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 2017

HIGHLIGHTS

- The Group's revenue for the six months ended 30 June 2017 amounted to approximately HK$1,262.5 million, representing an increase of approximately 12.6% when compared to the six months ended 30 June 2016.

  Sales revenue of sportswear fabric materials achieved a period-on-period growth of approximately 44.2%.

- The Group's gross profit for the six months ended 30 June 2017 amounted to approximately HK$362.7 million, a decrease of approximately 4.5% when compared to the six months ended 30 June 2016. Gross profit margin decreased by approximately 5.1 percentage points to approximately 28.7%, as compared to the six months ended 30 June 2016.

- Net profit for the six months ended 30 June 2017 amounted to approximately HK$140.7 million, representing a decrease of approximately 26.6% as compared to approximately HK$191.8 million for the six months ended 30 June 2016. The Group recorded a lower net profit margin of approximately 11.1% for the six months ended 30 June 2017, representing a decline of approximately 6.0 percentage points, as compared to approximately 17.1% for the six months ended 30 June 2016.

- Basic earnings per share was approximately HK13.67 cents for the six months ended 30 June 2017, representing a decrease of approximately 27.1% from approximately HK18.75 cents for the six months ended 30 June 2016.

- The Board has resolved not to declare any interim dividend for the six months ended 30 June 2017 (for the six months ended 30 June 2016: HK7.3 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 consolidated interim results of the Company and its subsidiaries (the "**Group**") for the six months ended 30 June 2017 (the "**Reporting Period**"), together with the comparative figures for the six months ended 30 June 2016, as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2017 (unaudited)

	Notes	Six months ended 30.6.2017 HK$'000 (unaudited)	30.6.2016 HK$'000 (unaudited)
Revenue	*4*	**1,262,498**	1,121,615
Cost of sales		**(899,840)**	(742,055)
Gross profit		**362,658**	379,560
Other income		**21,672**	20,697
Other gains and losses		**(8,137)**	9,639
Selling and distribution expenses		**(72,501)**	(57,684)
Administrative expenses		**(83,514)**	(81,357)
Research and development costs		**(37,382)**	(26,474)
Share of result of a joint venture		**1,569**	2,401
Finance costs		**(15,890)**	(14,797)
Profit before taxation	*5*	**168,475**	231,985
Income tax expense	*6*	**(27,769)**	(40,192)
Profit for the period		**140,706**	191,793
Other comprehensive income (expense)			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		**74,668**	(44,240)
Share of translation reserve of a joint venture		**342**	(153)
Fair value gain on an available-for-sale financial asset		**515**	13
Reclassified to profit and loss on disposal of an available-for-sale financial asset		**(250)**	–
Other comprehensive income (expense) for the period		**75,275**	(44,380)
Total comprehensive income for the period attributable to owners of the Company		**215,981**	147,413
Earnings per share	*8*		
Basic (HK cents)		**13.67**	18.75
Diluted (HK cents)		**13.58**	18.59

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 30 June 2017 (unaudited)

	Notes	**30.6.2017 HK$'000 (unaudited)**	31.12.2016 HK$'000 (audited)
Non-current assets			
Property, plant and equipment	*9*	**1,665,275**	1,324,704
Prepaid lease payments		**101,218**	80,521
Interest in a joint venture		**16,869**	15,300
Deposits		**357,596**	90,523
Available-for-sale financial assets		**26,498**	28,434
Deferred tax assets		**820**	867
		2,168,276	1,540,349
Current assets			
Inventories		**654,517**	504,635
Prepaid lease payments		**2,517**	894
Trade and bills receivables	*10*	**504,294**	555,167
Other receivables, deposits and prepayments		**120,442**	67,074
Amount due from a joint venture		**4,658**	5,506
Amount due from a related company		**7,932**	1,923
Derivative financial instrument		**12,941**	12,811
Pledged bank deposits		**62,301**	61,610
Short term bank deposits		**14,594**	13,362
Bank balances and cash		**193,909**	424,540
		1,578,105	1,647,522
Current liabilities			
Trade payables	*11*	**102,339**	114,153
Bills payable	*11*	**314,909**	314,013
Other payables and accrued charges		**181,575**	200,981
Amount due to a joint venture		**5,755**	8,505
Bank borrowings	*12*	**491,018**	120,707
Obligations under finance leases		**2,492**	5,302
Tax payable		**24,862**	36,592
		1,122,950	800,253
Net current assets		**455,155**	847,269
Total assets less current liabilities		**2,623,431**	2,387,618

	Notes	30.6.2017 HK$'000 (unaudited)	31.12.2016 HK$'000 (audited)
Non-current liabilities			
Bank borrowings	*12*	**586,346**	472,795
Obligations under finance leases		**–**	629
Derivative financial instrument		**4,313**	4,780
Deferred income		**7,245**	7,649
		597,904	485,853
Net assets		**2,025,527**	1,901,765
Capital and reserves			
Share capital	*13*	**10,324**	10,288
Reserves		**2,015,203**	1,891,477
Total equity attributable to owners of the Company		**2,025,527**	1,901,765

NOTES

For the six months ended 30 June 2017

1. GENERAL INFORMATION

The Company was 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 an executive director and the Chairman 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 2017 have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") and with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**").

3. PRINCIPAL ACCOUNTING POLICIES

In the current interim period, the Group has applied, for the first time, certain amendments to Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the HKICPA that are mandatorily effective for the accounting period beginning on or after 1 January 2017.

The application of the amendments to HKFRSs in the current interim period has had no material effect on the amounts reported in the condensed consolidated financial statements and/or disclosures set out in the condensed consolidated financial statements.

The condensed consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments, which are measured at fair values.

The accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2017 are the same as those followed in the preparation of the Group's consolidated financial statements for the year ended 31 December 2016.

4. SEGMENT INFORMATION

The financial information reported to the 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 knitted lingerie, apparel and sportswear 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 2017 (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	837,676	424,822	1,262,498
Segment profit	122,824	82,999	205,823
Unallocated other income			5,981
Unallocated other gains and losses			(7,623)
Unallocated corporate expenses			(21,385)
Share of result of a joint venture			1,569
Finance costs			(15,890)
Profit before taxation			168,475

For the six months ended 30 June 2016 (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	735,303	386,312	1,121,615
Segment profit	153,243	91,525	244,768
Unallocated other income			11,822
Unallocated other gains and losses			9,639
Unallocated corporate expenses			(21,848)
Share of result of a joint venture			2,401
Finance costs			(14,797)
Profit before taxation			231,985

The accounting policies of the operating and reportable segments are the same as the Group's accounting policies. Segment profits represent the results of each segment without allocation of corporate items including mainly bank interest income, dividend income from an available-for-sale financial asset, change in fair value of derivative financial instruments, net foreign exchange (loss) gain, share of result of a joint venture, gain (loss) on disposal of property, plant and equipment for corporate use, corporate expense and finance costs. Corporate expenses include directors' remuneration paid or payable by the Group, equity-settled share-based payments and certain administrative expenses for corporate functions. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

Segment assets and liabilities

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

As at 30 June 2017 (unaudited)

	Manufacturing and trading of elastic fabric and lace HK$'000	Manufacturing and trading of elastic webbing HK$'000	Total HK$'000
ASSETS			
Segment assets	2,469,947	528,830	2,998,777
Property, plant and equipment			115,632
Prepaid lease payments			65,594
Interest in a joint venture			16,869
Available-for-sale financial asset			26,498
Deferred tax assets			820
Other receivables, deposits and prepayments			238,446
Derivative financial instrument			12,941
Pledged bank deposits			62,301
Short term bank deposits			14,594
Bank balances and cash			193,909
Total assets			3,746,381
LIABILITIES			
Segment liabilities	436,761	168,829	605,590
Other payables and accrued charges			6,233
Bank borrowings			1,077,364
Obligations under finance leases			2,492
Tax payable			24,862
Derivative financial instrument			4,313
Total liabilities			1,720,854

As at 31 December 2016 (audited)

	Manufacturing and trading of elastic fabric and lace HK$'000	Manufacturing and trading of elastic webbing HK$'000	Total HK$'000
ASSETS			
Segment assets	1,979,458	517,937	2,497,395
Property, plant and equipment			52,088
Prepaid lease payments			43,978
Interest in a joint venture			15,300
Available-for-sale financial assets			28,434
Deferred tax assets			867
Other receivables, deposits and prepayments			37,486
Derivative financial instrument			12,811
Pledged bank deposits			61,610
Short term bank deposits			13,362
Bank balances and cash			424,540
Total assets			3,187,871
LIABILITIES			
Segment liabilities	446,825	193,562	640,387
Other payables and accrued charges			4,914
Bank borrowings			593,502
Obligations under finance leases			5,931
Tax payable			36,592
Derivative financial instrument			4,780
Total liabilities			1,286,106

For the purposes of monitoring segment performances and allocating resources between segments:

- all assets are allocated to operating and reportable segments, other than property, plant and equipment and prepaid lease payments for corporate use or the property and plant under construction in Vietnam, interest in a joint venture, available-for-sale financial assets, deferred tax assets, derivative financial instrument, pledged bank deposits, short term bank deposits and bank balances and cash and certain corporate assets.

- all liabilities are allocated to operating and reportable segments, other than bank borrowings, obligations under finance leases, tax payable, derivative financial instrument and certain corporate liabilities.

5. PROFIT BEFORE TAXATION

	Six months ended	
	30.6.2017	30.6.2016
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Profit before taxation has been arrived at after charging (crediting):		
Depreciation of property, plant and equipment	**66,127**	59,667
Amortisation of prepaid lease payments	**1,928**	475
Cost of inventories recognised as an expense	**899,840**	742,055
Including: allowance for obsolete inventories	**181**	11,653
Bank interest income (included in other income)	**(3,201)**	(10,434)
Government grants (included in other income)	**(9,950)**	(7,502)
Dividend income from an available-for-sale financial asset (included in other income)	**(1,316)**	–
Proceeds from sales of scrap materials (included in other income)	**(6,572)**	(2,524)
Change in fair value of derivative financial instruments (included in other gains and losses)	**(597)**	(6,122)
Net foreign exchange loss (gain) (included in other gains and losses)	**8,220**	(3,517)
Gain on disposal of an available-for-sale financial asset (included in other gains and losses)	**(250)**	–
Equity-settled share based payments (included in administrative expenses)	**1,705**	3,745

6. INCOME TAX EXPENSE

	Six months ended	
	30.6.2017	30.6.2016
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Current tax:		
Hong Kong Profits Tax	**14,875**	26,865
The PRC Enterprise Income Tax ("**EIT**")	**12,805**	16,789
	27,680	43,654
Deferred taxation	**89**	(3,462)
	27,769	40,192

Hong Kong Profits Tax is calculated at 16.5% on the estimated assessable profit for both periods.

Under the Law of the People's Republic of China (the "**PRC**") on Enterprise Income Tax (the "**EIT Law**") and Implementation Regulation of the EIT Law, except as described below, the tax rate of the PRC subsidiaries is 25% during both periods.

Dongguan Best Pacific Textile Company Limited ("**Dongguan BPT**"), a subsidiary of the Company, has obtained the qualification as a high and new technology enterprise since 2010, which has been renewed for an additional three years from financial year ended 31 December 2016. Hence, Dongguan BPT is subject to the preferential tax treatment and the applicable tax rate for each of the six months ended 30 June 2016 and 2017 is 15%.

Dongguan New Horizon Elastic Fabric Company Limited ("**Dongguan NHE**"), a subsidiary of the Company, has also obtained the qualification as a high and new technology enterprise in December 2016, which lasts for three years from the financial year ended 31 December 2016. Dongguan NHE is therefore also subject to the preferential tax treatment and the applicable tax rate for the six months ended 30 June 2017 is 15% (for the six months ended 30 June 2016: 25%).

7. DIVIDENDS

During the current interim period, a final dividend of HK9.5 cents per ordinary share in respect of the year ended 31 December 2016 (2016: HK8 cents per ordinary share in respect of the year ended 31 December 2015) was declared and paid to the shareholders of the Company. The aggregate amount of final dividend declared which are paid in the current interim period amounted to HK$97,845,000 (2016: HK$81,829,000).

Subsequent to the end of the current interim period, the directors of the Company have resolved not to declare any interim dividend for the six months ended 30 June 2017 (for the six months ended 30 June 2016: HK7.3 cents per ordinary share).

8. EARNINGS PER SHARE

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

	Six months ended	
	30.6.2017	30.6.2016
	(unaudited)	(unaudited)
Earnings		
Earnings for the purposes of basic and diluted earnings per share (profit for the period attributable to owners of the Company) (HK$'000)	**140,706**	191,793
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,029,642,378**	1,022,664,326
Effect of dilutive potential ordinary shares:		
Share options issued by the Company	**6,153,180**	8,776,175
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**1,035,795,558**	1,031,440,501

9. MOVEMENT IN PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2017, total addition to property, plant and equipment were approximately HK$367,262,000 (for the six months ended 30 June 2016: approximately HK$107,519,000), which mainly included addition of machinery of approximately HK$231,200,000 (for the six months ended 30 June 2016: approximately HK$68,795,000) and addition to construction in progress of approximately HK$122,402,000 (for the six months ended 30 June 2016: approximately HK$26,248,000).

10. TRADE AND BILLS RECEIVABLES

Trade receivables from third parties mainly represent receivables from customers in relation to the sale of elastic fabric and lace and elastic webbing to the customers. 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 month.

The following is an aged analysis of trade receivables, net of allowance for bad and doubtful debts, presented based on the date of issuance of monthly statements at the end of each reporting period and an aged analysis of bills receivable presented based on the date of issuance of the bills at the end of each reporting period.

	30.6.2017	31.12.2016
	HK$'000	HK$'000
	(unaudited)	(audited)
Trade receivables		
0 - 90 days	**441,338**	486,676
91 - 180 days	**36,338**	42,682
Over 180 days	**22,794**	19,809
	500,470	549,167
Bills receivables		
0 - 90 days	**2,622**	5,887
91 - 180 days	**1,187**	113
Over 180 days	**15**	–
	3,824	6,000
	504,294	555,167

11. TRADE AND BILLS PAYABLES

Trade payables

The credit period granted by the Group's creditors ranges from approximately 1 month to 3 months. The following is an aged analysis of trade payables presented based on the invoice date at the end of each reporting period:

	30.6.2017	31.12.2016
	HK$'000	HK$'000
	(unaudited)	(audited)
0 - 90 days	**92,596**	110,222
Over 90 days	**9,743**	3,931
	102,339	114,153

Bills payable

The following is an aged analysis of bills payable presented based on the date of issuance of bills at the end of each reporting period:

	30.6.2017	31.12.2016
	HK$'000	HK$'000
	(unaudited)	(audited)
0 - 90 days	**225,540**	236,383
91 - 180 days	**89,369**	77,630
	314,909	314,013

12. BANK BORROWINGS

	30.6.2017	31.12.2016
	HK$'000	HK$'000
	(unaudited)	(audited)
Unsecured syndicated loans	**729,244**	585,693
Unsecured bank borrowings	**348,120**	7,809
	1,077,364	593,502
Carrying amount repayable *(Note a)*:		
Within one year	**688,788**	117,587
More than one year, but not exceeding two years	**388,576**	3,120
More than two years, but not more than five years	**–**	472,795
	1,077,364	593,502
Less: Amounts shown under current liabilities *(Note b)*	**(491,018)**	(120,707)
Amounts shown under non-current liabilities *(Note b)*	**586,346**	472,795
Carrying amount of bank borrowings that are repayable within one year and contain a repayment on demand clause	**345,890**	4,689
Carrying amount of bank borrowings that are repayable more than one year but contain a repayment on demand clause	**2,230**	3,120
	348,120	7,809

Notes:

(a) The amounts due are based on scheduled repayment dates set out in the loan agreements.

(b) The amounts of bank borrowings shown under current liabilities include carrying amounts repayable within one year and/or contain a repayment on demand clause, but exclude bank loans of HK$200,000,000 (as at 31 December 2016: nil) which represent the revolving portion of the syndicated loans for which the Group has the discretion, pursuant to the relevant facility agreement, to roll over until the final maturity date, which is in February 2019. In the opinion of the directors of the Company, it is expected that such revolving portion of the syndicated loans will be rolled over until the final maturity date and therefore such amounts are classified as non-current liabilities as at 30 June 2017.

As at 30 June 2017 and 31 December 2016, the unsecured syndicated loan was guaranteed by group companies and the loans will be repayable by installments from 1 July 2017 to 1 February 2019 and with an interest rate at 2.6% (31 December 2016: 2.6%) plus Hong Kong Interbank Offered Rate ("**HIBOR**") per annum.

The unsecured bank borrowings were guaranteed by group companies as at 30 June 2017 and 31 December 2016.

The Group has floating-rate borrowings which carry interest at HIBOR plus 1.50% to 3.50% (2016: HIBOR plus 1.75% to 3.50%) per annum.

13. SHARE CAPITAL

All shares issued rank pari passu with each other in all aspects. The detailed movements of the Company's share capital are set out below:

	Number of shares	Amount	
		HK$	HK$'000
Ordinary shares of HK$0.01 each			
Authorised:			
At 1 January 2016, 30 June 2016, 1 January 2017 and 30 June 2017	50,000,000,000	500,000,000	500,000
Issued and fully paid:			
At 1 January 2016	1,021,276,000	10,212,760	10,213
Issue of shares upon exercise of share options (Note a)	5,575,000	55,750	56
At 30 June 2016 (unaudited)	1,026,851,000	10,268,510	10,269
At 1 January 2017	**1,028,781,000**	**10,287,810**	**10,288**
Issue of shares upon exercise of share options (Note b)	**3,647,000**	**36,470**	**36**
At 30 June 2017 (unaudited)	**1,032,428,000**	**10,324,280**	**10,324**

Notes:

(a) In January, April, May and June 2016, the Company issued 600,000, 154,000, 1,830,000 and 2,991,000 shares respectively upon the exercise of share options by three directors and certain employees.

(b) In January, March, May and June 2017, the Company issued 347,000, 150,000, 1,690,000 and 1,460,000 shares respectively upon the exercise of share options by certain employees.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The first six months of year 2017 appeared to be a challenging period for the global apparel market, with numerous retail brands reporting diminished revenues and profits.

The changing political landscapes in the United States of America ("**U.S.**") and Europe also appeared to have caused uncertainties in retail spending. According to the Global Economic Prospects, in the period from 2015 to 2017, the global economy has been experiencing slow GDP growth of between approximately 2.4% and 2.7%. Global outlook appears to remain tilted towards the downside, caused by uncertainty of future monetary policies of the larger economies, increased trade protectionisms and political volatilities.

Under a more challenging economic environment, retail brand owners tried to react quicker to the changing consumer habits and had in turn called for the ability from their suppliers to adapt to a short production lead time as well as product quality enhancement. Inevitably, the Group has to increase its workforce, production capacities as well as inventory level in order to cope with this more competitive business environment; all of which increased its costs of operations.

The adverse global economic environment and slack retail sales, fast changing consumption patterns, more stringent environmental protection regulations and business challenges currently faced by several of our major business partners had placed downward pressure on our performance for the first half of 2017, especially on our lingerie segments.

On the other hand, our results have also been impacted by the start-up costs of our first overseas factory in Vietnam, which has yet to be fully operational, and the appreciation of Renminbi during the Reporting Period.

Hence, notwithstanding that we were able to grow our revenue by approximately 12.6% during the Reporting Period, our profit attributable to equity owners of the Company decreased by approximately 26.6% to approximately HK$140.7 million.

While the global apparel market faces challenges, there are segments of growth areas which the Group is well placed to capitalise upon. According to a report from Research and Markets, the global sportswear market is expected to grow at a compound annual growth rate of approximately 4.42% during the year 2016 to year 2020. Such growth is mainly driven by increasing customer demand attributable to rising disposable income, increasing demand for fashionable and high quality apparels and growing health awareness.

Faced with this complicated and dynamic operating environment, the Group continues to enhance close cooperative relationships with leading lingerie, apparel and sportswear brands and maintain timely responses to the market demand. By continuous efforts in research and development, the Group has managed to expand and diversify the customer portfolio of sportswear and apparel business segments with its innovative and high-performance materials, which are blended with quality, comfort and functionalities.

FINANCIAL PERFORMANCE

For reasons set out above, the first half of 2017 was challenging.

Notwithstanding this, during the Reporting Period, the Group sustained a continuous growth in two of its core businesses (i.e. elastic fabric and elastic webbing). Revenue from the sales of elastic fabric increased by approximately 15.9% to approximately HK$795.1 million; mainly driven by the sales growth in the sportswear and apparel segments. Revenue from the sportswear fabric materials surged by approximately 44.2% to approximately HK$319.8 million. Also, as a result of the cross-selling abilities of our team, the revenue from the sales of elastic webbing also increased by approximately 10.0% to approximately HK$424.8 million. The revenue increase in these segments demonstrated the Group's ability in winning sales orders from both existing and new customers through the delivery of product innovation and responsive services.

As a result, during the Reporting Period, the Group's revenue increased by approximately 12.6% to approximately HK$1,262.5 million, as compared to approximately HK$1,121.6 million in the corresponding period of 2016. As set out above, this growth was mainly driven by the growth in the sportswear and apparel segments. However, our overall growth during the Reporting Period was weighed down by a slowdown in the growth of the lingerie business.

During the Reporting Period, the Group experienced increasing pressure from customers demanding shorter production lead time, higher product quality at cheaper prices and other value-added services including faster products delivery. With all these factors, together with the Group's continued investments in property, plant and equipment, human resources and overseas operation, and rising manufacturing overheads, the Group recorded a drop in its gross and net profit margins. The Group's gross profit margin and net profit margin decreased by 5.1 percentage points and 6.0 percentage points to approximately 28.7% and approximately 11.1%, from 33.8% and 17.1% for the first half of 2016, respectively.

FINANCIAL REVIEW

Revenue

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

For the six months ended 30 June 2017, revenue amounted to approximately HK$1,262.5 million, representing an increase of approximately HK$140.9 million, or approximately 12.6%, from approximately HK$1,121.6 million for the six months ended 30 June 2016. The increase in overall revenue during the Reporting Period was mainly attributable to the increase in the volume of products sold, as a result of the Group's dedicated efforts in developing its lingerie businesses as well as the continual expansion into the new sportswear and apparel materials segments.

A comparison of the Group's revenue for the six months ended 30 June 2017 and the six months ended 30 June 2016 by product categories is as follows:

	Six months ended 30 June					
	2017		2016		Change	
	Revenue (HK$'000)	**% of Revenue**	Revenue (HK$'000)	% of Revenue	(HK$'000)	%
Elastic fabric	**795,127**	**63.0**	685,812	61.2	109,315	15.9
Elastic webbing	**424,822**	**33.6**	386,312	34.4	38,510	10.0
Lace	**42,549**	**3.4**	49,491	4.4	(6,942)	(14.0)
Total	**1,262,498**	**100.0**	1,121,615	100.0	140,883	12.6

For the six months ended 30 June 2017, revenue from sales of elastic fabric amounted to approximately HK$795.1 million, representing an increase of approximately HK$109.3 million, or approximately 15.9%, as compared to the six months ended 30 June 2016. The growth in revenue was mainly driven by the Group's continued expansion into the sportswear and apparel materials market, by leveraging on its high product quality, strong innovation and research and development capabilities, and by fostering relationships with different sportswear brands, which were represented by a period-on-period growth of approximately 44.2% in sales revenue of sportswear fabric materials.

Revenue from sales of elastic webbing amounted to approximately HK$424.8 million, representing an increase of approximately HK$38.5 million, or approximately 10.0%, as compared to the six months ended 30 June 2016. The growth in revenue was mainly due to the Group's dedication in cross-selling its different primary products.

Revenue from sales of lace decreased from approximately HK$49.5 million for the six months ended 30 June 2016 to approximately HK$42.6 million for the six months ended 30 June 2017. The period-on-period decline of approximately 14.0% was mainly due to the simpler and thinner lace, which commanded a lower unit selling price, sold by the Group in the first half of 2017, as compared to the corresponding period in 2016.

Cost of sales

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

Cost of sales – by nature of expenses

	Six months ended 30 June					
	2017		2016		Change	
	(HK$'000)	**%**	(HK$'000)	%	(HK$'000)	%
Raw materials	**461,411**	**51.3**	410,683	55.4	50,728	12.4
Manufacturing overheads	**326,283**	**36.3**	237,073	31.9	89,210	37.6
Direct labour	**106,596**	**11.8**	88,843	12.0	17,753	20.0
Others	**5,550**	**0.6**	5,456	0.7	94	1.7
Total	**899,840**	**100.0**	742,055	100.0	157,785	21.3

The Group's cost of sales for the six months ended 30 June 2017 amounted to approximately HK$899.8 million, representing an increase of approximately HK$157.8 million, or 21.3%, as compared to the six months ended 30 June 2016. The increase in our cost of sales was primarily due to (1) the increase in total sales volume; (2) the increase in direct labour costs as a result of increase in number of staff as well as overall wages; and (3) the increase in overall manufacturing overheads driven by the Group's continued business expansion as well as higher production costs to cope with the more stringent environmental rules and regulations.

Cost of sales – by product category

	Six months ended 30 June					
	2017		2016		Change	
	(HK$'000)	**%**	(HK$'000)	%	(HK$'000)	%
Elastic fabric	**576,559**	**64.1**	454,615	61.3	121,944	26.8
Elastic webbing	**300,479**	**33.4**	262,284	35.3	38,195	14.6
Lace	**22,802**	**2.5**	25,156	3.4	(2,354)	(9.4)
Total	**899,840**	**100.0**	742,055	100.0	157,785	21.3

The cost of sales for the manufacture of elastic fabric as a percentage of the total cost of sales of the Group increased from approximately 61.3% for the six months ended 30 June 2016 to approximately 64.1% for the six months ended 30 June 2017.

Gross profit, gross profit margin and net profit margin

	Six months ended 30 June			
	2017		2016	
	Gross profit (HK$'000)	**Gross profit margin %**	Gross profit (HK$'000)	Gross profit margin %
Elastic fabric	**218,568**	**27.5**	231,197	33.7
Elastic webbing	**124,343**	**29.3**	124,028	32.1
Lace	**19,747**	**46.4**	24,335	49.2
	362,658	**28.7**	379,560	33.8

The overall gross profit decreased from approximately HK$379.6 million for the six months ended 30 June 2016 to approximately HK$362.7 million for the six months ended 30 June 2017. The Group's overall gross profit margin for the six months ended 30 June 2017 decreased by 5.1 percentage points to approximately 28.7%, as compared to approximately 33.8% for the six months ended 30 June 2016. The lower gross profit margin was mainly due to the higher direct labour costs and manufacturing overheads and a lower-than-expected revenue growth from sales of elastic fabric, elastic webbing and lace.

Net profit for the six months ended 30 June 2017 amounted to approximately HK$140.7 million, representing a decrease of approximately 26.6% as compared to approximately HK$191.8 million for the six months ended 30 June 2016. The Group recorded a lower net profit margin of approximately 11.1% for the six months ended 30 June 2017, representing a decline of 6.0 percentage points, as compared to the same period of 2016. The decrease in net profit margin for the Reporting Period was mainly due to (i) a lower gross profit margin attained; (ii) the increased costs spent on human resources; and (iii) the start-up costs of the operations in Vietnam.

Other income

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

	Six months ended 30 June	
	2017 (HK$'000)	2016 (HK$'000)
Government grants	**9,950**	7,502
Proceeds from sales of scrap materials	**6,572**	2,524
Bank interest income	**3,201**	10,434
Dividend income	**1,316**	–
Others	**633**	237
Total	**21,672**	20,697

The increase in other income by approximately 4.7%, from approximately HK$20.7 million for the six months ended 30 June 2016 to approximately HK$21.7 million for the six months ended 30 June 2017, was mainly driven by the aggregate net effect of the increase in government grants received, proceeds from sales of scrap materials, dividend income received and the decrease in bank interest income.

Other gains and losses

Other gains and losses mainly consist of net foreign exchange gain/loss and change in fair value in derivative financial instruments.

For the six months ended 30 June 2017, the net foreign exchange loss was approximately HK$8.2 million (for the six months end 30 June 2016: net foreign exchange gain of approximately HK$3.5 million) and the change in fair value in derivative financial instruments was approximately HK$0.6 million (for the six months end 30 June 2016: HK$6.1 million).

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 2016 and 2017, the Group's selling and distribution expenses represented approximately 5.1% and approximately 5.7% of its total revenue, respectively. The increase in selling and distribution expenses was mainly due to the shorter production and delivery lead time as well as the Group's dedication in developing new businesses during the Reporting Period.

Administrative expenses

Administrative expenses primarily consist of employee benefit expenses, depreciation and amortisation, motor vehicle expenses, bank charges and other administrative expenses. For the six months ended 30 June 2016 and 2017, the Group's administrative expenses represented approximately 7.3% and approximately 6.6% of its total revenue, respectively. The increase in administrative expenses was primarily due to the increase in business scale and average employee benefit expenses. The equity-settled share-based compensation included in employee benefit expenses for the six months ended 30 June 2017 was approximately HK$1.7 million (for the six months ended 30 June 2016: approximately HK$3.7 million).

Research and development costs

The Group is dedicated to catering for the changing market preferences by introducing innovative lingerie, apparel and sportswear materials. For the six months ended 30 June 2016 and 2017, our research and development costs represented approximately 2.4% and approximately 3.0% of the revenue, respectively.

Finance costs

The Group's finance costs mainly represent interest expenses for bank borrowings. The finance costs increased by approximately 7.4% from approximately HK$14.8 million for the six months ended 30 June 2016 to approximately HK$15.9 million for the six months ended 30 June 2017. The increase in finance costs was primarily due to the increase in average balance in bank borrowings as a result of continuous expansion in the Group's production scale.

Income tax expense

Hong Kong Profits Tax was calculated at 16.5% on the estimated assessable profit for the period ended. Under the EIT Law and Implementation Regulation of the EIT Law, except as described below, the tax rate of the PRC subsidiaries of the Group was 25% during the six months ended 30 June 2016 and 2017.

The Group's subsidiary, Dongguan BPT, has obtained the qualification as a high and new technology enterprise since 2010, which has been renewed for an additional three years from financial year ended 31 December 2016. Hence, Dongguan BPT is subject to the preferential tax treatment and the applicable tax rate for each of the six months ended 30 June 2016 and 2017 is 15%.

Another subsidiary of the Group, Dongguan NHE, has also obtained the qualification as a high and new technology enterprise in December 2016, which lasts for three years from the financial year ended 31 December 2016. Dongguan NHE is therefore also subject to the preferential tax treatment and the applicable tax rate for the six months ended 30 June 2017 is 15% (for the six months ended 30 June 2016: 25%).

The effective tax rate decreased from approximately 17.3% for the six months ended 30 June 2016 to approximately 16.5% for the six months ended 30 June 2017.

Liquidity, financial resources and bank borrowings

As at 30 June 2017, net working capital (calculated as current assets less current liabilities) was approximately HK$455.2 million, representing a decrease of approximately HK$392.1 million as compared with 31 December 2016. The current ratio (calculated as current assets/current liabilities) is 1.4 times as at 30 June 2017, as compared to 2.1 times, as at 31 December 2016. The drop in current ratio was mainly due to the increase in short-term bank borrowings which were primarily revolving in nature.

For the six months ended 30 June 2017, net cash generated from operating activities further was approximately HK$35.4 million, as compared to approximately HK$210.0 million for the six months ended 30 June 2016. Net cash used in investing activities amounted to approximately HK$643.2 million for the six months ended 30 June 2017, as compared to approximately HK$182.5 million for the six months ended 30 June 2016. The increase in net cash used in investing activities was mainly due to more investments being spent on purchase of property, plant and equipment for the six months ended 30 June 2017, in order to cope with business expansion of the Group.

During the six months ended 30 June 2017, net cash from financing activities amounted to approximately HK$371.0 million, as compared to net cash used in financing activities of approximately HK$128.6 million for the six months ended 30 June 2016. The cash from financing activities for the six months ended 30 June 2017 was mainly from the new syndicated loan and bank borrowings raised.

As at 30 June 2017, the Group's gearing ratio was approximately 53.2% (as at 31 December 2016: approximately 31.2%), which was calculated on the basis of the amount of total bank borrowings as a percentage of total equity. Such increase was mainly due to an increase in bank borrowings to finance the expansion of the Group. The Group was in a net debt position of approximately HK$806.6 million, as compared to approximately HK$94.0 million as at 31 December 2016.

Working capital management

	For the six months/ year ended			
	30 June 2017 (days)	31 December 2016 (days)	Change (days)	%
Inventory turnover days	**116.6**	97.0	19.6	20.2
Trade and bills receivables turnover days	**75.9**	75.8	0.1	0.1
Trade and bills payables turnover days	**85.0**	91.1	(6.1)	(6.7)

The increase in inventory turnover days from 97.0 days for the year ended 31 December 2016 to 116.6 days for the six months ended 30 June 2017 was primarily attributable to the fact that more raw materials are purchased by the Group to cope with the rising raw material prices as well as the shorter production time as demanded by customers, in which more work-in-progress inventories are prepared.

The trade and bills receivables turnover days remained relatively stable for the year ended 31 December 2016 and the six months ended 30 June 2017.

The decrease in trade and bills payables turnover days for the six months ended 30 June 2017 by 6.1 days was primarily due to the increase in use of cash to settle transactions for the benefits of lower prices.

Capital expenditures

For the six months ended 30 June 2017, total addition to property, plant and equipment amounted to approximately HK$367.3 million (for the six months ended 30 June 2016: approximately HK$107.5 million), and was mainly attributed to the increase in investment in machinery of approximately HK$231.2 million (for the six months ended 30 June 2016: approximately HK$68.8 million) and addition to construction in progress of approximately HK$122.4 million (for the six months ended 30 June 2016: approximately HK$26.2 million), in order to cope with the Group's overall business expansion.

Pledged assets

As at 30 June 2017, the Group pledged certain bank deposits and equipment to secure the bank borrowings granted to and bills payable issued by the Group.

The carrying amounts of the assets pledged are as follows:

	As at	
	30 June 2017 (HK$'000)	31 December 2016 (HK$'000)
Pledged bank deposits	**62,301**	61,610
Equipment	**12,259**	37,105
Total	**74,560**	98,715

Segment information

Details of segment information are set out in Note 4 to the condensed consolidated financial statements.

Foreign exchange risk

A substantial portion of the Group's revenue is denominated in U.S. dollars and Hong Kong dollars and a portion of its purchases and expenses are denominated in Renminbi. 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. We intend to manage our foreign exchange risks by (i) managing our sales, purchases and expenses denominated in Hong Kong dollars and U.S. dollars through our Hong Kong subsidiaries and managing our sales, purchases and expenses denominated in Renminbi through our PRC subsidiaries; and (ii) holding cash and bank deposits denominated in Renminbi primarily by our PRC subsidiaries and cash and bank deposits denominated in Hong Kong and U.S. dollars primarily by the Company and its Hong Kong subsidiaries.

Contingent liabilities

As at 30 June 2017, the Group did not have any significant contingent liabilities.

Employees and remuneration policies

As at 30 June 2017, the Group employed a total of approximately 6,879 full-time employees (as at 31 December 2016: 5,725). The increase in the number of employees was mainly due to the increase in the scale of the Group's business. There was no significant change in the Group's remuneration policy, and the Group will continue to provide regular training and competitive remuneration packages to its staff. The Group's remuneration packages include salary, bonuses, allowances and retirement benefits based on employee's performance, skills and knowledge. The Group also provides additional benefits to its employees that include subsidised accommodation, meals, accident and medical insurance and share options granted to eligible employees under the share option schemes of the Company.

FUTURE STRATEGIES AND PROSPECTS

The general outlook of the lingerie and apparel markets in the second half of 2017 continues to be full of challenges. We do not foresee a dramatic improvement in the near future, amidst the current weak retail market sentiment. The Group will continue to make efforts in optimising its business strategies and production facilities by monitoring various costs and expenses throughout the production and other business processes.

"Build on innovation and technology" has always been the Group's vision in managing its business as well as in developing new products in order to meet the ever-changing market requirements. Through its dedication in research and development, the Group has developed and will continue putting resources in developing a diversified portfolio of high-performance lingerie, apparel and sportswear materials. Recognition from customers as well as being qualified as high and new technology enterprises (with a preferential profits tax rate of 15% awarded) reinforce the Group's belief that product innovation is the key to Best Pacific's success. The management also expects that its determination to provide high quality services and products as well as its continuous enhancement in its research and development capabilities will attract more long-term quality customers and business partners.

On the other hand, given the potential benefits which include the preferential tax incentive scheme, favourable geographical location for export and competitive labour costs, it is logical and strategically important for the Group to be committed to enhancing the production efficiency of its first production plant in Vietnam. With the completion of construction of Phase VI production plant in Dongguan, China as well as the Group's first overseas production plant in Vietnam in mid-2017, it is believed that the Group will be capable of coping with the increase in demand should the market sentiment rebound. As at 30 June 2017, the annual designed production capacities of elastic fabric, elastic webbing and lace were approximately 106.7 million meters, 1,193.7 million meters and 24.1 million meters, respectively.

With the fast changing market landscape and the higher barrier of entry to the industry, the Group believes that we should be open to any international production layout opportunities as this will be important for Best Pacific to consolidate its leading market position. Looking forward, with the one-stop solutions strategy to provide high-value and innovative products in lingerie, apparel and sportswear markets and the Group's internationalisation plan, Best Pacific is committed to and confident in delivering a satisfactory growth and return to its shareholders in the long run.

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 2017.

AUDIT COMMITTEE

The Audit Committee of the Company, comprising the three independent non-executive Directors (being Mr. Sai Chun Yu, Mr. Cheung Yat Ming and Mr. Ding Baoshan), has reviewed with management the unaudited condensed consolidated financial statements of the Group for the six months ended 30 June 2017 and the internal control procedures of the Group, and 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 2017 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 in Hong Kong, and the Audit Committee of the Company has no disagreement.

INTERIM DIVIDEND

The Board has resolved not to declare any interim dividend for the six months ended 30 June 2017 (for the six months ended 30 June 2016: HK7.3 cents per ordinary share).

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Board is of the view that throughout the six-month period ended 30 June 2017, the Company has 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, 28 August 2017

As at the date of this announcement, the Board comprises Mr. Lu Yuguang, Mr. Zhang Haitao, Mr. Wu Shaolun, Ms. Zheng Tingting, Mr. Cheung Yat Ming, Mr. Ding Baoshan* and Mr. Sai Chun Yu*.*

* *Independent non-executive Director*