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 INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2023

FINANCIAL HIGHLIGHTS

- The Group's revenue for the six months ended 30 June 2023 amounted to approximately HK$1,906.7 million, representing a decrease of approximately 16.3%, as compared to the six months ended 30 June 2022.

- The Group's gross profit for the six months ended 30 June 2023 amounted to approximately HK$401.0 million, representing a decrease of approximately 12.1%, as compared to the six months ended 30 June 2022. The Group's gross profit margin was approximately 21.0% during the Reporting Period, as compared to approximately 20.0% for the six months ended 30 June 2022.

- Profit attributable to owners of the Company for the six months ended 30 June 2023 amounted to approximately HK$138.6 million, representing a decrease of approximately 17.7% as compared to the six months ended 30 June 2022.

- As at 30 June 2023, the Group's net gearing ratio was approximately 24.2%, as compared to approximately 30.0% as at 31 December 2022. The Group was in a net debt position of approximately HK$753.2 million as at 30 June 2023, as compared to approximately HK$941.7 million as at 31 December 2022. The Group maintained stable earnings before interest, tax, depreciation and amortisation for the six months ended 30 June 2023 at approximately HK$387.7 million (for the six months ended 30 June 2022: approximately HK$403.1 million).

- Basic earnings per share was approximately HK13.33 cents for the six months ended 30 June 2023, representing a decrease of approximately 17.7% from approximately HK16.19 cents for the six months ended 30 June 2022.

- The Board has resolved to declare an interim dividend of HK5.3 cents per ordinary share for the six months ended 30 June 2023 (for the six months ended 30 June 2022: HK7.28 cents per ordinary share).

The board of Directors (the "**Board**") of Best Pacific International Holdings Limited (the "**Company**" or "**Best Pacific**" or "**we**") announces the unaudited condensed consolidated interim results of the Company and its subsidiaries (the "**Group**") for the six months ended 30 June 2023 (the "**Reporting Period**"), together with the comparative figures for the six months ended 30 June 2022, as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2023 (unaudited)

		Six months ended	
		30.6.2023	30.6.2022
	Notes	***HK\$'000***	*HK\$'000*
		(unaudited)	(unaudited)
Revenue	*4*	**1,906,712**	2,278,466
Cost of sales		**(1,505,736)**	(1,822,383)
Gross profit		**400,976**	456,083
Other income		**19,118**	22,974
Other gains and losses		**23,748**	26,423
Net remeasurement of credit loss allowance for trade receivables		**(1,278)**	2,974
Selling and distribution expenses		**(81,826)**	(92,910)
Administrative expenses		**(124,212)**	(144,497)
Research and development costs		**(40,371)**	(53,891)
Share of result of a joint venture		**969**	1,535
Finance costs		**(59,142)**	(29,920)
Profit before taxation	*5*	**137,982**	188,771
Income tax expense	*6*	**(19,304)**	(20,887)
Profit for the period		**118,678**	167,884
Profit (loss) for the period attributable to			
– Owners of the Company		**138,608**	168,384
– Non-controlling interests		**(19,930)**	(500)
		118,678	167,884
Basic earnings per share *(HK cents)*	*8*	**13.33**	16.19

	Six months ended	
	30.6.2023	30.6.2022
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Profit for the period	**118,678**	167,884
Other comprehensive expense		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences arising on translation of foreign operations	**(104,644)**	(173,625)
Share of translation reserve of a joint venture	**(813)**	(916)
Other comprehensive expense for the period	**(105,457)**	(174,541)
Total comprehensive income (expense) for the period	**13,221**	(6,657)
Total comprehensive income (expense) for the period attributable to		
– Owners of the Company	**33,151**	(6,157)
– Non-controlling interests	**(19,930)**	(500)
	13,221	(6,657)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2023 (unaudited)

	Notes	**30.6.2023** ***HK$'000*** **(unaudited)**	31.12.2022 *HK$'000* (audited)
Non-current assets			
Property, plant and equipment	*9*	**2,727,584**	2,818,476
Right-of-use assets	*9*	**288,285**	287,229
Interest in a joint venture		**39,574**	39,417
Deposits		**54,875**	39,409
Deferred tax assets		**10,305**	9,071
		3,120,623	3,193,602
Current assets			
Inventories		**941,855**	1,135,776
Trade and bills receivables	*10*	**590,193**	654,745
Other receivables, deposits and prepayments		**108,805**	127,460
Tax recoverables		**4,690**	4,526
Pledged bank deposits		**69,969**	68,428
Short term bank deposits		**–**	36,954
Bank balances and cash		**920,335**	1,051,165
		2,635,847	3,079,054
Current liabilities			
Trade payables	*11*	**204,211**	301,525
Bills payables	*11*	**240,139**	227,611
Other payables and accrued charges		**195,205**	289,707
Dividend payable	*7*	**43,880**	–
Contract liabilities		**38,226**	41,049
Bank and other borrowings	*12*	**1,375,747**	1,992,685
Lease liabilities		**47,600**	38,177
Tax payables		**10,626**	10,191
		2,155,634	2,900,945
Net current assets		**480,213**	178,109
Total assets less current liabilities		**3,600,836**	3,371,711

	Note	30.6.2023 HK$'000 (unaudited)	31.12.2022 HK$'000 (audited)
Non-current liabilities			
Bank and other borrowings	*12*	**367,722**	105,515
Lease liabilities		**92,151**	93,369
Deferred income		**12,901**	14,294
Deferred tax liabilities		**10,503**	9,735
Retirement benefit obligations		**7,716**	8,191
Other liabilities		**2,055**	2,160
		493,048	233,264
Net assets		**3,107,788**	3,138,447
Capital and reserves			
Share capital		**10,398**	10,398
Reserves		**3,019,088**	3,029,817
Equity attributable to owners of the Company		**3,029,486**	3,040,215
Non-controlling interests		**78,302**	98,232
Total equity		**3,107,788**	3,138,447

NOTES

For the six months ended 30 June 2023

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

2. BASIS OF PREPARATION

The condensed consolidated financial statements of the Group for the six months ended 30 June 2023 have been prepared in accordance with Hong Kong Accounting Standard ("**HKAS**") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**") as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange.

3. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis.

Other than additional accounting policies resulting from application of amendments to Hong Kong Financial Reporting Standards ("**HKFRSs**") as disclosed below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2023 are the same as those presented in the Group's annual financial statements for the year ended 31 December 2022.

Application of amendments to HKFRSs

In the current interim period, the Group had applied the following amendments to HKFRSs issued by the HKICPA, for the first time, which were mandatorily effective for the Group's annual period beginning on 1 January 2023 for the preparation of the Group's condensed consolidated financial statements:

HKFRS 17 (including the October 2020 and February 2022 Amendments to HKFRS 17)	Insurance Contracts
Amendments to HKAS 8	Definition of Accounting Estimates
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction

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

3.1 Impacts on application of Amendments to HKAS 8 Definition of Accounting Estimates

The amendments define accounting estimates as "monetary amounts in financial statements that are subject to measurement uncertainty". An accounting policy may require items in financial statements to be measured in a way that involves measurement uncertainty. In such a case, an entity develops an accounting estimate to achieve the objective set out by the accounting policy. The amendments to HKAS 8 clarify the distinction between changes in accounting estimates, and changes in accounting policies and the correction of errors.

The application of the amendments in the current period had no material impact on the consolidated financial statements.

3.2 Impacts and changes in accounting policies on application of Amendments to HKAS 12 Deferred Tax related to Assets and Liabilities arising from a Single Transaction

3.2.1 Accounting policies

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit and at the time of the transaction does not give rise to equal taxable and deductible temporary differences. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 requirements to the lease liabilities, and the related assets separately. The Group recognises a deferred tax asset related to lease liabilities to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised and a deferred tax liability for all taxable temporary differences.

3.2.2 Transition and summary of effects

The application of the amendments in the current period had no material impact on the consolidated financial statements.

4. REVENUE AND SEGMENT INFORMATION

Revenue

The Group's revenue is derived from manufacturing and trading of elastic fabric, lace and elastic webbing in the 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. The Group's revenue is recognised at a point in time.

Disaggregation of revenue from contracts with customers

For the six months ended 30 June 2023 (unaudited)

Types of goods	**Manufacturing and trading of elastic fabric and lace**	**Manufacturing and trading of elastic webbing**	**Total**
	HK$'000	***HK$'000***	***HK$'000***
Sales of products			
Elastic fabric			
– Sportswear and apparel	**958,585**	**–**	**958,585**
– Lingerie	**528,580**	**–**	**528,580**
	1,487,165	**–**	**1,487,165**
Lace	**32,578**	**–**	**32,578**
Elastic webbing	**–**	**386,969**	**386,969**
	1,519,743	**386,969**	**1,906,712**

For the six months ended 30 June 2022 (unaudited)

Types of goods	Manufacturing and trading of elastic fabric and lace	Manufacturing and trading of elastic webbing	Total
	HK$'000	*HK$'000*	*HK$'000*
Sales of products			
Elastic fabric			
– Sportswear and apparel	1,046,714	–	1,046,714
– Lingerie	674,026	–	674,026
	1,720,740	–	1,720,740
Lace	38,447	–	38,447
Elastic webbing	–	519,279	519,279
	1,759,187	519,279	2,278,466

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 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 six months ended 30 June 2023 (unaudited)

	Manufacturing and trading of elastic fabric and lace *HK$'000*	**Manufacturing and trading of elastic webbing** *HK$'000*	**Total** *HK$'000*
Segment revenue from external customers	**1,519,743**	**386,969**	**1,906,712**
Segment gross profit	**326,549**	**74,427**	**400,976**
Segment profit	**151,601**	**23,995**	**175,596**
Unallocated other income			**11,680**
Unallocated other gains and losses			**24,291**
Unallocated corporate expenses			**(15,412)**
Share of result of a joint venture			**969**
Finance costs			**(59,142)**
Profit before taxation			**137,982**

For the six months ended 30 June 2022 (unaudited)

	Manufacturing and trading of elastic fabric and lace *HK$'000*	Manufacturing and trading of elastic webbing *HK$'000*	Total *HK$'000*
Segment revenue from external customers	1,759,187	519,279	2,278,466
Segment gross profit	324,520	131,563	456,083
Segment profit	116,552	70,514	187,066
Unallocated other income			12,505
Unallocated other gains and losses			28,082
Unallocated corporate expenses			(10,497)
Share of result of a joint venture			1,535
Finance costs			(29,920)
Profit before taxation			188,771

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, net foreign exchange gain, gain from derecognition of derivative financial liability, 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 functions. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

5. PROFIT BEFORE TAXATION

	Six months ended	
	30.6.2023	30.6.2022
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Profit before taxation has been arrived at after charging (crediting):		
Depreciation of property, plant and equipment	**163,372**	166,105
Depreciation of right-of-use assets	**27,222**	18,323
Depreciation capitalised in inventories	**(152,767)**	(142,446)
	37,827	41,982
Cost of inventories recognised as an expense	**1,505,736**	1,822,383
Including: provision for (reversal of) allowance for slow-moving inventories	**1,759**	(5,164)
Bank interest income (included in other income)	**(8,705)**	(6,945)
Government grants (included in other income)	**(3,746)**	(5,157)
Net proceeds from sales of scrap materials (included in other income)	**(2,795)**	(4,321)
Net foreign exchange gain (included in other gains and losses)	**(24,291)**	(26,990)
Gain from derecognition of derivative financial liability (included in other gains and losses)	**–**	(1,092)

6. INCOME TAX EXPENSE

	Six months ended	
	30.6.2023	30.6.2022
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Current tax:		
Hong Kong Profits Tax	**9,669**	28,892
The People's Republic of China ("**PRC**") Enterprise Income Tax ("**EIT**")	**8,927**	1,683
Income tax in other jurisdictions	**3,722**	890
Over-provision in prior years:		
The PRC EIT	**(605)**	(1,650)
	21,713	29,815
Deferred taxation	**(2,409)**	(8,928)
	19,304	20,887

Under the two-tiered profits tax rates regime passed by the Hong Kong Legislative Council in March 2018, the first HK$2 million profit of the qualifying group entity will be taxed at 8.25%, and profit above HK$2 million will be taxed at 16.5%. Accordingly, the Hong Kong Profits Tax for 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%. The two-tiered profits tax rates regime is applicable to both periods.

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% during the six months ended 30 June 2023 and 2022 respectively, 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 were further renewed for an additional three years from the year ended 31 December 2022. Hence, Dongguan BPT and Dongguan NHE were subject to the preferential tax treatment and the applicable tax rate for the six months ended 30 June 2023 and 2022 was 15%.

Withholding tax on dividends from subsidiaries established in the PRC was calculated at 5% of the estimated dividends to be received from the subsidiaries in the PRC during the six months ended 30 June 2023 and 2022.

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 profit 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 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 six months ended 30 June 2023 and 2022.

According to the amendments to the Inland Revenue Act No. 24 of 2017 passed in Sri Lanka parliament on 9 December 2022, the subsidiaries of the Group operating in Sri Lanka are liable for an income tax rate of 30% from 1 July 2022 onwards.

For the six months ended 30 June 2022, pursuant to the Inland Revenue (Amendment) Act, No. 10 of 2021 in Sri Lanka, the applicable income tax rate for the subsidiaries of the Group operating in Sri Lanka was 24%. 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 six months ended 30 June 2022.

Nevertheless, one of these subsidiaries in Sri Lanka continues to be 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

During the current interim period, a final dividend of HK4.22 cents per ordinary share in respect of the year ended 31 December 2022 (2022: HK11.8 cents per ordinary share in respect of the year ended 31 December 2021) was declared to the shareholders of the Company and was approved by the shareholders at the annual general meeting on 27 June 2023. The aggregate amount of final dividend amounted to approximately HK$43,880,000 (2022: approximately HK$122,697,000) was subsequently paid to shareholders in August 2023 (2022: August 2022).

Subsequent to the end of the current interim period, the directors of the Company have resolved to declare interim dividend of HK5.3 cents per ordinary share for the six months ended 30 June 2023 (2022: HK7.28 cents per ordinary share for the six months ended 30 June 2022).

8. EARNINGS PER SHARE

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

	Six months ended	
	30.6.2023	30.6.2022
	(unaudited)	(unaudited)
Earnings		
Earnings for the purposes of basic earnings per share (profit for the period attributable to owners of the Company) *(HK$'000)*	**138,608**	168,384
Number of shares		
Number of ordinary shares for the purpose of basic earnings per share	**1,039,808,000**	1,039,808,000

No diluted earnings per share for the six months ended 30 June 2023 and 2022 was presented as there was no potential ordinary shares in issue for the six months ended 30 June 2023 and 2022.

9. MOVEMENT IN PROPERTY, PLANT AND EQUIPMENT AND RIGHT-OF-USE ASSETS

During the six months ended 30 June 2023, total additions to property, plant and equipment were approximately HK$128,545,000 (for the six months ended 30 June 2022: approximately HK$206,576,000), which mainly included additions to construction in progress of approximately HK$111,232,000 (for the six months ended 30 June 2022: approximately HK$145,093,000), additions to machinery of approximately HK$15,962,000 (for the six months ended 30 June 2022: approximately HK$54,757,000).

During the six months ended 30 June 2023, the Group renewed some of the existing leases and entered into several new lease agreements with lease terms ranged from two to three years. On lease commencement, the Group recognised lease liabilities of approximately HK$30,746,000 (for the six months ended 30 June 2022: approximately HK$3,094,000) and total additions to right-of-use assets were approximately HK$30,746,000 (for the six months ended 30 June 2022: approximately HK$3,094,000), which mainly included additions of approximately HK$8,374,000 and HK$15,606,000 in relation to new lease agreements entered by the Group for leasing of an staff accommodation in the PRC and a production site together with a warehouse in Sri Lanka, respectively.

10. TRADE AND BILLS RECEIVABLES

	30.06.2023	31.12.2022
	HK$'000	*HK$'000*
	(unaudited)	(audited)
Trade receivables	**593,383**	651,675
Less: Allowance for credit losses	**(20,719)**	(19,948)
Net trade receivables	**572,664**	631,727
Bills receivables	**17,529**	23,018
Total trade and bills receivables	**590,193**	654,745

Trade receivables balance mainly represented receivables from customers in relation to the sale 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 for sales delivered in that particular month.

The followings are an ageing analysis of trade receivables net of allowance for credit losses, presented based on the invoice date at the end of each reporting period, and an ageing analysis of bills receivables, presented based on the date of issuance of the bills which are outstanding as at the end of each reporting period:

	30.6.2023	31.12.2022
	HK$'000	*HK$'000*
	(unaudited)	(audited)
Trade receivables		
0–90 days	**522,645**	595,237
91–180 days	**45,723**	35,058
Over 180 days	**4,296**	1,432
	572,664	631,727
Bills receivables		
0–90 days	**16,668**	19,688
91–180 days	**72**	3,330
Over 180 days	**789**	–
	17,529	23,018
	590,193	654,745

11. 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:

	30.6.2023	31.12.2022
	HK$'000	*HK$'000*
	(unaudited)	(audited)
0–90 days	**192,850**	278,631
91–180 days	**11,361**	22,894
	204,211	301,525

Bills payables

The following is an ageing analysis of bills payables presented based on the date of issuance of bills which are outstanding as at the end of each reporting period:

	30.6.2023	31.12.2022
	HK$'000	*HK$'000*
	(unaudited)	(audited)
0–90 days	**135,927**	120,977
91–180 days	**104,212**	106,634
	240,139	227,611

12. BANK AND OTHER BORROWINGS

	30.6.2023	31.12.2022
	HK$'000	*HK$'000*
	(unaudited)	(audited)
Bank overdrafts	**–**	9,686
Unsecured syndicated loan	**293,659**	474,869
Unsecured bank borrowings	**1,315,357**	1,508,130
Unsecured other borrowings	**134,453**	105,515
	1,743,469	2,098,200
Carrying amount repayable*		
Within one year	**1,323,685**	1,838,077
More than one year, but not exceeding two years	**193,184**	72,374
More than two years, but not exceeding five years	**226,600**	187,749
	1,743,469	2,098,200
Less: Amounts due within one year or contain a repayment on demand clause shown under current liabilities	**(1,375,747)**	(1,992,685)
Amounts shown under non-current liabilities	**367,722**	105,515
Carrying amount of bank borrowings that are repayable within one year and contain a repayment on demand clause	**1,013,295**	1,363,208
Carrying amount of bank borrowings that are repayable more than one year but contain a repayment on demand clause	**52,062**	154,608
	1,065,357	1,517,816

* 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.

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET AND BUSINESS REVIEW

Despite the waning impacts of the 2019 novel coronavirus disease pandemic on global activities, an array of key elements that influenced the world's economy in 2022, such as rising interest rates, persistent inflation, a weakened global economic condition, diminished market sentiment and geopolitical tensions, had continued to present significant challenges to the global business environment in the first half of 2023. These challenges were particularly pronounced for Chinese exporters who primarily catered to their major markets in the United States of America (the "**U.S.**") and Europe. According to China's customs statistics, the total export value to the U.S. market and Europe market (excluding Russia) during the first half of 2023 amounted to United States Dollar ("**US$**") 239.4 billion and US$306.2 billion respectively, representing a decline of 17.9% and 6.8% respectively, as compared to the corresponding period.

The textile and garment sector had not been immune to these challenges. In response to the prevailing market uncertainties and relatively high inventories, 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 since the second half of 2022 and such destocking process had continued throughout the first half of 2023, contributing to a significant decline in China's export of textile products. During the Reporting Period, the relevant export value to U.S. amounted to US$8.5 billion, marking a 22.1% decrease, as compared to the corresponding period.

Our business was inevitably affected to a certain extent by the prevailing market conditions. During the six months ended on 30 June 2023, our overall sales revenue and gross profit totalled HK$1,906.7 million and HK$401.0 million, respectively. This represented a decline of 16.3% and 12.1%, as compared to the corresponding period in 2022. While the Group encountered some cost pressures stemming from the diseconomies of scale, the relatively stabilized prices of oil and chemicals and its by-products in the first half of 2023 helped alleviate some of these cost burdens. Consequently, the Group's overall gross profit margin recorded a slight increase of approximately one percentage point, reaching 21.0% in the first half of 2023.

We made every effort to navigate the current business environment by implementing a combination of measures, which included but not limited to further optimization of our production efficiencies, securing more flexible financing arrangements, more stringent wastage and costs controls and adopting a more conservative capital expenditure plan during the Reporting Period. Additionally, we also placed our focus on maintaining a healthy balance sheet for risk management purpose and to combat the soaring finance costs. We continuously monitored our operating cash flows and strived to lower our overall debt level whenever possible since 2022. As at 30 June 2023, our net gearing ratio was further lowered to 24.2% (as at 31 December 2022: 30.0%). At the same time, we achieved stable net cash generated from operating activities of approximately HK$385.9 million for the six months ended 30 June 2023, as compared to approximately HK$274.8 million for the six months ended 30 June 2022.

The profit attributable to owners of the Company amounted to approximately HK$138.6 million for the Reporting Period, representing a decrease of approximately 17.7%, as compared to the six months ended 30 June 2022.

Basic earnings per share was approximately HK13.33 cents for the Reporting Period, representing a decrease of approximately 17.7% from approximately HK16.19 cents for the six months ended 30 June 2022.

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

The general undermined business sentiment had also affected Vietnam, according to the statistics released by the General Department of Vietnam Customs, the export of textile and garment products amounted approximately US$15.7 billion in the first half of 2023, down by approximately 15.4%, as compared to the corresponding period.

Despite the above, our customers continued to show increased interests in our production capacities in Vietnam as a result of the tightened geopolitics, and a single digit sales growth was recorded in the first half of 2023 in our Vietnam site.

SRI LANKA

Despite the stabilisation of political and financial situation in the country in 2023, the textile and apparel export of Sri Lanka was also negatively affected by the global slowdown of economic growth, with the textile and apparel export value amounted to approximately US$2.3 billion in the first half of 2023, down by approximately 18.1% as compared to the corresponding period, as per the statistics disclosed by Joint Apparel Association Forum of Sri Lanka. In turn, we recorded a double digit sales drop in the first half of 2023 for our operations in Sri Lanka.

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 six months ended 30 June 2023, revenue amounted to approximately HK$1,906.7 million, representing a decrease of approximately HK$371.8 million, or approximately 16.3%, from approximately HK$2,278.5 million for the six months ended 30 June 2022.

A comparison of the Group's revenue for the six months ended 30 June 2023 and the six months ended 30 June 2022 by product categories is as follows:

	Six months ended 30 June					
	2023		2022		Change	
	Revenue (*HK$'000*)	**% of Revenue**	Revenue (*HK$'000*)	% of Revenue	(*HK$'000*)	%
Elastic fabric	**1,487,165**	**78.0**	1,720,740	75.5	(233,575)	(13.6)
– Sportswear and apparel	***958,585***	***50.3***	*1,046,714*	*45.9*	*(88,129)*	*(8.4)*
– Lingerie	***528,580***	***27.7***	*674,026*	*29.6*	*(145,446)*	*(21.6)*
Elastic webbing	**386,969**	**20.3**	519,279	22.8	(132,310)	(25.5)
Lace	**32,578**	**1.7**	38,447	1.7	(5,869)	(15.3)
Total	**1,906,712**	**100.0**	2,278,466	100.0	(371,754)	(16.3)

Due to the prevailing lukewarm market conditions in the lingerie industry, our two primary segments focusing on lingerie business had experienced a decline in revenue. During the six-month period ended 30 June 2023, the revenue from the sales of lingerie elastic fabric totaled around HK$528.6 million, representing a decrease of approximately HK$145.4 million or 21.6% compared to the corresponding period in 2022. Similarly, the revenue generated from the sales of elastic webbing amounted to approximately HK$387.0 million for the same six-month period, indicating a decline of approximately HK$132.3 million or 25.5%, as compared to the six months ended 30 June 2022.

Despite the recognition from our customers for our innovation, high product quality and our multi-region production advantage, our sales revenue was inevitably affected by the weakened global economies and the more conservative approach in order placement, as taken by most of our brand customers to control their inventory levels since the second half of 2022. Our largest business segment could not be immune to these challenging market conditions and the revenue from the sales of sportswear and apparel elastic fabric had declined from HK$1,046.7 million for the six months ended 30 June 2022 to HK$958.6 million for the six months ended 30 June 2023, representing a decrease of approximately 8.4%.

Cost of sales, gross profit and gross profit margin

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

For the six months ended 30 June 2023, the Group's cost of sales amounted to approximately HK$1,505.7 million, representing a decrease of approximately HK$316.6 million or approximately 17.4%, as compared to the six months ended 30 June 2022. The overall decrease in cost of sales in the first half of 2023 was primarily due to decrease in overall sales revenue.

	Six months ended 30 June			
	2023		2022	
	Gross profit *(HK$'000)*	**Gross profit margin** %	Gross profit *(HK$'000)*	Gross profit margin %
Elastic fabric	**318,365**	**21.4**	310,477	18.0
Elastic webbing	**74,427**	**19.2**	131,563	25.3
Lace	**8,184**	**25.1**	14,043	36.5
Overall	**400,976**	**21.0**	456,083	20.0

Alongside the drop in sales revenue, the overall gross profit of the Group decreased from approximately HK$456.1 million for the six months ended 30 June 2022 to approximately HK$401.0 million for the six months ended 30 June 2023.

The gross profit margins of the Group's elastic webbing and lace business segments had declined due to the rather challenging lingerie market and the subsequent drop in the relevant business scale. Nevertheless, the improvement in the Group's overall gross profit margin was mainly due to the better gross profit margin attained in its elastic fabric business segment. Despite the complicated business environment since the second half of 2022, our sportswear and apparel elastic fabric business segment had demonstrated its resilience. Our continuous efforts in streamlining manufacturing processes, enhancing production efficiencies, and the stabilised raw material prices had helped alleviate some of the costs pressures faced by the Group during the Reporting Period.

Other income

The Group's other income mainly consists 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 periods indicated:

	Six months ended 30 June	
	2023	2022
	(HK$'000)	*(HK$'000)*
Bank interest income	**8,705**	6,945
Government grants	**3,746**	5,157
Net proceeds from sales of scrap materials	**2,795**	4,321
Others	**3,872**	6,551
Total	**19,118**	22,974

The other income for the six months ended 30 June 2023 of the Group amounted to approximately HK$19.1 million, which was approximately 16.8% lower than the amount of approximately HK$23.0 million recorded for the six months ended 30 June 2022. The decrease was mainly caused by the decrease in government grants and net proceeds from sales of scrap materials as a result of the reduction in business scale during the period.

Other gains and losses

Other gains and losses in the six months ended 30 June 2023 mainly consisted of a net foreign exchange gain of approximately HK$24.3 million, as a result of the currency depreciation of Renminbi ("**RMB**") during the period.

Selling and distribution expenses

Selling and distribution expenses primarily consist of employee benefit expenses, transportation, marketing and promotional expenses and other selling and distribution expenses. For the six months ended 30 June 2022 and 2023, the Group's selling and distribution expenses represented approximately 4.1% and approximately 4.3% of its total revenue, respectively. The increase in the ratio of selling and distribution expenses against total revenue was mainly due to the diseconomies of business scale during the Reporting Period.

Administrative expenses

Administrative expenses primarily consist of employee benefit expenses, depreciation, motor vehicle expenses, bank charges and other administrative expenses. For the six months ended 30 June 2022 and 2023, the Group's administrative expenses represented approximately 6.3% and approximately 6.5% of its total revenue, respectively. The increase in the ratio of administrative expenses against total revenue was mainly due to the diseconomies of business scale during the Reporting Period.

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 six months ended 30 June 2022 and 2023, the Group's research and development costs represented approximately 2.4% and approximately 2.1% of its 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 97.7% from approximately HK$29.9 million for the six months ended 30 June 2022 to approximately HK$59.1 million for the six months ended 30 June 2023. The increase in finance costs during the six months ended 30 June 2023 was primarily due to increase in overall market lending interest rate since 2022, with the U.S. federal fund target rate being raised by ten times from approximately 0.125% at the beginning of 2022 to approximately 5.125% as of June 2023.

Income tax expense

Taxation arising in a jurisdiction is calculated at the rate prevailing in the relevant jurisdiction. For the six months ended 30 June 2023, the income tax expense amounted to approximately HK$19.3 million, as compared to HK$20.9 million for the six months ended 30 June 2022. The effective tax rate of the Group was approximately 14.0% for the six months ended 30 June 2023 (for the six months ended 30 June 2022: approximately 10.5%). The increase in effective tax rate in the Reporting Period was mainly due to the losses recorded in our subsidiaries in Sri Lanka which had undermined our taxable profits and the increase in the amount of certain finance costs which were not tax deductible in nature.

Net profit and net profit margin

Net profit for the six months ended 30 June 2023 of the Group amounted to approximately HK$118.7 million, representing a decrease of approximately 29.3% as compared to approximately HK$167.9 million for the six months ended 30 June 2022. The Group recorded a net profit margin of approximately 6.2% for the six months ended 30 June 2023, which represented a decrease of approximately 1.2 percentage points as compared to approximately 7.4% for the six months ended 30 June 2022. The decrease in net profit and net profit margin was mainly due to the decrease in gross profit and the significant increase in finance costs for the six months ended 30 June 2023.

Liquidity, financial resources and bank borrowings

As at 30 June 2023, net working capital (calculated as current assets less current liabilities) was approximately HK$480.2 million, representing an increase of approximately HK$302.1 million, as compared to approximately HK$178.1 million as at 31 December 2022. The current ratio (calculated as current assets divided by current liabilities) was at 1.22 times as at 30 June 2023, as compared to 1.06 times as at 31 December 2022.

The Group maintained stable earnings before interest, tax, depreciation and amortisation (calculated as profit for the period adding back finance costs, income tax expense and depreciation) for the six months ended 30 June 2023 at approximately HK$387.7 million (for the six months ended 30 June 2022: approximately HK$403.1 million).

For the six months ended 30 June 2023, net cash generated from operating activities was approximately HK$385.9 million, as compared to approximately HK$274.8 million for the six months ended 30 June 2022. The increase was mainly due to our better control in inventory levels and collection of trade receivables from customers.

Net cash used in investing activities amounted to approximately HK$59.2 million for the six months ended 30 June 2023, as compared to approximately HK$198.9 million for the six months ended 30 June 2022. To achieve our long term development goal and to cater for potential business growth in the future, we paid approximately HK$118. 3 million to purchase property, plant and equipment during the Reporting Period.

For the six months ended 30 June 2023, net cash used in financing activities amounted to approximately HK$434.4 million, as compared to approximately HK$41.0 million for the six months ended 30 June 2022. The cash used in financing activities for the six months ended 30 June 2023 was mainly used for the repayment of borrowings and interests of the Reporting Period.

As at 30 June 2023, the Group's net gearing ratio was approximately 24.2% (as at 31 December 2022: approximately 30.0%), 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$753.2 million as at 30 June 2023, as compared to approximately HK$941.7 million as at 31 December 2022.

Working capital management

As a result of our tightened credit risk management and a more punctual settlement of payments by our customers in general, the trade and bills receivables turnover days was approximately 59.1 days for the six months ended 30 June 2023, as compared to approximately 61.1 days for the year ended 31 December 2022. The inventory turnover days was stable at approximately 124.9 days for the six months ended 30 June 2023, as compared to approximately 129.9 days for the year ended 31 December 2022. On the other hand, the trade and bills payables turnover days was approximately 58.5 days for the six months ended 30 June 2023, as compared to approximately 67.3 days for the year ended 31 December 2022.

Capital expenditures

For the six months ended 30 June 2023, total additions to property, plant and equipment amounted to approximately HK$128.5 million (for the six months ended 30 June 2022: approximately HK$206.6 million), which was mainly attributed to the additions to construction in progress of approximately HK$111.2 million (for the six months ended 30 June 2022: approximately HK$145.1 million) and the additions to machinery of approximately HK$16.0 million (for the six months ended 30 June 2022: approximately HK$54.8 million), in order to complete the overseas expansion projects as planned.

Pledge of assets

As at 30 June 2023, the Group pledged bank deposits of approximately HK$70.0 million (as at 31 December 2022: approximately HK$68.4 million) to secure the bills payables issued by the Group in connection with its trade transactions.

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, Vietnam Dong ("**VND**") and Sri Lankan Rupee ("**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 the Mainland China, respectively, as well as 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 the Mainland China, Vietnam and Sri Lanka, respectively.

Employees and remuneration policies

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 incentives granted to eligible employees under the share award scheme and share option scheme of the Company from time to time. The Group will continue to provide regular training and competitive remuneration packages to its staff.

As at 30 June 2023, the Group employed a total of 9,259 full-time employees (as at 31 December 2022: 9,050). The increase in the number of employees was mainly due to the overall Group's capacity expansion.

Contingent liabilities

As at 30 June 2023, the Group did not have any significant contingent liabilities.

Events after the Reporting Period

Save as disclosed elsewhere in this announcement, there had been no events that had significant impacts on the Group after the Reporting Period and up to the date of this announcement.

PROSPECTS AND FUTURE STRATEGIES

Global GDP was revised down to 2.8% in 2023 by the International Monetary Fund ("**IMF**") in their World Economic Outlook published in April 2023 before rising to 3.0% in 2024, such projected global GDP growth for 2023 and 2024 is below the two pre-pandemic decades (years 2000 to 2009 and years 2010 to 2019), with yearly world growth averaging at 3.9% and 3.7%, respectively. Nevertheless, it has recently been suggested that inflation has been slowly coming under control and that the pace of interest rate hikes is expected to slow down in the remaining time of 2023. The fact that China has recorded a GDP growth of 5.5% for the first half of 2023 after its reopening is a promising sign of economic recovery. Similarly, the U.S. recording a GDP growth of 2.0% and 2.4% for the first and second quarter of 2023, respectively, suggesting that the global economy has begun to show signs of improvement.

The observation that apparel brand customers are expected to replenish their inventories more actively in the latter half of 2023 is a positive development for the industry. This indicates a potential increase in demand for apparel products, which can contribute to the recovery of the sector. Accordingly, our order book is expected to return to a normal level in the coming months. Overall, the above trends suggest a slow but steady recovery of the global economy, which is a positive indicator for businesses in various sectors, including apparel brands.

Sportswear and apparel markets

Sportswear and apparel business has been the Group's growth drivers for years. Although we have recorded a contraction in sales revenue from the sales of elastic fabric to our sportswear and apparel customers in the first half of 2023, 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 as well as in our sportswear and apparel business segment. 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.

International footprint and capital expenditure and cashflows

Our international footprint is one of our core advantages, 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 the further enhancement on the operational efficiencies of our overseas manufacturing sites in Vietnam and Sri Lanka has been orderly implemented, so as to cater for the best interests of our customers. Building upon the satisfactory operational performance in our Vietnam production facility, we will carefully evaluate the feasibility and will proceed to further capacity addition in our Vietnam site in the second half of 2023.

As at 30 June 2023, the overall annual designed production capacities of elastic fabric, elastic webbing and lace of the Group were approximately 243.5 million meters, 1,923.3 million meters and 45.0 million meters, respectively. Despite the relatively lower than expected capacity utilisation during the Reporting Period, we have recently observed improvement in sales orders and we believe this positive trend will continue throughout the peak season in the latter half of the year. As such, the capacity utilisation of our core manufacturing sites is expected to be restored to a better level.

On the hand, the Group has implemented various costs control measures and we will continue to place our emphasis on maintaining healthy operating cash flows so as to lower our overall debt level to an optimal level and to soothe our burden from the elevated interest rates.

We believe that our world-class innovation capabilities, international footprint, strong partnership with customers, our talented people and healthy financial position have laid a solid foundation for Best Pacific's sustainable growth and future success.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the six months ended 30 June 2023.

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 the management the unaudited condensed consolidated financial statements of the Group for the six months ended 30 June 2023 and the internal control procedures of the Group, and has discussed the relevant financial reporting matters.

REVIEW OF INTERIM RESULTS

The unaudited condensed consolidated results of the Group for the six months ended 30 June 2023 have been reviewed in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA, by Deloitte Touche Tohmatsu, certified public accountants and registered public interest entity auditors in Hong Kong, and the Audit Committee of the Company has no disagreement.

INTERIM DIVIDEND

The Board has resolved to declare an interim dividend of HK5.3 cents per ordinary share of the Company for the six months ended 30 June 2023 (the "**Interim Dividend**"). The Interim Dividend is expected to be paid on Thursday, 30 November 2023 to all shareholders whose names appear on the register of members of the Company on Wednesday, 20 September 2023.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Friday, 15 September 2023 to Wednesday, 20 September 2023 (both days inclusive) for the purpose of determining the entitlement to the Interim Dividend. In order to be qualified for the Interim Dividend, unregistered holders of shares of the Company should ensure that all share transfer documents accompanied by the corresponding share certificates are lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Thursday, 14 September 2023.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Board is of the view that throughout the six months ended 30 June 2023, the Company had complied with the code provisions as set out in the Corporate Governance Code contained in Appendix 14 to 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

Hong Kong, 25 August 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*