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Win Hanverky Holdings Limited
永嘉集團控股有限公司
(incorporated in the Cayman Islands with limited liability)
(Stock code: 3322)

ANNUAL RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31 DECEMBER 2023

FINANCIAL HIGHLIGHTS	2023	2022	Change
	HK\$'000	HK\$'000	%
		(Restated)	
Continuing operations			
Revenue	3,073,686	4,084,162	-24.7%
Gross profit	504,136	822,451	-38.7%
Gross profit margin	16.4%	20.1%	-3.7% pt
Operating (loss)/profit	(231,371)	107,964	N/A
(Loss)/profit for the year			
— Continuing operations	(262,498)	81,242	
— Discontinued operations	(120,110)	(57,611)	
	(382,608)	23,631	N/A
Basic (loss)/earnings per share (<i>HK cents</i>)	(29.2)	0.8	N/A
OPERATIONAL HIGHLIGHTS			
<ul style="list-style-type: none"> • Revenue from continuing operations decreased by 24.7% mainly attributable to the decreased orders received from customers of Manufacturing Business since the last quarter of 2022, amid inventory pileup particularly in the sportswear market as a result of lower consumer demand in all the markets. • Gross profit from continuing operations decreased by 38.7%; while gross profit margin decreased by 3.7 percentage points to 16.4% due to (i) the decline in production capacity utilisation rate and operating efficiency of Manufacturing Business as a consequence of significant decrease in orders received from customers; and (ii) the deep discounts offered to stimulate customer spending under High-end Fashion Retailing Business as the recovery of customer demand was not as strong as expected despite the cessation of all COVID-19 related control measures in the Mainland China market. 			

- The Group disposed of the operations of “*Champion*” (the “**Disposal**”) to cut losses and the Disposal has been completed in December 2023. Together with the loss arising from the Disposal, loss after taxation of HK\$120.1 million was recorded for discontinued operations (2022: HK\$57.6 million).
- Overall, loss for the year was HK\$382.6 million (2022: profit of HK\$23.6 million). Excluding discontinued operations, loss for the year from continuing operations would be HK\$262.5 million (2022: profit of HK\$81.2 million).
- The financial and liquidity position remains healthy. As at 31 December 2023, cash and bank balances amounted to HK\$209.5 million (2022: HK\$370.5 million) and net gearing ratio was 18.4% (2022: 22.8%).
- The Board considers to conserve financial resources and does not recommend the payment of dividend in view of the challenges ahead. The Group will continue to closely monitor the market situation and review dividend payout from time to time.

The board of directors (the “**Board**” or “**Directors**”) of Win Hanverky Holdings Limited (the “**Company**”) presents the audited consolidated results of the Company and its subsidiaries (together the “**Group**”) for the year ended 31 December 2023, together with the comparative amounts for 2022 and the relevant explanatory notes.

CHAIRMAN’S STATEMENT

Business and Financial Highlights

In 2023, the operating environment extended the difficult time of prior years especially the unforeseen significant overstocking of sportswear industry. The global economy was clouded by continued geopolitical tensions, elevated interest rate and inflation rate as well as currency instability.

Revenue from continuing operations amounted to HK\$3,073.7 million (2022: HK\$4,084.2 million), representing a decrease of 24.7%.

Manufacturing Business was adversely affected by the significant overstocking of sportswear industry. Sportswear Manufacturing Business faced an atypical situation characterised by destocking due to overbuilt inventory and weaker-than-expected demand. High-end Functional Outerwear Manufacturing Business was affected by the decreased demand from the European market. As a result, revenue from Manufacturing Business amounted to HK\$2,466.0 million (2022: HK\$3,558.0 million), representing a decrease of 30.7%.

High-end Fashion Retailing Business experienced another tough year and faced mounting pressures in 2023 while the shop footfall snapped back temporarily in the early of 2023 but the customer demand was erratic after the pent-up demand faded. Revenue from continuing operations of High-end Fashion Retailing Business amounted to HK\$607.7 million (2022: HK\$526.2 million), representing an increase of 15.5%.

Gross profit margin from continuing operations decreased to 16.4% (2022: 20.1%). Both gross profit margin of Manufacturing Business and High-end Fashion Retailing Business declined. We saw the decline in production capacity utilisation rate and operating efficiency of Manufacturing Business as a consequence of substantial decrease in orders received from customers. In addition, deep discounts were offered in order to stimulate customer spending under High-end Fashion Retailing Business as the recovery of customer demand was not as strong as expected despite the cessation of all COVID-19 related control measures in the Mainland China market.

The Group was an authorised distributor of the fashion brand “*Champion*” in Mainland China but the Group suffered losses from the operations of “*Champion*” in recent years due to unfavourable market and competition conditions. As such, the Group disposed of the operations of “*Champion*” (the “**Disposal**”) to cut losses and the Disposal has been completed in December 2023. Together with the loss arising from the Disposal, loss after taxation of HK\$120.1 million was recorded for discontinued operations for the year ended 31 December 2023 (2022: HK\$57.6 million).

Overall, the Group recorded loss after taxation of HK\$382.6 million for the year ended 31 December 2023 (2022: profit of HK\$23.6 million). Excluding discontinued operations, loss after taxation from continuing operations would be HK\$262.5 million for the year ended 31 December 2023 (2022: profit of HK\$81.2 million).

Against the backdrop of the challenging environment, the financial and liquidity position remains healthy. As at 31 December 2023, cash and bank balances amounted to HK\$209.5 million (2022: HK\$370.5 million) and net gearing ratio was 18.4% (2022: 22.8%).

Outlook

Looking ahead, the global economy will remain challenging as economic headwinds, regional conflicts and persistent inflation will undermine consumer confidence though there is a consensus that interest rate will likely be reduced in 2024. These remind us to stay cautious of the volatile external environment.

Manufacturing Business experienced a year of turbulence in 2023 but it is expected that the business will have a meaningful and solid recovery in 2024. The momentum of customer orders has been re-gained as our customers’ overstocking have been significantly improved. It is expected that revenue for the first half of 2024 will increase notably as compared to the same period in 2023.

High-end Fashion Retailing Business will continue to focus on the Mainland China market. It is anticipated that the resurgence path will continue to be bumpy as the customer demand is still frail and uncertainties surrounding China’s economy remain high in 2024.

Having said that, the Group is confident that we can continue to adapt, optimise and manage our resources prudently to mitigate risks, drive sustainable development and navigate in complex landscape, despite under the backdrop of the global economic uncertainties. We will remain resilient and agile to cope with the dynamic and complex situations.

Dividends

The Board considers to conserve our financial resources and does not recommend the payment of dividend in order to prepare for the evolving market and business landscape. We will continue to closely monitor the market situation and assess our dividend payout from time to time.

Acknowledgement

Finally, I would like to offer my sincere thanks to our Directors and the whole team for their dedication and tireless efforts to overcome various difficulties and challenges. My gratitude also goes to our clients, shareholders and business partners for their long-term trust and support.

LI Kwok Tung Roy
Chairman

Hong Kong, 21 March 2024

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2023

	<i>Note</i>	2023 HK\$'000	2022 <i>HK\$'000</i> (Restated)
<u>Continuing operations</u>			
Revenue	3	3,073,686	4,084,162
Cost of sales		<u>(2,569,550)</u>	<u>(3,261,711)</u>
Gross profit		504,136	822,451
Selling and distribution costs		(343,552)	(355,862)
General and administrative expenses		(440,850)	(442,539)
Other income — net	4	<u>48,895</u>	<u>83,914</u>
Operating (loss)/profit		(231,371)	107,964
Finance costs — net	5	(44,948)	(37,987)
Share of profits of associates		<u>1,319</u>	<u>1,255</u>
(Loss)/profit before income tax		(275,000)	71,232
Income tax credit	6	<u>12,502</u>	<u>10,010</u>
(Loss)/profit from continuing operations		(262,498)	81,242
<u>Discontinued operations</u>			
Loss from discontinued operations	11	<u>(120,110)</u>	<u>(57,611)</u>
(Loss)/profit for the year		<u>(382,608)</u>	<u>23,631</u>
(Loss)/profit for the year attributable to:			
Equity holders of the Company			
— Continuing operations		(255,181)	67,681
— Discontinued operations		<u>(120,110)</u>	<u>(57,611)</u>
		(375,291)	10,070
Non-controlling interests		<u>(7,317)</u>	<u>13,561</u>
		<u>(382,608)</u>	<u>23,631</u>
(Loss)/earnings per share attributable to:			
(basic and diluted, expressed in HK cents)	7		
Equity holders of the Company from continuing operations		(19.9)	5.3
Equity holders of the Company		<u>(29.2)</u>	<u>0.8</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2023

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i> (Restated)
(Loss)/profit for the year	(382,608)	23,631
Other comprehensive income		
<i>Items that may be reclassified to profit or loss</i>		
Currency translation differences	(27,722)	(106,770)
Share of other comprehensive income of associates	(2,254)	(501)
Total comprehensive income for the year	<u>(412,584)</u>	<u>(83,640)</u>
Total comprehensive income for the year attributable to:		
Equity holders of the Company		
— Continuing operations	(278,035)	(2,499)
— Discontinued operations	(126,416)	(90,459)
	(404,451)	(92,958)
Non-controlling interests	(8,133)	9,318
	<u>(412,584)</u>	<u>(83,640)</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2023

	<i>Note</i>	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Non-current assets			
Property, plant and equipment		755,316	862,886
Intangible assets		201,156	218,486
Investments in associates		15,093	16,028
Other receivables and financial assets		46,445	38,038
Deferred tax assets		135,657	136,187
Pledged bank deposit		1,190	1,211
		1,154,857	1,272,836
Current assets			
Inventories		752,240	1,137,376
Trade and bills receivable	8	444,836	449,481
Other receivables and financial assets		266,167	233,803
Current tax recoverables		2,487	1,199
Cash and bank balances		209,456	370,489
		1,675,186	2,192,348
Current liabilities			
Trade and bills payable	9	306,881	158,397
Accruals and other payables		275,734	304,673
Borrowings	10	472,760	789,236
Lease liabilities		94,610	116,892
Current tax liabilities		48,035	69,676
		1,198,020	1,438,874
Non-current liabilities			
Other payables		6,882	8,704
Lease liabilities		177,580	150,287
Deferred tax liabilities		6,780	7,554
		191,242	166,545
Net assets		1,440,781	1,859,765

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)
AS AT 31 DECEMBER 2023

	2023	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>
Equity attributable to equity holders of the Company		
Share capital	128,440	128,440
Reserves	1,333,246	1,737,697
	<u>1,461,686</u>	<u>1,866,137</u>
Non-controlling interests	(20,905)	(6,372)
	<u>1,440,781</u>	<u>1,859,765</u>
Total equity	<u>1,440,781</u>	<u>1,859,765</u>

NOTES:

1. BASIS OF PREPARATION

The financial information relating to the years ended 31 December 2023 and 2022 included in this preliminary announcement of annual results 2023 does not constitute the Group's statutory annual consolidated financial statements for those years but is derived from those financial statements.

The consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“**HKFRSs**”) issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”) and the disclosure requirements of the Hong Kong Companies Ordinance. The consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The HKICPA has issued a number of new and amended HKFRSs that became applicable for the current reporting period. None of these have had a material effect on the Group's results and financial position for the current and prior periods. The Group has not applied any new standard or interpretation that is not yet effective for the current reporting period. The Group is in the process of making an assessment of what the impact of those developments is expected to be in the period of initial adoption. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's consolidated financial statements.

2. CHANGES IN ACCOUNTING POLICIES

In June 2022, the Hong Kong Government enacted the Employment and Retirement Scheme Legislation (Offsetting Arrangement) (Amendment) Ordinance 2022 (the “**Amendment Ordinance**”) which will be effective from 1 May 2025 (the “**Transition Date**”). Under the Amendment Ordinance, any accrued benefits attributable to the employer's mandatory contributions under mandatory provident fund scheme (“**MPF Benefits**”) of an entity would no longer be eligible to offset against its obligations on long service payment (“**LSP**”) for the portion of the LSP accrued on or after the Transition Date. There is also a change in the calculation basis of last monthly wages for the portion of the LSP accrued before the Transition Date.

Prior to 1 January 2023, the Group applied practical expedient in HKAS 19 paragraph 93(b) (the “**Practical Expedient**”) to account for the offsetable MPF Benefits as deemed employee contributions to reduce the current service costs in the period in which the related services were rendered.

In July 2023, the HKICPA published “Accounting implications of the abolition of the MPF-LSP offsetting mechanism in Hong Kong” (the “**Guidance**”) which provides clarified and detailed guidance on the accounting considerations relating to the abolition of the offsetting mechanism. The Guidance clarified that following the enactment of the Amendment Ordinance, LSP is no longer a ‘simple type of contributory plans’ to which the Practical Expedient had been intended to apply.

By following the Guidance, the Group has therefore changed its accounting policy and ceased to apply the Practical Expedient and reattribute the deemed employee contributions on a straight-line basis from the date when services by employees first lead to their benefits in terms of the LSP legislation in accordance with HKAS 19 paragraph 93(a). This change in accounting policy upon the cessation in applying the Practical Expedient has resulted in a catch-up adjustment for past service costs and a corresponding increase in the Group's LSP obligations in the year of enactment of the Amendment Ordinance (i.e. year ended 31 December 2022). However, since the amount of the catch-up profit or loss adjustment was immaterial with reference to the assessment by external specialist engaged by the Group, the Group did not restate the comparative figure for the consolidated financial statements.

3. SEGMENT INFORMATION

The chief operating decision-maker has been identified collectively as the executive directors. The executive directors review the Group's internal reporting in order to assess performance and allocate resources and report segment performance based on internal reporting.

The executive directors review the performance of the Group mainly from a business operation perspective. The major business segments of the Group for the year ended 31 December 2023 are Manufacturing and High-end Fashion Retailing.

- The Manufacturing segment represents manufacturing and sales of (i) sportswear and (ii) high-end functional outerwear primarily under original equipment manufacturing (“OEM”) arrangements to customers mainly in Europe, the United States, Mainland China and other countries.
- The High-end Fashion Retailing segment represents retailing of high-end fashion products in Mainland China, Hong Kong, Macau, Taiwan and other Asia-Pacific regions.
- During the year ended 31 December 2023, the Group entered into a disposal agreement with a third party to sell, assign and novate the inventories and the licensed stores assets for the fashion brand “Champion” to the third party (the “Disposal”). The Group ceased to operate licensed stores of “Champion” after the completion of the Disposal in December 2023, related operations are reclassified from the High-end Fashion Retailing segment and regarded as discontinued operations (Note 11). The comparative segment information for the year ended 31 December 2022 has been represented to align with the current year's disclosure.

The executive directors assess the performance of the business segments based on a measure of operating results of each segment, which excludes net finance costs in the result for each operating segment. Other information provided to the executive directors is measured in a manner consistent with that in the consolidated financial statements.

Disaggregation of revenue from contracts with customer by products or service lines is as follows:

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i> (Restated)
Continuing operations		
Sales of goods	3,046,124	4,073,972
Provision of services	<u>27,562</u>	<u>10,190</u>
	<u>3,073,686</u>	<u>4,084,162</u>

For the year ended 31 December 2023, revenue of approximately HK\$1,670,127,000 (2022: HK\$2,473,096,000), representing 54.3% (2022: 60.6% (restated)) of the Group's total revenue, was derived from a single group of external customers and was attributable to the Manufacturing segment.

3. SEGMENT INFORMATION (CONTINUED)

The segment results for the year ended 31 December 2023 are as follows:

	Manufacturing			Total continuing operations <i>HK\$'000</i>	Discontinued operations <i>(Note 11)</i> <i>HK\$'000</i>	Total <i>HK\$'000</i>
	Sportswear Manufacturing <i>HK\$'000</i>	High-end Functional Outerwear Manufacturing <i>HK\$'000</i>	High-end Fashion Retailing <i>HK\$'000</i>			
Total segment revenue	1,889,495	585,744	607,726	3,082,965	261,572	3,344,537
Inter-segment revenue	(9,279)	—	—	(9,279)	—	(9,279)
Revenue	1,880,216	585,744	607,726	3,073,686	261,572	3,335,258
Operating (loss)/profit and segment results	(187,726)	3,460	(47,105)	(231,371)	(97,010)	(328,381)
Finance costs — net				(44,948)	(2,102)	(47,050)
Share of profits of associates	1,319	—	—	1,319	—	1,319
Loss before income tax				(275,000)	(99,112)	(374,112)
Income tax credit				12,502	—	12,502
Loss on disposal of discontinued operations				—	(20,998)	(20,998)
Loss for the year				(262,498)	(120,110)	(382,608)

Other segment items included in the consolidated income statement for the year ended 31 December 2023 are as follows:

Depreciation and amortisation of property, plant and equipment, and leased assets	87,222	18,032	81,125	186,379	26,169	212,548
Amortisation of intangible assets	—	2,130	698	2,828	—	2,828
Gain on disposal of a subsidiary, net	(21,388)	—	—	(21,388)	—	(21,388)
Impairment of property, plant and equipment, and leased assets, net	23,446	—	17,577	41,023	12,747	53,770
Loss allowance of trade receivables, net	2,778	—	7,534	10,312	1,567	11,879
Loss on disposal of property, plant and equipment, and lease modifications, net	434	117	891	1,442	—	1,442
Provision/(write-back of provision) for inventories, net	39,078	12,767	(11,463)	40,382	9,872	50,254

Inter-segment transactions are conducted at terms mutually agreed among group companies.

3. SEGMENT INFORMATION (CONTINUED)

The segment results for the year ended 31 December 2022 are as follows:

	Manufacturing		High-end Fashion Retailing <i>HK\$'000</i>	Total continuing operations <i>HK\$'000</i>	Discontinued operations <i>(Note 11)</i> <i>HK\$'000</i>	Total <i>HK\$'000</i>
	Sportswear Manufacturing <i>HK\$'000</i>	High-end Functional Outerwear Manufacturing <i>HK\$'000</i>				
Total segment revenue	2,898,759	661,322	526,214	4,086,295	365,628	4,451,923
Inter-segment revenue	(2,076)	(57)	—	(2,133)	—	(2,133)
Revenue	<u>2,896,683</u>	<u>661,265</u>	<u>526,214</u>	<u>4,084,162</u>	<u>365,628</u>	<u>4,449,790</u>
Operating profit/(loss) and segment results	123,674	40,838	(56,548)	107,964	(53,246)	54,718
Finance costs — net				(37,987)	(4,365)	(42,352)
Share of profits of associates	1,255	—	—	1,255	—	1,255
Profit/(loss) before income tax				71,232	(57,611)	13,621
Income tax credit				10,010	—	10,010
Profit/(loss) for the year				<u>81,242</u>	<u>(57,611)</u>	<u>23,631</u>

Other segment items included in the consolidated income statement for the year ended 31 December 2022 are as follows:

Depreciation and amortisation of property, plant and equipment, and leased assets	104,884	12,147	76,738	193,769	71,946	265,715
Amortisation of intangible assets	—	2,130	698	2,828	—	2,828
Gain on disposal of a subsidiary, net	(14,560)	—	—	(14,560)	—	(14,560)
(Gain)/loss on disposal of property, plant and equipment, and lease modifications, net						
— a land lease right	(54,763)	—	—	(54,763)	—	(54,763)
— other property, plant and equipment, and lease modifications	153	187	3,810	4,150	—	4,150
Provision/(write-back of provision) for inventories, net	<u>32,014</u>	<u>5,393</u>	<u>(26,188)</u>	<u>11,219</u>	<u>16,339</u>	<u>27,558</u>

Inter-segment transactions are conducted at terms mutually agreed among group companies.

3. SEGMENT INFORMATION (CONTINUED)

The segment assets and liabilities are as follows:

	Manufacturing			Total continuing operations <i>HK\$'000</i>	Discontinued operations (Note 11) <i>HK\$'000</i>	Unallocated <i>HK\$'000</i>	Total <i>HK\$'000</i>
	Sportswear Manufacturing <i>HK\$'000</i>	High-end Functional Outerwear Manufacturing <i>HK\$'000</i>	High-end Fashion Retailing <i>HK\$'000</i>				
Total assets							
31 December 2023	<u>1,500,079</u>	<u>463,545</u>	<u>728,275</u>	<u>2,691,899</u>	<u>—</u>	<u>138,144</u>	<u>2,830,043</u>
31 December 2022	<u>1,825,756</u>	<u>472,540</u>	<u>638,233</u>	<u>2,936,529</u>	<u>391,269</u>	<u>137,386</u>	<u>3,465,184</u>
Total liabilities							
31 December 2023	<u>805,658</u>	<u>228,204</u>	<u>300,585</u>	<u>1,334,447</u>	<u>—</u>	<u>54,815</u>	<u>1,389,262</u>
31 December 2022	<u>841,672</u>	<u>204,894</u>	<u>336,638</u>	<u>1,383,204</u>	<u>144,985</u>	<u>77,230</u>	<u>1,605,419</u>

Segment assets/liabilities exclude current tax recoverables/liabilities and deferred tax assets/liabilities which are managed on a group basis.

The Group's revenue by geographical location is determined by the final destination of delivery of the products. The Group's revenue from external customers by geographical location is as follows:

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i> (Restated)
Continuing operations		
Mainland China	980,475	1,008,220
Europe	911,552	1,343,460
Other Asian countries	533,736	708,349
United States	425,725	628,318
Hong Kong	58,463	123,291
Canada	38,390	81,376
Others	<u>125,345</u>	<u>191,148</u>
	<u>3,073,686</u>	<u>4,084,162</u>

3. SEGMENT INFORMATION (CONTINUED)

The total of non-current assets other than deferred tax assets by geographical location is as follows:

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Hong Kong	358,549	366,038
Mainland China	273,781	372,135
Vietnam	218,426	226,920
Cambodia	135,948	154,574
Others	32,496	16,982
	<u>1,019,200</u>	<u>1,136,649</u>

4. OTHER INCOME — NET

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i> (Restated)
Continuing operations		
Gain on disposal of subsidiaries, net (<i>Note (a)</i>)	21,388	14,560
Government subsidies	17,283	9,206
Gain on disposal of ancillary materials, net	3,225	2,764
Rental income	1,431	1,706
Net exchange gain	1,400	3,644
(Loss)/gain on disposal of property, plant and equipment, and lease modifications, net		
— a land lease right (<i>Note (b)</i>)	—	54,763
— other property, plant and equipment, and lease modifications	(1,442)	(4,150)
Others	5,610	1,421
	<u>48,895</u>	<u>83,914</u>

Notes:

- (a) In December 2023, the Group completed a disposal of a subsidiary, resulting in a gain on disposal (before taxation) amounting to HK\$21,388,000. The subsidiary was principally engaged in the manufacturing of fabrics in Mainland China.

In March 2022, the Group completed a disposal of a subsidiary, resulting in a gain on disposal (before taxation) amounting to HK\$14,560,000. The subsidiary was principally engaged in property holding in Hong Kong and its principal asset was a property which was under-utilised as the Group's warehouse.

- (b) In December 2022, the Group completed a disposal of a land lease right, resulting in a gain on disposal (before taxation) amounting to HK\$54,763,000. The land lease right, together with another smaller parcel of land, was acquired in November 2018 for the Group's expansion plan in Vietnam. However, due to the ongoing uncertain operating environment since acquisition, the Group decided to put on hold the expansion plan of the production facilities in Vietnam.

5. FINANCE COSTS — NET

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i> (Restated)
Continuing operations		
Finance income		
— Interest income from bank deposits	2,317	1,341
— Interest income from non-controlling interest of a subsidiary	<u>619</u>	<u>368</u>
	----- 2,936	----- 1,709
Finance cost		
— Interest on bank borrowings	(34,373)	(25,576)
— Interest on lease liabilities	<u>(13,511)</u>	<u>(14,120)</u>
	----- (47,884)	----- (39,696)
	<u><u>(44,948)</u></u>	<u><u>(37,987)</u></u>

6. INCOME TAX CREDIT

The amounts of income tax expense/(credit) charged/(credited) to the consolidated income statement represent:

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i> (Restated)
Continuing operations		
Current tax		
— Mainland China	397	1,241
— Hong Kong	406	1,954
— Overseas	2,128	11,875
— Over-provision in prior years	<u>(14,470)</u>	<u>(2,712)</u>
	(11,539)	12,358
Deferred tax	<u>(963)</u>	<u>(22,368)</u>
	----- (12,502)	----- (10,010)
	<u><u>(12,502)</u></u>	<u><u>(10,010)</u></u>

Mainland China corporate income tax and Hong Kong profits tax have been provided at the rates of 25% (2022: 25%) and 16.5% (2022: 16.5%) on the estimated assessable profits respectively. Taxation on overseas profits has been calculated on the estimated assessable profits for the year at the applicable rates of taxation prevailing in the jurisdictions in which the Group operates.

7. (LOSS)/EARNINGS PER SHARE

The calculation of basic (loss)/earnings per share is based on the consolidated (loss)/profit attributable to equity holders of the Company and on the weighted average number of ordinary shares of 1,284,400,000 shares (2022: 1,284,400,000 shares) in issue during the year.

	2023	2022 (Restated)
Basic and diluted (loss)/earnings per share (<i>HK cents</i>)		
— Continuing operations	(19.9)	5.3
— Discontinued operations	(9.3)	(4.5)
	<u>(29.2)</u>	<u>0.8</u>

The diluted (loss)/earnings per share for the years ended 31 December 2023 and 2022 are the same as the basic (loss)/earnings per share as the potential ordinary shares arising from the share options granted by the Company outstanding do not have dilutive effect.

8. TRADE AND BILLS RECEIVABLE

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Trade receivables	455,640	446,528
Bills receivable	4,022	6,130
	<u>459,662</u>	452,658
Less: loss allowance of trade receivables	(14,826)	(3,177)
	<u>444,836</u>	<u>449,481</u>

Majority of trade receivables are with customers having good credit history. The Group usually grants its customers credit terms within 90 days. Most of the Group's sales are on open account, while sales made to a small number of customers are covered by letters of credit issued by banks or settled by documents against payment issued by banks. The ageing of trade and bills receivable based on invoice date is as follows:

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
0–90 days	438,923	434,073
91–180 days	10,771	9,695
181–365 days	4,557	4,578
Over 365 days	5,411	4,312
	<u>459,662</u>	<u>452,658</u>

9. TRADE AND BILLS PAYABLE

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Trade payables	306,881	156,625
Bills payable	—	1,772
	<u>306,881</u>	<u>158,397</u>
Financial liabilities measured at amortised cost	<u>306,881</u>	<u>158,397</u>

The ageing of the trade and bills payable based on invoice date is as follows:

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
0–90 days	295,602	154,139
91–180 days	8,497	1,993
181–365 days	1,389	1,102
Over 365 days	1,393	1,163
	<u>306,881</u>	<u>158,397</u>

10. BORROWINGS

The interest-bearing bank borrowings are repayable as follows:

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Within 1 year or on demand	<u>472,760</u>	<u>789,236</u>

As at 31 December 2023, based on the repayment dates set out in the payment schedules ignoring the effect of any repayment on demand clause, the interest-bearing bank borrowings were due for repayment as follows:

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Within 1 year	472,760	773,403
After 1 year but within 2 years	—	15,833
	<u>472,760</u>	<u>789,236</u>

11. DISCONTINUED OPERATIONS

During the year ended 31 December 2023, the Group entered into a disposal agreement with a third party to sell, assign and novate the inventories and the licensed stores assets for the fashion brand “Champion” to the third party. The Group ceased to operate licensed stores of “Champion” after the completion of the Disposal in December 2023, related operations are reclassified from the High-end Fashion Retailing segment and regarded as discontinued operations.

The Disposal was completed on 29 December 2023 and loss on disposal, net of tax, amounting to HK\$20,998,000 (Note (b)) was recognised during the year ended 31 December 2023.

The consolidated income statement distinguishes discontinued operations from continuing operations. Comparative figures for the year ended 31 December 2022 have been re-presented. Financial information relating to discontinued operations for the year ended 31 December 2023 is set out below.

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Revenue	261,572	365,628
Cost of sales	<u>(197,312)</u>	<u>(199,003)</u>
Gross profit	64,260	166,625
Selling and distribution costs	(145,447)	(203,364)
General and administrative expenses	(15,823)	(16,616)
Other income — net	<u>—</u>	<u>109</u>
Operating loss	(97,010)	(53,246)
Finance costs — net (<i>Note (a)</i>)	<u>(2,102)</u>	<u>(4,365)</u>
Loss before income tax	(99,112)	(57,611)
Income tax	—	—
Loss on disposal of discontinued operations (<i>Note (b)</i>)	<u>(20,998)</u>	<u>—</u>
Loss for the year and attributable to equity holders of the Company	<u>(120,110)</u>	<u>(57,611)</u>

11. DISCONTINUED OPERATIONS (CONTINUED)

Notes:

(a) Finance costs — net

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Interest on bank borrowings	1,303	2,042
Interest on lease liabilities	799	2,323
	2,102	4,365

(b) Loss on disposal of discontinued operations

	2023 <i>HK\$'000</i>
Cash consideration	89,840
Carrying amount of net assets disposal of	(96,336)
Goodwill allocated in association with the operations disposal of	(14,502)
	(20,998)

12. DIVIDENDS

The Board does not recommend the payment of dividend for the year ended 31 December 2023 (2022: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

The Group is an integrated manufacturer and retailer for internationally renowned sports, fashion and outdoor brands. The financial performance of the Group for the year ended 31 December 2023 is summarised below:

OVERALL REVIEW

Revenue of the Group from continuing operations amounted to HK\$3,073.7 million (2022: HK\$4,084.2 million), representing a decrease of 24.7%. The decrease was mainly attributable to the decreased orders received from customers of Manufacturing Business since the last quarter of 2022, amid inventory pileup particularly in the sportswear market as a result of lower consumer demand in all the markets.

Gross profit margin of the Group from continuing operations decreased to 16.4% (2022: 20.1%). The decrease in gross profit margin of 3.7 percentage points was attributable to the decline in gross profit margin of both Manufacturing Business and High-end Fashion Retailing Business. Production capacity utilisation rate and operating efficiency of Manufacturing Business declined as a consequence of significant decrease in orders received from customers. In addition, deep discounts were offered to stimulate customer spending under High-end Fashion Retailing Business as the recovery of customer demand was not as strong as expected despite the cessation of all COVID-19 related control measures in the Mainland China market. As a result, gross profit of the Group from continuing operations decreased by HK\$318.4 million to HK\$504.1 million (2022: HK\$822.5 million), 38.7% lower than that of 2022.

Net other income mainly comprised gain before taxation arising from the disposal of a subsidiary in Mainland China of HK\$21.4 million. In 2022, net other income mainly comprised gains before taxation arising from the disposals of land lease right in Vietnam and a property-holding subsidiary in Hong Kong of HK\$54.8 million and HK\$14.6 million respectively.

Consequently, operating result recorded a loss of HK\$231.4 million (2022: profit of HK\$108.0 million).

Net finance costs increased by HK\$6.9 million to HK\$44.9 million (2022: HK\$38.0 million), which was mainly attributable to the increase in interest on bank borrowings by HK\$8.8 million as a result of increase in interest rates.

In order to cut losses arising from the Group's retail operations of the fashion brand "Champion" and to clear aged inventories, the Group entered into a disposal agreement with a third party to sell, assign and novate the inventories and the licensed stores assets for "Champion" to the third party (the "Disposal"). The Group ceased to operate licensed stores of "Champion" after the completion of the Disposal in December 2023. Together with the loss arising from the Disposal, loss after taxation of HK\$120.1 million was recorded for the year ended 31 December 2023 (2022: HK\$57.6 million).

Overall, the Group recorded loss after taxation of HK\$382.6 million for the year ended 31 December 2023 (2022: profit of HK\$23.6 million). Excluding discontinued operations, loss after taxation from continuing operations would be HK\$262.5 million for the year ended 31 December 2023 (2022: profit of HK\$81.2 million).

The Board considers to conserve financial resources and does not recommend the payment of dividend for the year ended 31 December 2023 (2022: Nil) in view of the challenges ahead. We will continue to closely monitor the market situation and review our dividend payout from time to time.

BUSINESS REVIEW

The operating environment remained complex and challenging and the Group has experienced a range of economic and industrial specific challenges in 2023.

The financial performance of the business segments is summarised below:

Manufacturing Business

Our Manufacturing Business comprises "*Sportswear Manufacturing Business*" and "*High-end Functional Outerwear Manufacturing Business*".

Sportswear Manufacturing Business

The Group's Sportswear Manufacturing Business operates mainly through its OEM arrangements for a number of internationally renowned brands. Most of the Group's products are exported and sold to Europe, the United States and Mainland China. The Group has a long history and a distinctive position in sportswear garment manufacturing and has established long-term business relationships with its key customers.

Revenue from Sportswear Manufacturing Business decreased by HK\$1,016.5 million to HK\$1,880.2 million (2022: HK\$2,896.7 million), representing a decrease of 35.1%. The decrease was mainly due to the decreased orders received from customers since the last quarter of 2022, amid inventory pileup resulting from low consumer demand in all the markets. As a consequence, production capacity utilisation rate and operating efficiency declined in spite of the Group's considerable efforts to reduce costs. In light of the potential adverse impact arising from the low utilisation of production facilities, impairment loss of HK\$23.4 million was provided for certain production facilities. In addition, year 2023 was absent of the disposal gain of HK\$54.8 million arising from the disposal of a land lease right in Vietnam. As a result, operating loss of HK\$187.7 million was recorded for the year ended 31 December 2023 (2022: profit of HK\$123.7 million).

High-end Functional Outerwear Manufacturing Business

Revenue from High-end Functional Outerwear Manufacturing Business decreased by HK\$75.6 million to HK\$585.7 million (2022: HK\$661.3 million), representing a decrease of 11.4%. It was mainly attributable to the decreased orders received from the European market which was partially offset by the increased orders from the United States and Mainland China markets with lower profit margins. As a result, operating profit reduced to HK\$3.5 million for the year ended 31 December 2023 (2022: HK\$40.8 million).

High-end Fashion Retailing Business

Continuing operations

The Group's High-end Fashion Retailing Business had fashion retail networks through "***D-mop***", "***J-01***" and "***Spoonyard***" stores to sell self-owned brands, as well as imported brands, in Hong Kong and Mainland China. In addition, it had distribution rights for brands including "***Y-3***" in Mainland China, Hong Kong, Macau, Taiwan and other Asia-Pacific regions, and "***Barbour***" in Mainland China. It also operated licensed stores for brands "***DAKS***" in Mainland China and "***New Era***" in Hong Kong.

Revenue from continuing operations of High-end Fashion Retailing Business increased by HK\$81.5 million to HK\$607.7 million (2022: HK\$526.2 million), representing an increase of 15.5%. Following the long-awaited cessation of all COVID-19 related control measures, the shop footfall snapped back temporarily in the early of 2023 but the customer demand was still frail after the pent-up demand faded. As such, deep discounts were offered to simulate customer spending and to clear aged inventories, while gross profit contribution was hindered and performance of certain retail stores were adversely impacted by heavy rental costs. In light of the adverse impact on the retail store performance, impairment loss of HK\$17.6 million (2022: Nil) was provided for certain retail store assets. As a result, operating loss of HK\$47.1 million was recorded for the year ended 31 December 2023 (2022: HK\$56.5 million).

Discontinued Operations — “Champion”

The Group was an authorised distributor of the fashion brand “*Champion*” in Mainland China. As the distributorship of “*Champion*” in Mainland China was non-exclusive and the Group was not the operator of the online stores of such brand in Mainland China, it was particularly unfavourable to the Group during the head-to-head competition with another distributor in the Mainland China market. In addition, the recovery of customer demand was not as strong as expected despite the cessation of all COVID-19 related control measures in the Mainland China market in the first half of 2023. As a result, the Group suffered losses from the operations of “*Champion*” in recent years.

As such, the Group entered into a disposal agreement with a third party which is also an authorised distributor of “*Champion*” in Mainland China to sell, assign and novate the inventories and the licensed stores assets for the fashion brand “*Champion*” to the third party. The Group ceased to operate licensed stores of “*Champion*” after the completion of the Disposal in December 2023. The Disposal will cut losses of the Group’s operations of “*Champion*” and to clear aged inventories. Furthermore, the net proceeds from the Disposal will provide the Group with cash inflow which will improve and strengthen the cash and financial position of the Group. As a result, loss after taxation of HK\$120.1 million was recorded for the year ended 31 December 2023 (2022: HK\$57.6 million).

As at 31 December 2023, the total number of stores decreased to 123 (2022: 222), of which 94 (2022: 193) stores were in Mainland China, 18 (2022: 19) stores were in Hong Kong and Macau, and 11 (2022: 10) stores in Taiwan and other Asia-Pacific regions. The substantial decrease in the number of stores as at 31 December 2023 was mainly due to the completion of the Disposal.

PROSPECTS

Moving ahead, we will remain cautious as it is anticipated that uncertainties will continue in the markets in which we operate. Geopolitical tensions will persist, elevated interest rate and inflation rate are expected to maintain in the background.

Notwithstanding the headwinds, it is believed that our agility and diversified businesses will fuel us to face the challenges ahead and drive sustainable development on the bumpy resurgence path.

Manufacturing Business

Sportswear Manufacturing Business

Sportswear Manufacturing Business has been severely impacted by the order reduction from customers since the last quarter of 2022. Our customers have significantly improved the inventory glut issue after almost a year despite the challenging economic environment. It is noted that the momentum of the customer orders has been re-gained as driven by the increasing consumer demand from the Western markets, in particular arising from large-scale major sports events. As at the date of this announcement, based on the information available to the Company, the actual orders received plus latest order indication received from customers, revenue for the first half of 2024 is expected to increase by more than 20% as compared to the same period in 2023.

High-end Functional Outerwear Manufacturing Business

Subsequent to the decent progress made in the last few years, it is anticipated that the strategic partnership with a comprehensive sportswear conglomerate in the Mainland China market will be further enhanced and we will continue to enlarge the scope of cooperation with this conglomerate particularly with their internationally renowned brands. In addition, as at the date of this announcement, based on the information available to the Company, it is expected that orders from an outdoor recreation services corporation in the United States market may further increase in response to their increasing demands from consumers.

High-end Fashion Retailing Business

High-end Fashion Retailing Business will continue to focus on the Mainland China market after the completion of the Disposal. After capturing the initial upsurge in the first quarter of 2023, the Mainland China market has been re-calibrated and the customer demand was still frail. In other markets, Hong Kong and Macau are gradually recovering after the border re-opening with Mainland China, but these cities are facing fierce competition from neighbouring cities at the same time. It is anticipated that the path of resurgence will continue to be bumpy and surrounded by uncertainties.

FINANCIAL POSITION AND LIQUIDITY

In view of the challenges and uncertainties ahead, the Group will continue to proactively monitor the situation and impose strict cost control measures and focus on its cash flow management to ensure that it remains a healthy liquidity position.

Against the backdrop of the challenging environment, the Group's financial and liquidity position remains healthy. As at 31 December 2023, the Group had cash and bank balances of HK\$209.5 million (2022: HK\$370.5 million). Subsequent to the year end at 29 February 2024, cash and bank balances increased to HK\$298.0 million as proceeds from the Disposal had been received. As at 31 December 2023, the Group had net borrowings (bank borrowings and loans from non-controlling interests of subsidiaries less cash and bank balances) of HK\$265.2 million (2022: HK\$423.7 million), together with available undrawn banking facilities of HK\$666.2 million (2022: HK\$432.2 million). The net change was mainly attributable to the cash generated from operating activities, net with repayment of bank borrowings. The net gearing ratio (being net borrowings divided by total equity) as at 31 December 2023 was 18.4% (2022: 22.8%).

The Group expects that there will be steady cash inflow from operations coupled with sufficient cash and bank balances and based on its readily available banking facilities, the Group has adequate liquidity and financial resources to cover its operating costs and meet its financial obligations as and when they fall due in the coming twelve months from the date of this results announcement.

FOREIGN CURRENCY EXPOSURE

Hong Kong Dollar (“HKD”) serves as the Company's functional currency and the Group's presentation currency. The Group considers its foreign currency exchange exposure arising from United States Dollar (“USD”) transactions and USD cash balances to be minimal during the year given that HKD was pegged against USD.

The Group's revenue and purchases were primarily denominated in USD, Renminbi (“RMB”) and HKD. During the year, approximately 66.0%, 30.0% and 1.8% of revenue were denominated in USD, RMB and HKD respectively, whereas approximately 80.3%, 16.0% and 2.4% of purchases were denominated in USD, RMB and HKD respectively.

As at 31 December 2023, approximately 41.3%, 39.9% and 11.7% of cash and bank balances were denominated in RMB, USD and HKD respectively, and approximately 49.6%, 45.7% and 4.6% of bank borrowings were denominated in USD, HKD and RMB respectively.

To minimise the impact of foreign currency rate volatility, we monitor foreign currency risk closely on an ongoing basis to ensure that the net exposure is at an acceptable level. If necessary, after consideration of the Group's future operation and investment needs in different currencies, we may use proper financial instruments to reduce the currency risk exposure.

EMPLOYEE AND REMUNERATION POLICIES

As at 31 December 2023, the Group had approximately 16,000 employees (2022: approximately 19,000 employees). The Group remunerates employees based on their performance, working experience and prevailing market conditions. Other employee benefits include retirement benefits, insurance, medical coverage and share option schemes.

CHARGES ON THE GROUP'S ASSETS

As at 31 December 2023, bank deposit of HK\$1.2 million (2022: HK\$1.2 million) was pledged as security deposit at Customs Department for a subsidiary of the Group; and land and properties with an aggregate carrying amount of HK\$71.3 million (2022: HK\$74.5 million) were pledged to banks for certain banking facilities of the Group.

CONTINGENT LIABILITIES

The Group had no significant contingent liabilities, litigation or arbitration of material importance as at 31 December 2023.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

In December 2023, the Group has completed the disposal of a subsidiary of the Group. Please refer to Note 4(a) to this results announcement.

Save as disclosed above, the Group had no material acquisitions and disposals of subsidiaries, associates and joint ventures during the year ended 31 December 2023.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the code of conduct regarding directors' securities transactions as set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") in Appendix C3 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). Having made enquiry to all Directors, they all have confirmed that they have complied with the required standards as set out in the Model Code during the year.

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year.

DIVIDENDS

The Board does not recommend the payment of dividend for the year ended 31 December 2023.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Friday, 7 June 2024 to Thursday, 13 June 2024 (both dates inclusive), during which period no transfer of shares of the Company will be registered. In order to qualify for attendance and voting at the forthcoming annual general meeting of the Company, all transfers of shares of the Company accompanied by the relevant share certificates must be lodged with the Hong Kong share registrar and transfer office of the Company, Tricor Investor Services Limited of 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong for registration not later than 4:30 p.m. on Thursday, 6 June 2024.

CORPORATE GOVERNANCE

The Company has applied the principles and complied with the code provisions in the Corporate Governance Code as set out in Appendix C1 to the Listing Rules during the year.

PUBLICATION OF RESULTS AND ANNUAL REPORT

This results announcement is published on the websites of Hong Kong Exchanges and Clearing Limited (<http://www.hkexnews.hk>) and the Company (<http://www.winhanverky.com>). The annual report for the year ended 31 December 2023 will be dispatched to the Shareholders and will be available on the aforesaid websites in due course.

AUDIT COMMITTEE REVIEW

The Audit Committee has discussed with the management of the Company the internal control and financial reporting matters related to the preparation of the consolidated financial statements for the year ended 31 December 2023. It has also reviewed the consolidated financial statements for the year ended 31 December 2023 with the management and the auditor of the Company and recommended them to the Board for approval.

SCOPE OF WORK OF AUDITOR

The figures in respect of the Group's consolidated income statement, consolidated statement of comprehensive income, consolidated statement of financial position 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 audited consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagement or Hong Kong Standards on Assurance Engagements issued by the HKICPA and consequently no assurance has been expressed by PricewaterhouseCoopers on the preliminary announcement.

ANNUAL GENERAL MEETING

The annual general meeting of the Company will be held on Thursday, 13 June 2024. The notice of the annual general meeting, which constitutes part of the circular to the Shareholders, will be published on the aforesaid websites and despatched to the Shareholders together with the Company's annual report 2023 in due course.

BOARD OF DIRECTORS

As at the date of this announcement, the Board comprises Mr. LI Kwok Tung Roy, Mr. LAI Ching Ping, Mr. LEE Kwok Leung and Mr. WONG Chi Keung being the executive directors, and Mr. KWAN Kai Cheong, Mr. MA Ka Chun and Ms. CHAN Kit Fun Fanny being the independent non-executive directors.

By Order of the Board
Win Hanverky Holdings Limited
LI Kwok Tung Roy
Chairman

Hong Kong, 21 March 2024