million.

Under the Law of the PRC on Enterprise Income Tax (the “**EIT Law**”) and Implementation Regulation of the EIT Law, the tax rate of the PRC companies is 25% for both years ended 31 December 2022 and 2021, unless there is any applicable preferential tax treatment.

The Company’s subsidiaries, Dongguan Best Pacific Textile Company Limited (“**Dongguan BPT**”) and Dongguan New Horizon Elastic Fabric Company Limited (“**Dongguan NHE**”), had obtained the qualification as high and new technology enterprises since 2010 and 2016, respectively, which had been further renewed for an additional three years from the year ended 31 December 2022. Hence, Dongguan BPT and Dongguan NHE had been subject to the preferential tax treatment and the applicable tax rate for the years ended 31 December 2022 and 2021 was 15%.

Withholding tax on dividends was calculated at 5% of the dividends received and estimated dividends to be received from the subsidiaries in the PRC during the years ended 31 December 2022 and 2021.

Pursuant to the relevant Vietnam Enterprises Income Tax rules and regulations, the applicable tax rate for the subsidiary operating in Vietnam is 20%. The subsidiary in Vietnam is eligible for a tax holiday for two financial years since the first financial year of taxable profits and a tax concession at a tax rate of 10% for the following four financial years. With the new incentive in place during the year ended 31 December 2018 and by fulfilling certain stated requirements as set by the Ministry of Industry and Trade, the subsidiary in Vietnam had been eligible for a tax holiday for four financial years since 2018, a tax concession at a tax rate of 5% for the following nine financial years and a tax concession at a tax rate of 10% for the next following two financial years.

Withholding tax on shareholder’s loans interest was calculated at 5% of the interest paid and estimated interest to be paid by the subsidiary in Vietnam during the years ended 31 December 2022 and 2021.

Pursuant to the Inland Revenue (Amendment) Act, No. 10 of 2021 in Sri Lanka, the applicable tax rate for the subsidiaries operating in Sri Lanka is 24% for both years ended 31 December 2022 and 2021. By fulfilling certain export requirements as set by the Board of Investment of Sri Lanka, the subsidiaries of the Group in Sri Lanka had enjoyed a preferential tax rate of 14% for the years ended 31 December 2021. In terms of the changes to the Inland Revenue Act No. 24 of 2017, as passed in parliament on 9 December 2022, the subsidiaries of the Group in Sri Lanka are liable for income tax rate of 30% from 1 July 2022 onwards. In addition, one of these subsidiaries is currently eligible for a tax holiday till the year ending 31 December 2024.

Taxation arising in any other jurisdiction is calculated at the rate prevailing in the relevant jurisdiction.

## 7. DIVIDENDS

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Dividends for ordinary shareholders of the Company recognised as distribution during the year:		
2022 Interim dividend – HK7.28 cents (2021: HK7.5 cents) per share	75,698	77,985
2021 Final dividend – HK11.8 cents (2021: 2020 Final dividend HK7.4 cents) per share	<u>122,697</u>	<u>76,946</u>
	<u><b>198,395</b></u>	<u><b>154,931</b></u>

Subsequent to the end of the reporting period, a final dividend in respect of the year ended 31 December 2022 of HK4.22 cents per ordinary share (approximately HK\$43.9 million in aggregate) has been proposed by the directors of the Company and is subject to approval by the shareholders in the forthcoming general meeting.

## 8. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the owners of the Company is based on the following data:

	2022	2021
<b>Earnings</b>		
Earnings for the purposes of the basic earnings per share (profit for the year attributable to owners of the Company) (HK\$'000)	<u><b>299,199</b></u>	<u><b>401,794</b></u>
<b>Number of shares</b>		
Number of ordinary shares for the purpose of basic earnings per share	<u><b>1,039,808,000</b></u>	<u><b>1,039,808,000</b></u>

No diluted earnings per share for both years ended 31 December 2022 and 2021 were presented as there was no potential ordinary shares in issue for both years.

## 9. TRADE AND BILLS RECEIVABLES

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Trade receivables	651,675	845,799
Less: Allowance for credit losses	<u>(19,948)</u>	<u>(24,636)</u>
Total trade receivables	<b>631,727</b>	821,163
Bills receivables	<u><b>23,018</b></u>	<u>28,267</u>
Total trade and bills receivables	<u><b>654,745</b></u>	<u><b>849,430</b></u>

Trade receivables from third parties mainly represent receivables from customers in relation to the sales of elastic fabric, lace and elastic webbing. The credit period granted to the customers ranges from 30 to 90 days from the date of issuance of a monthly statement with respect to sales delivered in the particular month.

The following ageing analysis of trade receivables, net of credit loss allowance, is presented based on the date of issuance of monthly statements at the end of each reporting period and the ageing analysis of bills receivables is presented based on the date of issuance of the bills at the end of each reporting period:

	<b>2022</b> <i>HK\$'000</i>	2021 <i>HK\$'000</i>
<b>Trade receivables</b>		
0 – 90 days	595,237	765,207
91 – 180 days	35,058	49,914
Over 180 days	1,432	6,042
	<u>631,727</u>	<u>821,163</u>
<b>Bills receivables</b>		
0 – 90 days	19,688	26,002
91 – 180 days	3,330	1,746
Over 180 days	–	519
	<u>23,018</u>	<u>28,267</u>
	<u><b>654,745</b></u>	<u><b>849,430</b></u>

## 10. TRADE AND BILLS PAYABLES

### Trade payables

The credit period granted by the Group's creditors ranges from approximately 30 to 90 days. The following is an ageing analysis of trade payables presented based on the invoice date at the end of each reporting period:

	<b>2022</b> <i>HK\$'000</i>	2021 <i>HK\$'000</i>
0 – 90 days	278,631	359,387
Over 90 days	22,894	10,806
	<u>301,525</u>	<u>370,193</u>

### Bills payables

The bills payables are secured by pledged bank deposits. The following is an ageing analysis of bills payables presented based on the date of issuance of the bills at the end of each reporting year:

	<b>2022</b> <i>HK\$'000</i>	2021 <i>HK\$'000</i>
0 – 90 days	120,977	282,431
91 – 180 days	106,634	161,607
	<u>227,611</u>	<u>444,038</u>

## 11. BANK AND OTHER BORROWINGS

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Bank overdrafts	9,686	29,111
Unsecured syndicated loan	474,869	793,883
Unsecured bank borrowings	1,508,130	1,267,386
Unsecured other borrowings	105,515	70,024
	<u>2,098,200</u>	<u>2,160,404</u>
Carrying amount repayable*:		
Within one year	1,838,077	1,364,879
More than one year, but not exceeding two years	72,374	202,464
More than two years, but not exceeding five years	187,749	593,061
	<u>2,098,200</u>	<u>2,160,404</u>
Less: Amounts due within one year or contain a repayment on demand clause shown under current liabilities	<u>(1,992,685)</u>	<u>(1,511,615)</u>
Amounts shown under non-current liabilities	<u>105,515</u>	<u>648,789</u>
Carrying amount of bank borrowings that are repayable within one year and contain a repayment on demand clause	1,363,208	1,149,761
Carrying amount of bank borrowings that are repayable more than one year but contain a repayment on demand clause	<u>154,608</u>	<u>146,736</u>
	<u>1,517,816</u>	<u>1,296,497</u>

\* The amounts due are based on scheduled repayment dates set out in the loan agreements and include the unamortised portion of the prepaid transaction cost in relation to the unsecured syndicated loan.

## CHAIRMAN'S STATEMENT

On behalf of the Board, I am pleased to present the annual results of the Group for the year ended 31 December 2022.

Moving into 2022, the economic growth in both Mainland China and Hong Kong was significantly impacted by the anti-pandemic measures imposed during the outbreaks of the 2019 novel coronavirus disease (“COVID”) at different time throughout the year. The international geopolitical tensions and the rising interest rates had amplified the complications and challenges for all businesses and economies. According to the International Monetary Fund (“IMF”), global gross domestic product (“GDP”) for 2022 was estimated to be 3.4%, down 280 basis points from 6.2% in 2021. Meanwhile, the inflationary pressure persisted and the global inflation was reported to be 8.8% in 2022 by the IMF. Most central banks around the globe had adopted contractionary monetary policies to combat rising inflation and the majority of the international economies had experienced a notable surge in interest rates. The federal funds target rate of the U.S. had been pulled up 9 times consecutively since March 2022 and hit a fifteen-year high at a range of 4.75%-5.00%.

The above global economic headwinds and the tightened financial conditions had led to a decline in consumer confidence and worsened business sentiment. The textile and garment sector had not been immune to these challenges. In response to the prevailing market uncertainties and noticeable inventory pressure, most international brand customers had opted to reduce their existing inventory levels and they generally turned to be more conservative with respect to their order placements in the second half of 2022. While recent financials showed that certain brand customers were still financially strong, most retailers were expected to continue their inventory optimization exercises throughout the first half of 2023.

On the other hand, due to the Russia-Ukraine war and the adverse economic impacts of COVID, we had continued to observe increased costs pressure throughout most of 2022. The overall upsurge in raw material prices had certainly added weight to our production costs, which had in turn adversely impacted our operating margins. Despite our efforts to manage the upsurge in raw materials costs through a combination of measures, the current economic conditions are not turning in our favour.

The resilience of our business was being tested once again, but we had confidence in our competitive edge and sound financial conditions, which had taken us through the era of black swans over the past few years and had made Best Pacific even stronger. We believe that our talented people, world-class innovation capabilities, international footprint, strong partnerships with customers will continue to win the applause from our esteemed customers. The Group is also dedicated to maintaining healthy cash flows and has implemented various measures, including cost controls and production efficiencies optimization, so as to weather through the current economic storm.

Despite ongoing market uncertainties since the second half of 2022, Best Pacific remains strongly committed to the implementation of its long-term strategies. While market conditions in 2023 are expected to be challenging amid the current macroeconomic environment, Best Pacific will continue to work closely with our customers and business partners. By remaining steadily focused and putting our strategies into actions, Best Pacific believes that we can deliver promising returns for our shareholders and stakeholders in the long run. Finally, I will also like to take this opportunity to express my gratitude to our customers, suppliers, business partners, and shareholders for their unwavering support throughout the history of Best Pacific and I would also like to extend our heartfelt appreciation to the Board of Directors and all our dedicated employees around the world for their relentless commitment, loyalty, professionalism, and contributions to the Group.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

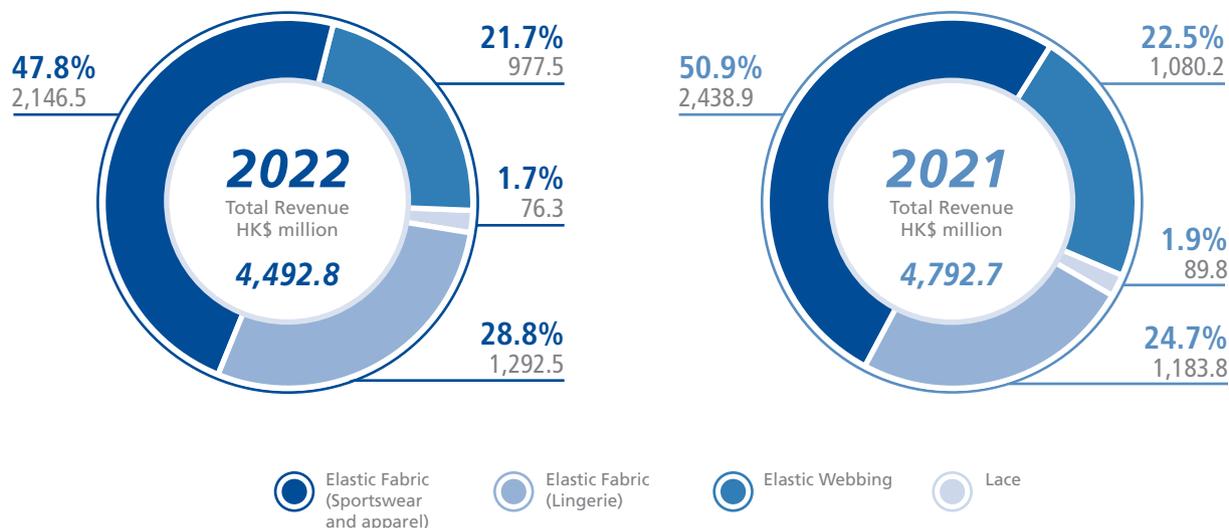
### **MARKET AND BUSINESS REVIEW**

In 2022, the global economy had been impacted by unprecedented challenges including geopolitical tensions, the resurgence of COVID in certain parts of China and the associated control measures as well as the worsening global economic conditions. According to the IMF, a twenty first century record high global inflation was reported to be 8.8% in 2022 and the estimated GDP of 2022 of advanced economies was 2.7%, down from 5.4% in 2021. The GDP of the U.S. decreased from 5.9% in 2021 to 2.0% in 2022 while the GDP of the Euro area decreased from 5.3% in 2021 to 3.5% to 2022.

Alongside growing concerns of impending global recession, major central banks in both developed and emerging markets had been tightening their monetary policies by introducing series of interest rate hikes throughout 2022. The U.S. federal funds target rate had been increased from approximately 0.125% at the beginning of 2022 to approximately 4.375% in December 2022. The European Central Bank interest rate for marginal lending facilities had also been increased from 0.25% at the beginning of 2022 to 2.75% in December 2022.

While other countries began to reopen their borders and economies during the year, COVID related restrictions continued to be imposed in China and consumer confidence was hindered in 2022. Sporadic occurrences of COVID infection had led to more frequent and wider-ranged lockdowns in various regions in China in most time of 2022. In the fourth quarter of 2022, wider outbreaks of COVID occurring in China had led to tightened COVID-related health measures and lockdowns in major cities until the issuance of a series of new COVID response guidelines by the government in December 2022. Production and economic performance of China was inevitably hammered and the GDP of China in 2022 was down to 3.0% according to the National Bureau of Statistics of China, as compared to 8.4% in 2021.

During the pandemic time, the global logistic problems had made most overseas retailers to increase their inventory levels aggressively. It had recently been reported that inventory levels of most overseas major retailers were still at high levels as sluggish retail sales had delayed the overall destocking process. In general, most brand owners had been conservative to their order placement in 2022, especially towards the second half of the year. According to the customs statistics of China, the export value of textile products in the second half of 2022 was only 71.6 billion U.S. Dollars (“US\$”), representing a notable drop of US\$5 billion in value or a 6.5% in percentage points, as compared to the corresponding period in 2021. In particular, export of textile and apparel products to the U.S. and Europe had experienced a notable decrease by approximately 14% in second half of 2022, as compared to corresponding period in 2021.



Meanwhile, we faced rising costs pressures in 2022, which undermined our profitability to a certain extent. Since the outbreak of the Russia-Ukraine war, Brent Crude oil price had been surging and peaked at over US\$120 per barrel in mid-2022. Although it gradually decreased to approximately US\$86 per barrel by the end of 2022, the prices of oil and many oil by-products were at a high level in most time of 2022. Coupled with the loosening monetary policies during the pandemic time in the past few years, most major global economies had experienced high inflationary pressure, which added pressure on our overall raw materials procurement prices and utility costs for most time in 2022.

Our business was inevitably affected to a certain extent by the macroeconomic environment in 2022. Our overall sales revenue recorded a year-on-year decrease of 6.3% to approximately HK\$4,492.8 million for the year ended 31 December 2022, as compared to HK\$4,792.7 million for the year ended 31 December 2021. As a result of the overall higher raw materials prices, the drop in the overall sales and the associated diseconomies of scale, our overall Group’s gross profit margin was squeezed to approximately 18.9% in for the year ended 31 December 2022, representing a decrease of 4.3 percentage points, as compared to an overall Group’s gross profit margin of 23.2% in 2021.

Despite these challenges, we remained committed to providing high-quality products and services to our customers, while finding ways to maintain our financial stability in this challenging economic environment. We strived our best to digest these costs pressure through a combination of measures, which included but not limited to further optimization of our production efficiencies, more stringent wastage control and the continuous exploration with our customers and partnering brands on the possibilities of product price adjustments. On the other hand, we also put focus on maintaining a healthy gearing level for risk management purpose and to combat the soaring interest costs. We continuously monitored our operating cash flows and strived to lower our overall debt level whenever possible in 2022. As of 31 December 2022, the net gearing ratio was standing at a healthy level of 30.0% (2021: 28.9%). At the same time, we had net cash generated from operating activities of approximately HK\$773.6 million for the year ended 31 December 2022, an increase of approximately HK\$250.9 million, as compared to approximately HK\$522.7 million for the year ended 31 December 2021.

### **Our international operations**

Our international manufacturing footprint is one of our core competitive advantages, Best Pacific is able to provide sustainable supply-chain solutions to cater for the best interests of our customers – which encompass the reduction in production lead time, and the catering for trade and tariff considerations.

#### ***VIETNAM***

According to the statistics released by the General Department of Customs of Vietnam, the export of textile and garment products reached approximately US\$37.57 billion in 2022, up by approximately 14.7%, as compared to 2021. On the other hand, Vietnam achieved a GDP growth of 8.02% in 2022, according to General Statistics Office of Vietnam, outperforming a majority of the international economies.

The Group's production base in Vietnam had attained significant regional and scale advantages subsequent to years of strategic deployment, with the relevant operational efficiencies optimised as originally planned. As a result of the tightened geopolitics, our customers continued to show increased interests in our production capacities in Vietnam and we would expand our production capacities in the existing manufacturing site located in Hai Duong Province of Vietnam, in an orderly manner.

#### ***SRI LANKA***

Sri Lanka had faced a chaotic public debt default and political instability in early 2022 but fortunately its situation had soon been stabilized. In late March 2023, the Executive Board of the IMF approved a 48-month extended arrangement under the Extended Fund Facility of approximately US\$3 billion to support Sri Lanka's economic policies and reforms. With the support from our local joint venture partners, who were the top global garment manufacturers, we were glad to have maintained normal operations in the facilities in Sri Lanka throughout the year. In order to attain the economies of scale, we would continue our investment in the development of phase two of our production facility located in Pannala, Sri Lanka, as planned.

## FINANCIAL REVIEW

### Revenue

The Group's revenue is primarily derived from the sales of its major products, including elastic fabric, elastic webbing and lace.

For the year ended 31 December 2022, revenue amounted to approximately HK\$4,492.8 million, representing a decrease of approximately HK\$299.9 million, or approximately 6.3%, from approximately HK\$4,792.7 million for the year ended 31 December 2021. A comparison of the Group's revenue for the year ended 31 December 2022 and the year ended 31 December 2021 by product categories is as follows:

	For the year ended 31 December		2021		Change	
	2022		2021			
	<i>Revenue</i>	<i>% of</i>	<i>Revenue</i>	<i>% of</i>	<i>Change</i>	<i>%</i>
	<i>(HK\$'000)</i>	<i>Revenue</i>	<i>(HK\$'000)</i>	<i>Revenue</i>	<i>(HK\$'000)</i>	
Elastic fabric	<b>3,438,963</b>	<b>76.6</b>	3,622,677	75.6	(183,714)	(5.1)
– <i>Sportswear and apparel</i>	<i>2,146,456</i>	<i>47.8</i>	<i>2,438,897</i>	<i>50.9</i>	<i>(292,441)</i>	<i>(12.0)</i>
– <i>Lingerie</i>	<i>1,292,507</i>	<i>28.8</i>	<i>1,183,780</i>	<i>24.7</i>	<i>108,727</i>	<i>9.2</i>
Elastic webbing	<b>977,560</b>	<b>21.7</b>	1,080,200	22.5	(102,640)	(9.5)
Lace	<b>76,267</b>	<b>1.7</b>	89,784	1.9	(13,517)	(15.1)
<b>Total</b>	<b><u>4,492,790</u></b>	<b><u>100.0</u></b>	<b><u>4,792,661</u></b>	<b><u>100.0</u></b>	<b><u>(299,871)</u></b>	<b><u>(6.3)</u></b>

Despite recognition from our customers for our innovation, high product quality and our multi-region production advantage, our sales revenue was inevitably affected by the weakening global economies and the more conservative approach in order placement as taken by most of our brand customers, to control their inventory levels towards the second half of 2022. Revenue from the sales of elastic fabric amounted to approximately HK\$3,439.0 million for the year ended 31 December 2022, representing a decrease of approximately HK\$183.7 million, or approximately 5.1%, as compared to the year ended 31 December 2021. Apart from the general undermined market sentiment, our elastic fabric business was further dragged by a few selected customers as they were still striving to turn around their businesses. Sales revenue of elastic fabric to our sportswear and apparel customers decreased by approximately 12.0% in 2022 due to a relatively challenging macroeconomic environment. However, an approximately 11.2% growth in domestic sales revenue of our sportswear and apparel fabric products was maintained in 2022, although growth in the second half of the year slowed down to a certain extent due to the weakened consumer confidence in light of the more vigilant COVID-related restrictions in China during that period. On the other hand, a steady growth of revenue of elastic fabric to our lingerie customers by approximately 9.2% was recorded in 2022 due to the continuous penetration among our existing lingerie customers.

With the overall lukewarm market condition for the industry in the latter half of the year, revenue from the sales of elastic webbing amounted to approximately HK\$977.5 million for the year ended 31 December 2022, representing a decrease of approximately HK\$102.6 million, or approximately 9.5%, as compared to 2021.

## Cost of sales

The Group's cost of sales mainly comprises costs of raw materials, manufacturing overheads, and direct labour costs.

### *Cost of sales – by nature of expense*

	For the year ended 31 December				Change	
	2022		2021		Change (HK\$'000)	%
	<i>Cost of sales (HK\$'000)</i>	<i>% of cost of sales</i>	<i>Cost of sales (HK\$'000)</i>	<i>% of cost of sales</i>		
Raw materials	<b>1,861,741</b>	<b>51.1</b>	1,841,445	50.0	20,296	1.1
Manufacturing overheads	<b>1,369,720</b>	<b>37.6</b>	1,403,762	38.1	(34,042)	(2.4)
Direct labour	<b>395,311</b>	<b>10.9</b>	414,603	11.3	(19,292)	(4.7)
Others	<b>16,105</b>	<b>0.4</b>	21,019	0.6	(4,914)	(23.4)
<b>Total</b>	<b><u>3,642,877</u></b>	<b><u>100.0</u></b>	<b><u>3,680,829</u></b>	<b><u>100.0</u></b>	<b><u>(37,952)</u></b>	<b><u>(1.0)</u></b>

The Group's cost of sales for the year ended 31 December 2022 amounted to approximately HK\$3,642.9 million, representing a decrease of approximately HK\$37.9 million or approximately 1.0%, as compared to the year ended 31 December 2021. The overall decrease in cost of sales in 2022 was primarily due to decrease in overall sales revenue. Despite the decrease in overall sales of the Group by approximately 6.3%, the cost of raw materials did not follow a similar trend. In fact, the cost of raw materials increased by 1.1% to HK\$1,861.7 million for the year ending 31 December 2022, with its contribution to the overall cost of sales rising to approximately 51.1%. Our raw materials were mainly synthetic materials or oil by-products and the relevant unit prices were by large correlated to the oil prices, which had generally been at a high level throughout most of 2022. This upward trend in raw material costs added pressure to the overall Group's profitability.

During the year, we continued to strive to streamline our production processes and enhance our efficiencies so as to curb the increasing labour and utility costs across all manufacturing locations.

## Gross profit, gross profit margin and net profit margin

	For the year ended 31 December			
	2022		2021	
	Gross profit (HK\$'000)	Gross profit margin (%)	Gross profit (HK\$'000)	Gross profit margin (%)
Elastic fabric	595,629	17.3	727,537	20.1
Elastic webbing	227,712	23.3	348,089	32.2
Lace	26,572	34.8	36,206	40.3
<b>Total</b>	<b>849,913</b>	<b>18.9</b>	<b>1,111,832</b>	<b>23.2</b>

The overall gross profit of the Group decreased from approximately HK\$1,111.8 million for the year ended 31 December 2021 to approximately HK\$849.9 million for the year ended 31 December 2022 and the overall gross profit margin of the Group dropped year-on-year by approximately 4.3 percentage points. Such decrease in gross profit and gross profit margin was mainly due to (i) decrease in sales revenue in the second half of 2022 and the associated diseconomies of scale; and (ii) the generally higher unit raw materials prices throughout most of the year.

Net profit of the Group decreased from approximately HK\$401.3 million for the year ended 31 December 2021 to approximately HK\$283.5 million for the year ended 31 December 2022. The Group recorded a net profit margin of approximately 6.3% for the year ended 31 December 2022, which represented a decrease of approximately 2.1 percentage points as compared to approximately 8.4% for the year ended 31 December 2021. The decrease in net profit margin was mainly due to the decrease in gross profit for the year ended 31 December 2022 and the sharp increase in finance costs as a result of the steep ascending interest rates in the second half of the year. Such impact was partly alleviated by (i) the increase in net foreign exchange gain in other gains and losses as a result of the currency depreciation of Renminbi (“RMB”), Vietnam Dong (“VND”) and Sri Lankan Rupee (“LKR”); (ii) better control in selling and distribution and administrative expenses; and (iii) the reversal of remeasurement of credit loss allowance for trade receivables.

## Other income

The Group's other income mainly consisted of bank interest income, government grants, net proceeds from sales of scrap materials and others. The following table sets forth the breakdown of the Group's other income for the years indicated:

	For the year ended	
	31 December	
	2022	2021
	(HK\$'000)	(HK\$'000)
Bank interest income	16,038	21,850
Government grants	15,308	12,250
Net proceeds from sales of scrap materials	8,540	4,404
Compensation income from customers	1,226	1,284
Gain from bargain purchase from acquisition of a business	–	3,900
Others	8,313	7,006
<b>Total</b>	<b>49,425</b>	<b>50,694</b>

The other income for the year ended 31 December 2022 of the Group amounted to approximately HK\$49.4 million, which was comparable to approximately HK\$50.7 million recorded for the year ended 31 December 2021. The decrease in bank interest income was mainly due to the generally lower RMB deposit rates during the year as compared to 2021 and such decrease was partially offset by the increase in government grants and net proceeds from sales of scrap materials.

## Other gains and losses

Other gains and losses in the year ended 31 December 2022 mainly consisted of a net foreign exchange gain of approximately HK\$57.9 million, as a result of the currency depreciation of RMB, VND and LKR during the year.

## Selling and distribution expenses

Selling and distribution expenses primarily consisted of employee benefit expenses, transportation, marketing and promotional expenses and other selling and distribution expenses. For the years ended 31 December 2021 and 2022, the Group's selling and distribution expenses represented approximately 4.2% and approximately 4.1% of its total revenue, respectively. With the decrease in the Group's overall revenue, we had made concerted efforts to control various costs in response to the prevailing market conditions. The decrease in the ratio of selling and distribution expenses against total revenue was mainly due to the better management of respective costs during the year.

## **Administrative expenses**

Administrative expenses primarily consist of employee benefit expenses, depreciation, motor vehicle expenses, bank charges and other administrative expenses. For the years ended 31 December 2021 and 2022, the Group's administrative expenses represented approximately 7.0% and approximately 6.4% of its total revenue, respectively. The decrease in the ratio of administrative expenses against total revenue was mainly due to the better management of the respective costs during the year.

## **Research and development costs**

The Group is dedicated to catering to the changing market preferences by introducing innovative lingerie, sportswear and apparel materials. For the years ended 31 December 2021 and 2022, our research and development costs represented approximately 2.1% and approximately 2.3% of our total revenue, respectively.

## **Finance costs**

The Group's finance costs mainly represent interest expenses for bank and other borrowings and lease liabilities. The finance costs increased by approximately 22.9% from approximately HK\$61.7 million for the year ended 31 December 2021 to approximately HK\$75.8 million for the year ended 31 December 2022. The increase in finance costs during the year ended 31 December 2022 was primarily due to increase in overall market lending interest rate during the year ended 31 December 2022.

## **Income tax expense**

Under the two-tiered profits tax rates regime in Hong Kong, the first HK\$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK\$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%. Accordingly, the Hong Kong Profits Tax for the qualifying group entity had been calculated at 8.25% on the first HK\$2 million of the estimated assessable profits and at 16.5% on the estimated assessable profits above HK\$2 million.

Under the EIT Law and Implementation Regulation of the EIT Law, the tax rate of the PRC companies is 25% for both years ended 31 December 2022 and 2021, unless there is any applicable preferential tax treatment.

The Company's subsidiaries, Dongguan BPT and Dongguan NHE, had obtained the qualification as high and new technology enterprises since 2010 and 2016, respectively, which had been renewed for an additional three years in the year ended 31 December 2022. Hence, Dongguan BPT and Dongguan NHE had been subject to the preferential tax treatment and the applicable tax rate for the years ended 31 December 2022 and 2021 was 15%.

Withholding tax on dividends was calculated at 5% of the dividends received and estimated dividends to be received from the subsidiaries in the PRC during the years ended 31 December 2022 and 2021.

Pursuant to the relevant Vietnam Enterprises Income Tax rules and regulations, the applicable tax rate for the subsidiary operating in Vietnam is 20%. The subsidiary of the Group in Vietnam is eligible for a tax holiday for two financial years since the first financial year of taxable profits and a tax concession at a tax rate of 10% for the following four financial years. With the new incentive in place during the year ended 31 December 2018 and by fulfilling certain stated requirements as set by the Ministry of Industry and Trade of Vietnam, the subsidiary of the Group in Vietnam has been eligible for a tax holiday for four financial years since 2018, a tax concession at a tax rate of 5% for the following nine financial years and a tax concession at a tax rate of 10% for the next following two financial years.

Withholding tax on shareholder's loans interest was calculated at 5% of the interest paid and estimated interest to be paid by the subsidiary in Vietnam during the years ended 31 December 2022 and 2021.

Pursuant to the Inland Revenue (Amendment) Act, No. 10 of 2021 in Sri Lanka, the applicable tax rate for the subsidiaries of the Group operating in Sri Lanka is 24% for both years ended 31 December 2022 and 2021. By fulfilling certain export requirements as set by the Board of Investment of Sri Lanka, the subsidiaries of the Group in Sri Lanka had enjoyed a preferential tax rate of 14% for the years ended 31 December 2022 and 2021. In terms of the changes to the Inland Revenue Act No. 24 of 2017, as passed in parliament on 9 December 2022, the subsidiaries of the Group in Sri Lanka are liable for income tax rate of 30% from 1 July 2022 onwards. In addition, one of these subsidiaries is currently eligible for a tax holiday till the year ending 31 December 2024.

Taxation arising in any other jurisdiction is calculated at the rate prevailing in the relevant jurisdiction.

The effective tax rate of the Group remained steady, which was approximately 10.5% for the year ended 31 December 2022 (for the year ended 31 December 2021: approximately 12.1%).

## **Liquidity, financial resources and bank borrowings**

As at 31 December 2022, net working capital (calculated as current assets less current liabilities) was approximately HK\$178.1 million, representing a decrease of approximately HK\$637.1 million as compared to approximately HK\$815.2 million as at 31 December 2021. The current ratio (calculated as current assets/current liabilities) is 1.1 times as at 31 December 2022, as compared to 1.3 times as at 31 December 2021.

For the year ended 31 December 2022, net cash generated from operating activities was approximately HK\$773.6 million, as compared to approximately HK\$522.7 million for the year ended 31 December 2021. The increase was mainly due to better control in collection of trade receivables from customers and inventory levels at year ended 31 December 2022.

Net cash used in investing activities amounted to approximately HK\$174.2 million for the year ended 31 December 2022, as compared to approximately HK\$414.3 million for the year ended 31 December 2021. To achieve our long term development goal and to cater for potential business growth upon market recoveries, we continued to invest approximately HK\$387.2 million to purchase property, plant and equipment during the year.

For the year ended 31 December 2022, net cash used in financing activities amounted to approximately HK\$377.5 million, as compared to approximately HK\$363.9 million for the year ended 31 December 2021. The cash used in financing activities for the year ended 31 December 2022 was mainly used for repayment of borrowings, payment of interests and dividends during the year.

As at 31 December 2022, the Group's net gearing ratio was approximately 30.0% (as at 31 December 2021: approximately 28.9%), which was calculated on the basis of the amount of net debt position (sum of total bank and other borrowings and bank overdrafts, less bank deposits and bank balances and cash) as a percentage of total equity. The Group was in a net debt position of approximately HK\$941.7 million as at 31 December 2022, as compared to approximately HK\$976.1 million as at 31 December 2021.

## Working capital management

	For the year ended 31 December			
	2022	2021	Change (days)	(%)
Trade and bills receivables turnover days	<b>61.1</b>	63.1	(2.0)	(3.2)
Trade and bills payables turnover days	<b>67.3</b>	68.4	(1.1)	(1.6)
Inventory turnover days	<b>129.9</b>	118.0	11.9	10.1

We have maintained stable trade and bills receivables as well as trade and bills payables turnover days for both years ended 31 December 2022 and 2021.

The increase in inventory turnover days was primarily due to an increase in overall inventory balances as a result of the elevated unit raw materials prices throughout most time of 2022.

## Capital expenditures

For the year ended 31 December 2022, the Group's total additions to property, plant and equipment amounted to approximately HK\$387.2 million (for the year ended 31 December 2021: approximately HK\$230.6 million), in order to achieve our long term development goal.

## Pledge of assets

As at 31 December 2022, the Group pledged bank deposits of approximately HK\$68.4 million (as at 31 December 2021: approximately HK\$121.6 million) to secure the bills payables issued by the Group in connection with its trade transactions.

## Contingent liabilities

As at 31 December 2022, the Group did not have any significant contingent liabilities.

## **Events after the reporting period**

Save as disclosed in this announcement, the Group has no other significant events after the reporting period and up to the date of this announcement.

## **Foreign exchange risk**

A substantial portion of the Group's revenue is denominated in US\$ and HK\$ and a portion of its purchases and expenses are denominated in RMB, VND and LKR. The Group manages its foreign exchange risk by performing regular reviews and monitoring its foreign exchange exposure. Our finance department monitors our foreign exchange risk on a continuous basis by analysing our domestic and overseas sales orders on hand, expected domestic and overseas orders from customers and estimated foreign currency payments for our purchases and expenses. We intend to manage our foreign exchange risks by (i) managing our sales, purchases and expenses denominated in HK\$ and RMB through our subsidiaries in Hong Kong and Mainland China, respectively, managing our sales, purchases and expenses denominated in US\$ through our subsidiaries in Hong Kong, Vietnam and Sri Lanka, and managing our purchases and expenses denominated in VND and LKR through our subsidiaries in Vietnam and Sri Lanka, respectively; and (ii) holding cash and bank deposits denominated in HK\$ primarily by the Company and its subsidiaries in Hong Kong, holding cash and bank deposits denominated in US\$ primarily by the Company and its subsidiaries in Hong Kong, Vietnam and Sri Lanka, and holding cash and bank deposits denominated in RMB, VND and LKR primarily by our subsidiaries in Mainland China, Vietnam and Sri Lanka, respectively.

## **Employees and remuneration policies**

As at 31 December 2022, the Group employed a total of 9,050 full-time employees (as at 31 December 2021: 8,957). The Group remunerates its staff according to their performance, qualification, experience and industry practices, and conducts regular reviews of its remuneration policy.

The remuneration committee of the Company was set up primarily for reviewing the Group's remuneration policy and structure for all remuneration of the Directors and senior management of the Group, having regard to factors including but not limited to salaries paid by comparable companies, time commitment and responsibilities of the Directors and employees, employment conditions elsewhere in the Group, and whether the remuneration is commensurate with the performance.

There has been no significant change in the Group's remuneration policy, and the Group will continue to provide regular training and competitive remuneration packages to its staff. The Group's remuneration packages include salary, bonuses, allowances and retirement benefits based on employee's performance, skills and knowledge. The Group also provides additional benefits to its employees that include subsidised accommodation, meals, accident and medical insurance and share-based remuneration granted to eligible employees under the share-based incentive plans of the Company from time to time.

## **FUTURE STRATEGIES AND PROSPECTS**

Global GDP is projected to fall to 2.9 percent in 2023 by the IMF before rising to 3.1 percent in 2024, such projected global GDP for 2023 and 2024 is below the historical annual average of 3.8 percent in the period between 2000 and 2019. Despite the Group's major brand customers' continuing efforts to work closely with their core supply chain partners, we anticipate their inventory optimization exercises will continue throughout the first half of 2023, which in turn may negatively impact our order book during the respective period. Nevertheless, we have noted signs of improvements in inventory level of our core U.S. apparel brand customers recently and we hope to see more proactive replenishment of their inventories in the latter half of 2023, alongside a more stable economic situation.

### **International footprint**

Despite the mentioned challenges facing by the market, the Group remains dedicated to adapting to the changing market conditions and finding innovative solutions to meet the needs of its customers and partners. Over the past few years, supply chain disruption has been a key issue, driven by a combination of factors such as the Sino-US trade war, the pandemic and the Russia-Ukraine conflict. As a result, customers are seeking to build greater resilience into their supply chains, and to reduce their dependence on any sole supplier or region. Although we are taking a more prudent approach in evaluating our capital investments in the short term, Best Pacific is committed to our multi-location manufacturing strategy and we plan to further enhance the operational efficiencies of our overseas manufacturing sites in Vietnam and Sri Lanka, so as to cater for the best interests of our customers.

### **Domestic markets**

On the other hand, the Group had achieved double-digit growth in its domestic fabric business in 2022, thanks to the tighter partnerships with both domestic garment customers and sportswear and apparel brands. Albeit the impact of COVID, most of the leading sportswear brand owners have recently announced an encouraging set of results in 2022 and growth is expected by the industry leaders to pick up in China subsequent to its full reopening since the beginning of 2023. Looking ahead, there are promising signs in China that retail sentiment will strengthen as the pandemic remains under control and the relevant COVID related restrictions are relaxed. With the growing concern for health consciousness among people, the sportswear and apparel market is expected to pick up notably. As a leading textile player in the field, we will keep abreast of the development trend of the industry and capitalise on the emerging opportunities.

## **Raw material**

Raw materials prices have been on a downward trend since the third quarter of 2022 and we expect the relevant prices will remain stabilised given the current weak market demands. This will certainly help alleviate some of the cost pressures faced by the Group in 2023. The Group is committed to maintaining strong relationships with its supply-chain partners and it will continue to focus on delivering high-quality products and services to its customers in this challenging economic environment.

## **Capital expenditure and cashflows**

As at 31 December 2022, the overall annual designed production capacities of elastic fabric, elastic webbing and lace of the Group were approximately 242.4 million meters, 1,923.3 million meters and 45.0 million meters, respectively. Since the start of 2023, our core manufacturing sites have been experiencing a decrease in capacity utilisation of approximately 20% below the normal levels. As a result, the Group will exercise more caution in any new capital investment plans. We will further optimize production efficiencies at the existing production sites while emphasizing risk management and will remain agile and vigilant and to respond swiftly to the ever-changing market conditions. In addition, the Group has implemented various costs control measures and we also put our emphasis on maintaining healthy operating cash flows, aiming to gradually lowering our debt level so as to counter some of the increasing finance costs. Nevertheless, subsequent to the continuous hikes in interest rates, the Group's finance costs may inevitably increase considerably.

## **Sportswear and apparel markets**

Sportswear and apparel business has been the Group's growth drivers for years. Despite a contraction in sales revenue from sales of elastic fabric to our sportswear and apparel customers in 2022, we are confident that the segment has only been affected by the short-term economic headwinds and the fundamentals of the sportswear and apparel industry remain strong. With vast market potentials, we anticipate a positive long-term growth momentum in the industry. Best Pacific believes that innovations and technological advancement are the keys to sustainable future growth, we will continue to deploy resources to strengthen our innovation and research and development capabilities and to satisfy our customers' rising demand for innovative sportswear and apparel products. We are prepared to proactively seize growth opportunities as the market recovers.

The challenges posed by COVID have allowed us to cultivate stronger relationships with our customers, supply-chain partners and staff. We believe that our world-class innovation capabilities, international footprint, strong partnership with customers and our talented people have laid a solid foundation for Best Pacific's sustainable growth and future success.

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

Neither the Company, nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities for the year ended 31 December 2022.

## **AUDIT COMMITTEE**

The Audit Committee of the Company, comprising the three independent non-executive Directors (being Mr. Cheung Yat Ming, Mr. Ding Baoshan and Mr. Kuo Dah Chih, Stanford), has reviewed with management the consolidated financial statements of the Group for the year ended 31 December 2022, including accounting principles and practices adopted by the Group, and discussed the relevant financial reporting matters.

## **SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU**

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2022 as set out in this preliminary announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the audited consolidated financial statements of the Group for the year as approved by the Board of Directors on 27 March 2023. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement and consequently no opinion or assurance conclusion has been expressed by Messrs. Deloitte Touche Tohmatsu on the preliminary announcement.

## **DIVIDEND POLICY AND FINAL DIVIDEND**

The Board intends to maintain a long term, stable dividend payout ratio of not less than 20% of the Group's distributable profit for the year, providing shareholders with an equitable return.

The Board has resolved to declare a final dividend of HK4.22 cents per ordinary share in respect of the year ended 31 December 2022 (the "**Final Dividend**") (for the year ended 31 December 2021: HK11.8 cents). The Final Dividend is expected to be paid on 14 August 2023 to shareholders whose names appear on the register of members of the Company on 10 July 2023, subject to the approval by the shareholders at the forthcoming annual general meeting of the Company on 27 June 2023 (the "**AGM**").

An interim dividend of HK7.28 cents per share was paid to shareholders on 30 November 2022 (2021: HK7.5 cents).

## **CLOSURE OF REGISTER OF MEMBERS**

The register of members of the Company will be closed from 21 June 2023 to 27 June 2023, both days inclusive, during which period no transfer of shares of the Company will be effected. In order to determine the identity of shareholders who are entitled to attend and vote at the AGM, all share transfer documents accompanied by the relevant share certificates must be lodged not later than 4:30 p.m. on 20 June 2023 with the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

Subject to the approval of shareholders at the forthcoming AGM, the proposed Final Dividend will be payable to shareholders whose names appear on the register of members of the Company on 10 July 2023 and the register of members of the Company will be closed from 5 July 2023 to 10 July 2023, both days inclusive, during which no transfer of shares of the Company will be registered. In order to qualify for the proposed Final Dividend, all share transfer documents accompanied by the relevant share certificates shall be lodged not later than 4:30 p.m. on 4 July 2023 with the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

## **COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE**

The Company is committed to maintaining high standard of corporate governance which is essential to the sustainable development and growth of the Company. The Board is of the view that the Company has met all the applicable code provisions in force set out in the Corporate Governance Code contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange throughout the year ended 31 December 2022.

## **PROPOSED AMENDMENTS TO THE MEMORANDUM AND ARTICLES OF ASSOCIATION**

The Board proposes to amend the amended and restated memorandum of association and the articles of association of the Company ("**Existing Memorandum and Articles**") for the purposes of (i) bringing the Existing Memorandum and Articles in alignment with the Core Shareholder Protection Standards set out in Appendix 3 of the Listing Rules which took effect from 1 January 2022 and (ii) reflecting certain updates in relation to the applicable laws of the Cayman Islands and the Listing Rules and make other housekeeping amendments ("**Proposed Amendments**").

The Proposed Amendments and the proposed adoption of the second amended and restated memorandum of association and the amended and restated articles of association of the Company ("**Amended Memorandum and Articles**") are subject to approval of the shareholders by way of a special resolution at the forthcoming AGM. A circular reflecting, among other matters to be tabled at the AGM, further details of the Proposed Amendments and the adoption of the Amended Memorandum and Articles will be despatched to the Shareholders in due course in accordance with the Listing Rules.

## **APPRECIATION**

On behalf of the Board, I would like to thank all our colleagues for their diligence, dedication, loyalty and integrity. I would also like to thank all our shareholders, customers, bankers and other business associates for their trust and support.

By Order of the Board  
**Best Pacific International Holdings Limited**  
**Lu Yuguang**  
*Chairman and executive Director*

Hong Kong, 27 March 2023

*As at the date of this announcement, the Board comprises Mr. Lu Yuguang, Mr. Zhang Haitao, Mr. Wu Shaolun, Ms. Zheng Tingting, Mr. Chan Yiu Sing, Mr. Lu Libin, Mr. Cheung Yat Ming\*, Mr. Ding Baoshan\* and Mr. Kuo Dah Chih, Stanford\*.*

\* *Independent non-executive Director*