# 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)**

## INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2017

### FINANCIAL HIGHLIGHTS

| | Unaudited Six months ended 30 June | | |
|---|---|---|---|
| | **2017** | 2016 | *Change* |
| | ***HK$'000*** | *HK$'000* | *%* |
| Revenue | **1,921,516** | 2,040,072 | –5.8% |
| Gross profit | **536,444** | 594,957 | –9.8% |
| Gross profit margin | **27.9%** | 29.2% | –1.3% pt |
| Operating profit | **45,787** | 141,979 | –67.8% |
| Operating profit (excluding impact of factory closure) | **69,550** | 141,979 | –51.0% |
| Profit attributable to equity holders | **25,913** | 105,665 | –75.5% |
| Profit attributable to equity holders (excluding impact of factory closure) | **49,676** | 105,665 | –53.0% |
| Basic EPS *(HK cents)* | **2.0** | 8.2 | –75.6% |
| Dividends *(HK cents)* | **2.0** | 4.0 | –50.0% |

### OPERATIONAL HIGHLIGHTS

— Decrease in revenue was due to 12.3% drop in revenue from Manufacturing Business which was partially compensated by 16.6% increase in revenue from Distribution and Retail Business.

— Profit attributable to equity holders (excluding impact of factory closure) decreased from HK$105.7 million to HK$49.7 million primarily due to (i) drop in gross profit from Manufacturing Business resulting from decreased production efficiency and output of the main Vietnam factory and (ii) decreased store contribution from sportswear retail business.

— The Board proposed an interim dividend of HK2.0 cents per share in consideration of healthy cash position.

The board of directors (the "**Board**" or "**Directors**") of Win Hanverky Holdings Limited (the "**Company**") is pleased to present the unaudited interim results of the Company and its subsidiaries (together the "**Group**") for the six months ended 30 June 2017, together with the comparative amounts for the corresponding period of 2016, as follows:

## CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT

*FOR THE SIX MONTHS ENDED 30 JUNE 2017*

| | | **Unaudited** | |
|---|---|---|---|
| | | **Six months ended 30 June** | |
| | | **2017** | 2016 |
| | *Note* | ***HK$'000*** | *HK$'000* |
| **Revenue** | 3 | **1,921,516** | 2,040,072 |
| Cost of sales | | **(1,385,072)** | (1,445,115) |
| **Gross profit** | | **536,444** | 594,957 |
| Selling and distribution costs | | **(280,170)** | (227,726) |
| General and administrative expenses | | **(203,679)** | (227,481) |
| Other (expenses)/income — net | 4 | **(19,120)** | 2,753 |
| Other gains/(losses) — net | 5 | **12,312** | (524) |
| **Operating profit** | | **45,787** | 141,979 |
| Finance income | | **2,141** | 5,419 |
| Finance costs | | **(1,196)** | (1,516) |
| Finance income — net | | **945** | 3,903 |
| Share of profits/(losses) of associates | | **1,428** | (1,028) |
| **Profit before income tax** | | **48,160** | 144,854 |
| Income tax expense | 6 | **(24,264)** | (36,421) |
| **Profit for the period** | | **23,896** | 108,433 |
| **Attributable to:** | | | |
| Equity holders of the Company | | **25,913** | 105,665 |
| Non-controlling interests | | **(2,017)** | 2,768 |
| | | **23,896** | 108,433 |
| **Earnings per share attributable to equity holders of the Company** (expressed in HK cents per share) | 7 | | |
| **Basic** | | **2.0** | 8.2 |
| **Diluted** | | **2.0** | 8.2 |

## CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

*FOR THE SIX MONTHS ENDED 30 JUNE 2017*

| | Unaudited Six months ended 30 June | |
|---|---|---|
| | **2017** | 2016 |
| | ***HK$'000*** | *HK$'000* |
| **Profit for the period** | **23,896** | 108,433 |
| **Other comprehensive income** | | |
| *Items that may be reclassified to profit or loss* | | |
| Currency translation differences | **21,310** | (12,580) |
| Share of other comprehensive income of associates | **166** | (654) |
| **Total comprehensive income for the period** | **45,372** | 95,199 |
| **Total comprehensive income for the period attributable to:** | | |
| Equity holders of the Company | **43,185** | 93,879 |
| Non-controlling interests | **2,187** | 1,320 |
| | **45,372** | 95,199 |

## CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION

*AS AT 30 JUNE 2017*

| | Note | **Unaudited 30 June 2017 *HK$'000*** | Audited 31 December 2016 *HK$'000* |
|---|---|---|---|
| **Non-current assets** | | | |
| Land use rights | | **109,584** | 108,668 |
| Property, plant and equipment | | **680,486** | 679,012 |
| Intangible assets | 8 | **167,612** | 169,861 |
| Investments in associates | | **11,032** | 9,438 |
| Deferred tax assets | | **40,131** | 37,319 |
| Deposits, prepayments and other receivables | | **117,087** | 94,856 |
| Pledged bank deposits | | **1,150** | 1,116 |
| **Total non-current assets** | | **1,127,082** | 1,100,270 |
| **Current assets** | | | |
| Inventories | | **826,994** | 783,963 |
| Trade and bills receivable | 9 | **429,998** | 516,495 |
| Current tax recoverables | | **3,217** | 3,998 |
| Deposits, prepayments and other receivables | | **123,336** | 118,080 |
| Pledged bank deposits | | **6,170** | 6,116 |
| Cash and bank balances | | **434,071** | 414,210 |
| **Total current assets** | | **1,823,786** | 1,842,862 |
| **Current liabilities** | | | |
| Trade and bills payable | 10 | **243,525** | 251,516 |
| Accruals and other payables | | **219,313** | 275,877 |
| Current tax liabilities | | **97,354** | 90,261 |
| Borrowings | | **122,813** | 75,530 |
| **Total current liabilities** | | **683,005** | 693,184 |
| **Non-current liabilities** | | | |
| Deferred tax liabilities | | **5,736** | 5,311 |
| **Net assets** | | **2,262,127** | 2,244,637 |

## CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION (CONTINUED)

*AS AT 30 JUNE 2017*

| | **Unaudited 30 June 2017** | Audited 31 December 2016 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **Equity** | | |
| **Equity attributable to equity holders of the Company** | | |
| Share capital | **128,440** | 128,440 |
| Reserves | **2,106,787** | 2,100,940 |
| | **2,235,227** | 2,229,380 |
| **Non-controlling interests** | **26,900** | 15,257 |
| **Total equity** | **2,262,127** | 2,244,637 |

*NOTES:*

## 1. BASIS OF PREPARATION

This condensed consolidated interim financial information for the six months ended 30 June 2017 has 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 condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2016, prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRS**").

## 2. PRINCIPAL ACCOUNTING POLICIES

The accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2016, as described in those annual financial statements except for the adoption of amendments to HKFRSs effective for the financial year ending 31 December 2017.

## 3. SEGMENT INFORMATION

The chief operating decision-maker has been identified collectively as the executive Directors of the Company. 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 Group has two major business segments, namely (i) Manufacturing, and (ii) Distribution and Retail. The Manufacturing segment represents manufacturing and sales of sportswear primarily under OEM arrangements to customers mainly in Europe, the United States, Mainland China and other countries. The Distribution and Retail segment represents the distribution and retail of high-end fashion products and sportswear products in Mainland China, Hong Kong, Macau, Taiwan and Singapore.

The executive Directors assess the performance of the business segments based on a measure of operating results of each segment, which excludes finance income and 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 condensed consolidated interim financial information.

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

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

## 3. SEGMENT INFORMATION (CONTINUED)

The segment results for the six months ended 30 June 2017 are as follows:

| | Manufacturing *HK$'000* | Distribution and Retail *HK$'000* | Total *HK$'000* |
|---|---|---|---|
| Total segment revenue | **1,391,801** | **533,990** | **1,925,791** |
| Inter-segment revenue | **(4,275)** | **—** | **(4,275)** |
| **Revenue** | **1,387,526** | **533,990** | **1,921,516** |
| **Operating profit and segment results** | **38,315** | **7,472** | **45,787** |
| Finance income | | | **2,141** |
| Finance costs | | | **(1,196)** |
| Share of profits of associates | **1,428** | **—** | **1,428** |
| **Profit before income tax** | | | **48,160** |
| Income tax expense | | | **(24,264)** |
| **Profit for the period** | | | **23,896** |

Other segment items included in the condensed consolidated interim income statement are as follows:

| | Manufacturing *HK$'000* | Distribution and Retail *HK$'000* | Total *HK$'000* |
|---|---|---|---|
| Amortisation of land use rights | **1,618** | **—** | **1,618** |
| Depreciation of property, plant and equipment | **39,608** | **14,341** | **53,949** |
| Impairment of property, plant and equipment | **3,402** | **—** | **3,402** |
| Reversal of impairment of trade receivables, net | **(317)** | **—** | **(317)** |
| Amortisation of intangible assets | **1,900** | **349** | **2,249** |
| Provision for inventories | **20,706** | **12,479** | **33,185** |
| (Gain)/loss on disposal of property, plant and equipment | **(2,351)** | **68** | **(2,283)** |

The segment assets and liabilities as at 30 June 2017 are as follows:

| | Manufacturing *HK$'000* | Distribution and Retail *HK$'000* | Unallocated *HK$'000* | Total *HK$'000* |
|---|---|---|---|---|
| Assets | **2,214,413** | **682,075** | **43,348** | **2,939,836** |
| Associates | **11,032** | **—** | **—** | **11,032** |
| **Total assets** | **2,225,445** | **682,075** | **43,348** | **2,950,868** |
| **Total liabilities** | **404,266** | **181,385** | **103,090** | **688,741** |

## 3. SEGMENT INFORMATION (CONTINUED)

The segment results for the six months ended 30 June 2016 are as follows:

| | Manufacturing | Distribution and Retail | Total |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Total segment revenue | 1,586,307 | 457,862 | 2,044,169 |
| Inter-segment revenue | (4,097) | — | (4,097) |
| **Revenue** | 1,582,210 | 457,862 | 2,040,072 |
| **Operating profit and segment results** | 126,556 | 15,423 | 141,979 |
| Finance income | | | 5,419 |
| Finance costs | | | (1,516) |
| Share of losses of associates | (1,028) | — | (1,028) |
| **Profit before income tax** | | | 144,854 |
| Income tax expense | | | (36,421) |
| **Profit for the period** | | | 108,433 |

Other segment items included in the condensed consolidated interim income statement are as follows:

| | Manufacturing | Distribution and Retail | Total |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Amortisation of land use rights | 1,418 | — | 1,418 |
| Depreciation of property, plant and equipment | 67,595 | 13,725 | 81,320 |
| Amortisation of intangible assets | 1,901 | 349 | 2,250 |
| Provision for inventories | 8,423 | 16,178 | 24,601 |
| Gain on disposal of property, plant and equipment | (58) | — | (58) |

The segment assets and liabilities as at 31 December 2016 are as follows:

| | Manufacturing | Distribution and Retail | Unallocated | Total |
|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Assets | 2,265,495 | 626,882 | 41,317 | 2,933,694 |
| Associates | 9,438 | — | — | 9,438 |
| **Total assets** | 2,274,933 | 626,882 | 41,317 | 2,943,132 |
| **Total liabilities** | 432,456 | 170,467 | 95,572 | 698,495 |

## 3. SEGMENT INFORMATION (CONTINUED)

The Group's revenue from external customers by geographical location is as follows:

| | Six months ended 30 June | |
|---|---|---|
| | **2017** | 2016 |
| | ***HK$'000*** | *HK$'000* |
| Europe | **539,453** | 739,893 |
| Mainland China | **423,098** | 316,521 |
| United States | **317,429** | 307,627 |
| Hong Kong | **304,911** | 304,385 |
| Other Asian countries | **230,698** | 221,284 |
| Canada | **26,913** | 40,786 |
| Others | **79,014** | 109,576 |
| | **1,921,516** | 2,040,072 |

The Group's revenue by geographical location is determined by the final destination of delivery of the products.

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

| | As at | |
|---|---|---|
| | **30 June** | 31 December |
| | **2017** | 2016 |
| | ***HK$'000*** | *HK$'000* |
| Mainland China | **333,630** | 317,477 |
| Hong Kong | **316,073** | 307,299 |
| Other countries | **437,248** | 438,175 |
| | **1,086,951** | 1,062,951 |

## 4. OTHER (EXPENSES)/INCOME — NET

| | Six months ended 30 June | |
|---|---|---|
| | **2017** | 2016 |
| | ***HK$'000*** | *HK$'000* |
| **Other income** | | |
| Rental income | **1,085** | 1,603 |
| Others | **3,558** | 1,150 |
| | **4,643** | 2,753 |
| **Other expenses** | | |
| Factory closure costs *(Note)* | **(23,763)** | — |
| | **(19,120)** | 2,753 |

*Note:* During the period ended 30 June 2017, the Group closed down a factory in Mainland China and recognised costs of approximately HK$23,763,000, including redundancy costs and impairment of assets.

## 5. OTHER GAINS/(LOSSES) — NET

| | Six months ended 30 June | |
|---|---|---|
| | **2017** | 2016 |
| | ***HK$'000*** | *HK$'000* |
| Gain on disposal of property, plant and equipment | **2,283** | 58 |
| Net exchange gains/(losses) | **10,029** | (582) |
| | **12,312** | (524) |

## 6. INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% (2016: 16.5%) on the estimated assessable profits for the periods which are subject to Hong Kong profits tax.

Mainland China Corporate Income Tax ("**CIT**") has been provided at the rate of 25% (2016: 25%) on the estimated assessable profits for the periods which are subject to CIT.

Taxation on overseas (other than Hong Kong and Mainland China) profits has been calculated on the estimated assessable profits for the period at the applicable rates of taxation prevailing in the countries in which the Group operates.

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

| | **Six months ended 30 June** | |
|---|---|---|
| | **2017** | 2016 |
| | ***HK$'000*** | *HK$'000* |
| Current tax | | |
| — Hong Kong profits tax | **15,298** | 26,150 |
| — Mainland China taxes | **10,301** | 11,218 |
| — Overseas income tax | **417** | 1,802 |
| — Under provision in prior years | **554** | — |
| Deferred tax | **(2,306)** | (2,749) |
| | **24,264** | 36,421 |

## 7. EARNINGS PER SHARE

### (a) Basic

The calculation of basic earnings per share is based on the consolidated profit attributable to equity holders of the Company and on the weighted average number of ordinary shares in issue during the period.

| | **Six months ended 30 June** | |
|---|---|---|
| | **2017** | 2016 |
| Profit attributable to equity holders of the Company *(HK$'000)* | **25,913** | 105,665 |
| Weighted average number of ordinary shares in issue *('000)* | **1,284,400** | 1,284,351 |
| Basic earnings per share *(HK cents)* | **2.0** | 8.2 |

## 7. EARNINGS PER SHARE (CONTINUED)

### (b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. Shares issuable under the share option schemes are the only dilutive potential ordinary shares. A calculation is made in order to determine the number of shares that could have been acquired at fair value (determined as the daily average market share price of the Company's shares in the relevant periods) based on the monetary value of the subscription rights attached to outstanding share options in the relevant periods. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

| | **Six months ended 30 June** | |
|---|---|---|
| | **2017** | 2016 |
| Profit attributable to equity holders of the Company *(HK$'000)* | **25,913** | 105,665 |
| Weighted average number of ordinary shares for diluted earnings per share *('000)* | **1,287,401** | 1,288,848 |
| Diluted earnings per share *(HK cents)* | **2.0** | 8.2 |

## 8. INTANGIBLE ASSETS

| | **As at** | |
|---|---|---|
| | **30 June 2017** | 31 December 2016 |
| | ***HK$'000*** | *HK$'000* |
| Goodwill | **124,385** | 124,385 |
| Know-how | **31,225** | 33,099 |
| Trademarks | **11,406** | 11,755 |
| Licence rights | **596** | 622 |
| Net book amount | **167,612** | 169,861 |

**Impairment test for goodwill:**

No impairment was recognised in respect of the golf and high-end apparel manufacturing and trading business and high-end fashion retailing business cash generating units during the six months ended 30 June 2017 (30 June 2016: Nil).

## 9. TRADE AND BILLS RECEIVABLE

| | As at | |
|---|---|---|
| | **30 June** | 31 December |
| | **2017** | 2016 |
| | ***HK$'000*** | *HK$'000* |
| Trade receivables | | |
| — from third parties | **407,741** | 504,762 |
| — from a related party | **12,474** | 8,234 |
| Bills receivable | **11,357** | 5,383 |
| | **431,572** | 518,379 |
| Less: impairment of trade receivables | **(1,574)** | (1,884) |
| | **429,998** | 516,495 |

The carrying amounts of trade and bills receivable approximate their fair values.

Majority of the trade receivables are with customers having good credit history. The Group 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:

| | As at | |
|---|---|---|
| | **30 June** | 31 December |
| | **2017** | 2016 |
| | ***HK$'000*** | *HK$'000* |
| 0–90 days | **415,255** | 511,901 |
| 91–180 days | **9,277** | 4,454 |
| 181–365 days | **5,353** | 207 |
| Over 365 days | **1,687** | 1,817 |
| | **431,572** | 518,379 |

## 10. TRADE AND BILLS PAYABLE

| | As at 30 June 2017 *HK$'000* | 31 December 2016 *HK$'000* |
|---|---|---|
| Trade payables | | |
| — to third parties | **228,137** | 238,210 |
| — to related parties | **12,708** | 13,164 |
| Bills payable | **2,680** | 142 |
| | **243,525** | 251,516 |

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

| | As at 30 June 2017 *HK$'000* | 31 December 2016 *HK$'000* |
|---|---|---|
| 0–90 days | **231,433** | 245,576 |
| 91–180 days | **9,110** | 3,793 |
| 181–365 days | **470** | 181 |
| Over 365 days | **2,512** | 1,966 |
| | **243,525** | 251,516 |

## 11. DIVIDENDS

A final dividend of HK$38,532,000 relating to the year ended 31 December 2016 was paid in June 2017.

At the Board meeting held on 24 August 2017, the Company's Board of Directors declared an interim dividend of HK2.0 cents (2016: interim dividend of HK4.0 cents) per share. The interim dividend amounting to HK$25,688,000 (2016: interim dividend amounting to HK$51,376,000) has not been recognised as a liability in this interim financial information.

## MANAGEMENT DISCUSSION AND ANALYSIS

## OVERALL REVIEW

For the six months ended 30 June 2017, the Group's total revenue decreased by 5.8% to HK$1,921.5 million (30 June 2016: HK$2,040.1 million). The decline was mainly due to the drop in revenue from Manufacturing Business. The 12.3% drop in revenue from Manufacturing Business was partially compensated by the 16.6% increase in revenue from Distribution and Retail Business.

Gross profit margin of the Group reduced to 27.9% in the current period (30 June 2016: 29.2%), primarily due to the significant decrease in production efficiency and output of the main Vietnam factory of Manufacturing Business. As for Distribution and Retail Business, its margin also dropped slightly in the current period. As a result of the drop in revenue and gross profit margin of Manufacturing Business and lower gross profit margin of Distribution and Retail Business, overall gross profit of the Group decreased by HK$58.6 million to HK$536.4 million in the current period (30 June 2016: HK$595.0 million).

Operating profit of the Group decreased significantly by HK$96.2 million to HK$45.8 million in the current period (30 June 2016: HK$142.0 million). Such decrease was primarily due to the drop in gross profit as mentioned above and costs incurred from Manufacturing Business for a factory closure in Mainland China. Decreased store contributions from sportswear retail business also further reduced the operating profit during the period.

As a result, profit attributable to equity holders for the period ended 30 June 2017 also decreased by HK$79.8 million to HK$25.9 million (30 June 2016: HK$105.7 million). Excluding the impact of factory closure mentioned above, profit attributable to equity holders would have decreased by HK$56.0 million to HK$49.7 million. In consideration of healthy cash position, the Board proposed to pay an interim dividend of HK2.0 cents per share for the six months ended 30 June 2017 (30 June 2016: HK4.0 cents per share).

## BUSINESS REVIEW

The Group is an integrated manufacturer, distributor and retailer for renowned sports and fashion brands. The financial performances of its two business segments, namely "Manufacturing Business" and "Distribution and Retail Business" are summarised below.

**Manufacturing Business**

The Group's Manufacturing Business operates mainly through OEM arrangements for a number of renowned sports brands. Most of the Group's products are exported and sold to Europe, the United States, Mainland China and other countries. 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.

In the first half of 2017, Manufacturing Business recorded a decline in revenue by 12.3% to HK$1,391.8 million (30 June 2016: HK$1,586.3 million), accounting for 72.3% of the Group's total revenue as compared to 77.6% for the corresponding period in 2016.

We have been experiencing management changes of our main Vietnam factory, which have resulted in the significant decrease in production efficiency and output of our main Vietnam factory. As the Vietnam factory accounted for more than 40% of the Group's production capacity, its underperformance has significantly affected the revenue and profit margin of the Group.

According to our plan, a garment factory of the Group in Wuzhou, Guangxi province of Mainland China, ceased production during the current period. The Group started to scale down the operations in 2016 and certain related expenses were incurred last year. Further costs and provision for factory closure amounting to HK$23.8 million, including redundancy expenses and impairment of assets, were recorded in the current period.

For the six months ended 30 June 2017, operating profit from Manufacturing Business dropped significantly by HK$88.3 million to HK$38.3 million (30 June 2016: HK$126.6 million). The decrease was mainly due to the drop in revenue, decreased profit margin resulting from lower production efficiency and decreased production capacity utilisation of our main Vietnam factory. Excluding the cost and provision for factory closure, operating profit would have been HK$62.1 million, representing a decrease of 50.9% compared with the corresponding period last year.

**Distribution and Retail Business**

The Group's Distribution and Retail Business comprises (1) the retail of high-end fashion products in Mainland China, Hong Kong, Macau, Taiwan and Singapore, and (2) the retail of sportswear products in Hong Kong and Mainland China.

In the first half of 2017, revenue from Distribution and Retail Business increased by 16.6% to HK$534.0 million (30 June 2016: HK$457.9 million), accounting for 27.7% of the Group's total revenue as compared to 22.4% for the corresponding period in 2016. The increase in revenue from high-end fashion products outweighed the decrease in revenue from sportswear products.

Distribution and Retail Business generated operating profit of HK$7.5 million for the current period (30 June 2016: HK$15.4 million). The decrease was mainly due to the underperformance of retail of sportswear products. The performance of each stream of this segment is set out below.

***Retail of High-end Fashion Products***

The retail of high-end fashion products is operated under the Shine Gold Group. It has fashion retail networks of "***D-mop***" and "***J-01***" stores to sell several self-owned brands, as well as imported brands, in Hong Kong, Macau, Mainland China and Taiwan. In addition, it has exclusive distribution rights for brands including "***Y-3***" in Mainland China (excluding Beijing), Hong Kong, Macau, Taiwan and Singapore, and "***Thomas Sabo***" in Mainland China, Hong Kong and Macau and certain Japanese brands in Hong Kong. It has also started to operate licensed stores in Hong Kong for the brand "***New Era***" and "***Marcelo Burlon***".

As at 30 June 2017, the Shine Gold Group had 130 (31 December 2016: 116) high-end fashion retail stores, of which 71 were in Mainland China, 48 were in Hong Kong and Macau, 10 were in Taiwan and 1 was in Singapore.

Revenue of the Shine Gold Group for the six months ended 30 June 2017 increased by HK$97.7 million to HK$415.3 million (30 June 2016: HK$317.6 million), representing an increase of 30.8%. As compared with the corresponding period in 2016, the number of stores increased significantly to 130 (30 June 2016: 88). The major new stores included 28 Thomas Sabo stores, 6 Y-3 stores, 4 J-01 stores and 5 New Era stores. More than 85% of the increased revenue were from those major new stores in the current period. In addition to the growth from new stores, same-store sales in Mainland China also increased during the current period as the brands and products were well accepted by consumers.

The Shine Gold Group generated operating profit of HK$28.1 million in the first half of 2017 (30 June 2016: HK$25.5 million). Operating profit margin decreased by a slight 1.2 percentage point to 6.8% (30 June 2016: 8.0%). The decreased profit margin was mainly due to provision made for higher level of aged inventories. Moreover, the newly opened stores had lower shop efficiency as compared with existing stores.

***Retail of Sportswear Products***

The retail of sportswear products is operated under the Win Sports Group. As at 30 June 2017, it had 22 (31 December 2016: 27) sportswear retail stores in Hong Kong and Mainland China, of which 3 were under the "***Futbol Trend***" name, 9 were "***Sports Corner***" or "***Little Corner***" stores and 10 were under the names of several international sports brands.

Revenue of the Win Sports Group for the six months ended 30 June 2017 decreased by HK$21.6 million to HK$118.7 million (30 June 2016: HK$140.3 million), representing a 15.4% decrease. As compared with the corresponding period in 2016, the number of stores decreased by 8 to 22 (30 June 2016: 30). The drop in revenue mainly resulted from decreased same-store sales and loss in revenue from closure of under-performing stores.

Responding to the fierce competition in the sportswear retail market, the management promptly expanded the scale of bargain sales during the period to release cash resources and reduce the pressure of provision for inventories. Revenue derived from the bargain sales partially offset the drop in revenue discussed above.

The Win Sports Group incurred operating loss of HK$20.6 million in the first half of 2017 (30 June 2016: HK$10.1 million). Operating loss enlarged relative to the corresponding previous period because of the drop in revenue, reduced gross profit margin and high rental costs in Hong Kong.

## PROSPECTS

### Manufacturing Business

The Group will continue to shift its planned capacity to Vietnam where operating costs are relatively lower, labour supply is stable and tax and customs policies are favourable. This is consistent with the Group's long-term strategy of relocating its production capacity from high-cost regions to low-cost regions. In the long run, the Group expects to relocate 80% of its production capacity to Southeast Asian countries.

We believe our strategy is correct, but there have been challenges in execution. The performance of our main Vietnam garment factory was not satisfactory in 2017. Overall production output and utilization of factory capacity failed to meet set targets. To cope with the difficulties arising from change of factory management in Vietnam, the management is in the process of shifting the Group's regional headquarter to Vietnam for better monitoring and control of production in Southeast Asia. Moreover, we have already recruited new management talents for the Vietnam factory. The new management is in the right track of mastering the production process. We expect the second half of 2017 to remain difficult but the production efficiency and output of Vietnam factory would go back to planned level in coming year 2018.

The main construction work of our Vietnam printing factory will be completed in Q3 2017 and we target for the factory to start trial run in Q4 2017. With our own printing factory in Southeast Asia to support garment production in the same region, we can produce high quality products in shorter production lead-time.

The Group is well aware that increasing labour costs in Southeast Asia will pose pressure on the Group's future operating profit. To mitigate this pressure, the Group will continue to employ cost control measures, reinforce and streamline production processes through investing in automation and advanced information technology platforms, plus adopt modern manufacturing systems.

While maintaining good relationships with existing customers to ensure steady growth of orders, the Group will also continue to look for new customers and explore business opportunities, including but not limited to manufacturing of sportswear products, so as to establish additional growth drivers.

***Innovative Textile Technology — e.dye***

Aside from developing the garment manufacturing business, it has always been the Group's intention to seek out and seize opportunities for vertical integration. With rising concerns for protecting the environment, the Group is fully aware of the importance of manufacturing non-hazardous textiles, a practice that is lacking in the market. The Group has met and joined forces with a partner that possesses an innovative textile technology. This has led to the formation of a joint venture to further develop the technology and associated production business. The technology and production business are developing and operating under Win Success Holding Limited and its subsidiaries (together, "**Win Success Group**") using the trademark "***e.dye***".

Zero Discharge of Hazardous Chemicals ("**ZDHC**") is a programme created in 2011 where a group of global sports, fashion and outdoor brands has pledged to advance towards zero discharge of hazardous chemicals in the textile supply chain by the year 2020. Correspondingly, ZDHC seeks to regulate these global brands by focusing on reducing their toxic waste discharges during supply chain production. Given that water pollution is one major concern, the market is still seeking better textiles that are more environmentally friendly in terms of minimising pollution during the production process. Our innovative technology will create a revolution in the textile industry, and we are the one capable of providing the solution.

e.dye technology can produce synthetic textiles that are able to achieve the following benefits:

- Less water used during production
- Zero toxic substances created
- Guaranteed product quality
- Colour fastness with a wide range of colour choices

In comparison with traditional dyeing processes, e.dye requires 75% less water during the production process, consumes fewer harmful chemicals, uses less energy and emits less CO2 into the atmosphere. e.dye technology and its associated products are thus able to help global brands fulfil the ZDHC initiative of zero discharge of hazardous chemicals in the textile supply chain by the year 2020.

As at 30 June 2017, the Win Success Group had invested RMB55 million (approximately HK$64 million) in the pilot factory which is established in Kunshan, Jiangsu province of Mainland China. We will establish our production facilities in Vietnam and will continuously approach well-known brands to explore potential cooperation of e.dye products.

**Distribution and Retail Business**

***Retail of High-end Fashion Products***

Multi-branding is one of the key strategies of the Group for tapping the full potential of the Greater China market. While continuing to develop the retail network for our existing brand portfolio, our team has also kept sourcing fashion products of internationally renowned brands. In the first half of 2017, the Group gained distribution rights from several internationally renowned brands, including "***Tara Jarmon***" in Mainland China, Hong Kong and Macau, "***Marcelo Burlon***" in Hong Kong, "***DAKS***" and "***Champion***" in Mainland China.

Founded in France in 1986, Tara Jarmon is one of the global brands that design, sell and distribute comprehensive women collections. The Group has been appointed as its exclusive distributor, responsible for the distribution and sale of its products in Mainland China, Hong Kong and Macau through retail, wholesale and internet sales channels. The Group has planned to open seven new stores for the brand in the second half of 2017.

Marcelo Burlon was founded in Italy in 2012. It is one of the trendy brands that design, sell and distribute comprehensive collections. The Group has been appointed as its distributor in Hong Kong, and opened the first global mono-brand shop for "***Marcelo Burlon***" in Hong Kong in May 2017.

DAKS originated from the United Kingdom in 1894 and is one of the quintessential luxury labels, specialising in fine tailoring and accessories for men and women. Champion comes from the United States and produces some of the best street-wear that combine classic aesthetics and fashionable designs. The Group has been appointed to operate licensed stores under the "***Champion***" and "***DAKS***" name in Mainland China. It plans to open five Champion stores and three DAKS stores in the second half of 2017.

Going forward, we will enhance and broaden our brand and product portfolio in the young and light luxury fashion segment so as to capture a bigger market share in the Greater China region. Apart from the abovementioned new brands, the Group also has existing "***Y-3***", "***Thomas Sabo***", "***New Era***" and certain Japanese brands. Moreover, the Group will continue its efforts to promote the retail presence of its own brand stores, namely "***D-mop***" and "***J-01***". Furthermore, we will strive to enhance shopping experience for our customers, in particular, in the newly opened stores, by offering attractive product mix and enhancing shop efficiency and in-store customer services.

Although Mainland China at large is experiencing slower economic growth, her consumer market has continued to see moderate growth, and this trend is expected to carry on in 2017. In addition, the demand for fashion and sportswear products remains strong at the brace of the rapid rise of the young affluent middle class. Mainland China will therefore remain our major target market and we will expand our retail network across the country.

Last but not least, online shopping has become increasingly popular among consumers in the past few years. Online sales are assuming a bigger and bigger share of total retail sales in Mainland China. We will therefore continue to develop our e-commerce channel so as to tap the huge potential and fast-growing online market.

***Retail of Sportswear Products***

Our sportswear retail business is mainly operated in Hong Kong. In the first half of 2017, the statistics showed that Hong Kong retail spending dropped by 0.6% compared with the same period last year. For the single month of June, spending was relatively flat with 0.1% growth but it was the fourth consecutive month of spending growth. The figures showed that Hong Kong retail market improved as compared with the second half of 2016. However, we expect the consumer spending to remain weak in the second half of 2017, the operating environment of sportswear retail market remains tough, primarily due to keen competition and high rental level. We will continue to closely monitor market development and, with prudence, close non-performing stores and transform the store channels to more bargain and outlet stores. We will also implement cost-saving measures, including warehouse improvement project, to enhance overall operating efficiency.

## FINANCIAL POSITION AND LIQUIDITY

The Group generally finances its operations with internally generated cashflow and bank facilities and has maintained a healthy financial position during the period. As at 30 June 2017, it had cash and bank balances amounting to HK$434.1 million (31 December 2016: HK$414.2 million). The net increase was mainly attributable to the cash generated from operating activities and bank borrowing, net with cash used in capital expenditure and payment of final dividends.

As at 30 June 2017, the Group had bank borrowings amounting to HK$122.8 million (31 December 2016: HK$75.5 million), which were on floating rates, and unutilised banking facilities amounting to HK$556.9 million (31 December 2016: HK$500.3 million). The gearing ratio, being total borrowings divided by total equity, as at 30 June 2017, was 5.5% (31 December 2016: 3.5%).

## EMPLOYEE AND REMUNERATION POLICIES

As at 30 June 2017, the Group had approximately 17,000 employees (31 December 2016: approximately 17,000 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 30 June 2017, bank deposits of HK$7.3 million (31 December 2016: HK$7.2 million) were pledged to secure banking facilities for the Group.

## CONTINGENT LIABILITIES

The Group had no significant contingent liabilities, litigation or arbitration of material importance as at 30 June 2017.

## FOREIGN CURRENCY EXPOSURE

The Group's revenue and purchases were primarily denominated in US Dollars, Hong Kong Dollars and RMB. During the period, approximately 60.9%, 21.3% and 14.9% of revenue were denominated in US Dollars, RMB and Hong Kong Dollars respectively, whereas approximately 73.7%, 14.8% and 7.2% of purchases were denominated in US Dollars, Hong Kong Dollars and RMB respectively.

As at 30 June 2017, approximately 55.3%, 29.7% and 9.6% of cash and bank balances were denominated in RMB, US Dollars and Hong Kong Dollars respectively, and approximately 60.0%, 29.6% and 10.4% of bank borrowings were denominated in Hong Kong Dollars, US Dollars and Euro respectively.

Hong Kong Dollar serves as the Company's functional currency and the Group's presentation currency. The Group considers its foreign currency exchange exposure arising from US Dollar transactions and US Dollar cash balances to be minimal during the period given that Hong Kong Dollar was pegged against US Dollar. The recent appreciation of RMB against US Dollars during the period was manageable. The Group will closely monitor its foreign currency position and fluctuation of RMB and, when necessary, will consider using derivative instruments to hedge against foreign currency exposure.

## 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 10 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**"). All Directors have confirmed that they have complied with the required standards as set out in the Model Code throughout the accounting period covered by the interim report.

## 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 six months ended 30 June 2017.

## DIVIDENDS

The Board has declared an interim dividend of HK2.0 cents (2016: interim dividend of HK4.0 cents) per share for the six months ended 30 June 2017 payable to the shareholders of the Company whose names appear on the register of members of the Company at the close of business on Friday, 22 September 2017. The dividends will be paid on or about Tuesday, 10 October 2017.

## CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Wednesday, 20 September 2017 to Friday, 22 September 2017 (both days inclusive), during which period no transfer of shares will be registered. In order to qualify for entitlement to the interim dividend for the six months ended 30 June 2017, all transfers of shares 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 Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Tuesday, 19 September 2017.

## CORPORATE GOVERNANCE

The Company has applied the principles and complied with the code provisions in the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules throughout the accounting period covered by the interim report.

## REVIEW OF FINANCIAL INFORMATION

The Audit Committee has discussed with the management of the Company the internal control and financial reporting matters related to the preparation of the unaudited condensed consolidated interim financial information for the six months ended 30 June 2017. It has also reviewed the unaudited condensed consolidated interim financial information for the six months ended 30 June 2017 with the management and the auditor of the Company and recommended them to the Board for approval.

The Company's auditor, PricewaterhouseCoopers, has also reviewed the unaudited condensed consolidated interim financial information for the six months ended 30 June 2017 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 Hong Kong Institute of Certified Public Accountants.

## PUBLICATION OF INTERIM RESULTS AND INTERIM 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 interim report for the six months ended 30 June 2017 will be dispatched to the shareholders and will be available on the aforesaid websites 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 Dr. CHAN Kwong Fai, Mr. MA Ka Chun, Mr. KWAN Kai Cheong and Ms. CHAU Pui Lin being the independent non-executive Directors.

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

Hong Kong, 24 August 2017