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

INTERIM RESULTS ANNOUNCEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2022

FINANCIAL HIGHLIGHTS

	Unaudited		Change %
	Six months ended 30 June		
	2022 HK\$'000	2021 HK\$'000	
Revenue	2,261,973	2,087,391	+8.4%
Gross profit	526,653	547,098	-3.7%
Gross profit margin	23.3%	26.2%	-2.9% pt
Operating profit	31,253	49,252	-36.5%
Profit for the period	21,288	27,343	-22.1%
Basic earnings per share <i>(HK cents)</i>	1.6	2.6	-38.5%

OPERATIONAL HIGHLIGHTS

- Revenue increased by 8.4% mainly attributable to the increased orders received from customers of Manufacturing Business as well as the fulfillment of orders brought forward from the temporary production suspension at the Vietnam factories in the second half of 2021, which was partially offset by the decrease in revenue from High-end Fashion Retailing Business due to the temporary store closures in some major cities of Mainland China amid the COVID-19 pandemic.
- Despite the severe market condition facing by High-end Fashion Retailing Business, Manufacturing Business has shown a good recovery to mitigate the impact and the Group still maintained a stable profit after taxation of HK\$21.3 million (30 June 2021: HK\$27.3 million).
- The Board considers to conserve financial resources and does not recommend the payment of interim dividend in view of the challenges and uncertainties ahead. The Group will continue to monitor the market situation and review dividend payout from time to time.

The board of directors (the “**Board**” or “**Directors**”) of Win Hanverky Holdings Limited (the “**Company**”) presented the unaudited interim results of the Company and its subsidiaries (together the “**Group**”) for the six months ended 30 June 2022, together with the comparative amounts for the corresponding period of 2021, as follows:

CONSOLIDATED INCOME STATEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2022

		Unaudited	
		Six months ended 30 June	
		2022	2021
	<i>Note</i>	HK\$'000	HK\$'000
Revenue	2	2,261,973	2,087,391
Cost of sales		<u>(1,735,320)</u>	<u>(1,540,293)</u>
Gross profit		526,653	547,098
Selling and distribution costs		(293,188)	(291,884)
General and administrative expenses		(222,236)	(209,081)
Other net income	3	<u>20,024</u>	<u>3,119</u>
Operating profit		31,253	49,252
Finance costs — net	4	(17,990)	(15,444)
Share of profits of associates		<u>913</u>	<u>101</u>
Profit before income tax		14,176	33,909
Income tax	5	<u>7,112</u>	<u>(6,566)</u>
Profit for the period		<u>21,288</u>	<u>27,343</u>
Profit/(loss) for the period attributable to:			
Equity holders of the Company		20,522	33,033
Non-controlling interests		<u>766</u>	<u>(5,690)</u>
		<u>21,288</u>	<u>27,343</u>
Earnings per share attributable to equity holders of the Company			
(basic and diluted, expressed in HK cents)	6	<u>1.6</u>	<u>2.6</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2022

	Unaudited	
	Six months ended 30 June	
	2022	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit for the period	21,288	27,343
Other comprehensive income		
<i>Items that may be reclassified to profit or loss</i>		
Currency translation differences	(53,915)	10,046
Share of other comprehensive income of associates	(338)	51
	<hr/>	<hr/>
Total comprehensive income for the period	(32,965)	37,440
	<hr/> <hr/>	<hr/> <hr/>
Total comprehensive income for the period		
attributable to:		
Equity holders of the Company	(31,845)	42,884
Non-controlling interests	(1,120)	(5,444)
	<hr/>	<hr/>
	(32,965)	37,440
	<hr/> <hr/>	<hr/> <hr/>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2022

		Unaudited	Audited
		30 June	31 December
		2022	2021
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current assets			
Property, plant and equipment		983,881	1,056,014
Intangible assets		219,900	221,314
Investments in associates		15,849	15,274
Other receivables and financial assets		50,410	49,296
Deferred tax assets		135,293	115,075
Pledged bank deposit		1,267	—
		<u>1,406,600</u>	<u>1,456,973</u>
Current assets			
Inventories		1,325,041	1,344,515
Trade and bills receivable	8	507,573	547,797
Other receivables and financial assets		195,380	175,773
Current tax recoverables		1,128	3,156
Pledged bank deposit		—	1,224
Cash and bank balances		336,650	415,819
		<u>2,365,772</u>	<u>2,488,284</u>
Current liabilities			
Trade and bills payable	9	326,366	332,282
Accruals and other payables		294,384	319,314
Borrowings	10	819,040	942,216
Lease liabilities		127,197	112,830
Current tax liabilities		82,002	74,366
		<u>1,648,989</u>	<u>1,781,008</u>
Non-current liabilities			
Other payables		14,649	16,433
Lease liabilities		191,897	197,712
Deferred tax liabilities		7,151	7,453
		<u>213,697</u>	<u>221,598</u>
Net assets		<u>1,909,686</u>	<u>1,942,651</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)
AS AT 30 JUNE 2022

	Unaudited 30 June 2022 <i>HK\$'000</i>	Audited 31 December 2021 <i>HK\$'000</i>
Equity attributable to equity holders of the Company		
Share capital	128,440	128,440
Reserves	1,798,810	1,830,655
	1,927,250	1,959,095
Non-controlling interests	(17,564)	(16,444)
Total equity	<u>1,909,686</u>	<u>1,942,651</u>

NOTES:

1. BASIS OF PREPARATION

The condensed interim financial information included in this preliminary announcement of interim results for the six months ended 30 June 2022 does not constitute the Group's interim report but is derived from that interim report.

The condensed interim financial information has been prepared in accordance with Hong Kong Accounting Standard 34 *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The condensed interim financial information contains interim financial statements and selected explanatory notes. The condensed interim financial information does not include all of the notes of the type normally included in the annual financial report.

The HKICPA has issued a number of new amendments that became applicable for the current reporting period. None of the developments have had a material effect on the Group's result and financial position for the current and prior periods. The Group has not applied any new standard, amendment or interpretation that is not yet effective for the current accounting period.

Save as described above, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2021. Accordingly, readers should read the interim results in conjunction with the annual financial statements for the year ended 31 December 2021, prepared in accordance with Hong Kong Financial Reporting Standards.

2. SEGMENT INFORMATION

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

The executive directors review the performance of the Group mainly from a business operation perspective. The major business segments of the Group for the six months ended 30 June 2022 are Manufacturing and High-end Fashion Retailing.

- The Manufacturing segment represents manufacturing and sales of (i) sportswear and (ii) high-end functional outerwear of which both primarily under OEM arrangements to customers mainly in Europe, the United States, Mainland China and other countries.
- The High-end Fashion Retailing segment represents retailing of high-end fashion products in Mainland China, Hong Kong, Macau, Taiwan and Singapore.

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

2. SEGMENT INFORMATION (CONTINUED)

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

	Six months ended 30 June	
	2022 HK\$'000	2021 HK\$'000
Sales of goods	2,258,486	2,083,465
Provision of services	3,487	3,926
	<u>2,261,973</u>	<u>2,087,391</u>

The segment results for the six months ended 30 June 2022 are as follows:

	Manufacturing			Total HK\$'000
	Sportswear Manufacturing HK\$'000	High-end Functional Outerwear Manufacturing HK\$'000	High-end Fashion Retailing HK\$'000	
Total segment revenue	1,508,177	279,991	475,170	2,263,338
Inter-segment revenue	(1,365)	—	—	(1,365)
Revenue	<u>1,506,812</u>	<u>279,991</u>	<u>475,170</u>	<u>2,261,973</u>
Operating profit/(loss) and segment results	63,430	4,332	(36,509)	31,253
Finance costs — net	—	—	—	(17,990)
Share of profits of associates	913	—	—	913
Profit before income tax				14,176
Income tax				7,112
Profit for the period				<u>21,288</u>

Other segment items charged/(credited) to the operating profit for the six months ended 30 June 2022 are as follows:

Depreciation and amortisation of property, plant and equipment, and leased assets	53,309	6,535	78,395	138,239
Amortisation of intangible assets	—	1,065	349	1,414
Provision/(write-back of provision) for inventories, net	16,571	962	(16,252)	1,281
Loss on disposal of property, plant and equipment, and lease modifications, net	—	4	1,930	1,934
Gain on disposal of a subsidiary, net	(14,560)	—	—	(14,560)

2. SEGMENT INFORMATION (CONTINUED)

The segment results for the six months ended 30 June 2021 are as follows:

	Manufacturing			Total <i>HK\$'000</i>
	Sportswear Manufacturing <i>HK\$'000</i>	High-end Functional Outerwear Manufacturing <i>HK\$'000</i>	High-end Fashion Retailing <i>HK\$'000</i>	
Total segment revenue	1,290,989	152,741	644,544	2,088,274
Inter-segment revenue	(883)	—	—	(883)
Revenue	1,290,106	152,741	644,544	2,087,391
Operating profit/(loss) and segment results	29,403	(17,778)	37,627	49,252
Finance costs — net				(15,444)
Share of profits of associates	101	—	—	101
Profit before income tax				33,909
Income tax				(6,566)
Profit for the period				27,343

Other segment items charged/(credited) to the operating profit for the six months ended 30 June 2021 are as follow:

Depreciation and amortisation of property, plant and equipment, and leased assets	50,974	6,843	75,823	133,640
Amortisation of intangible assets	—	1,065	349	1,414
Reversal of impairment of trade receivables, net	—	(1,214)	—	(1,214)
Provision/(write-back of provision) for inventories, net	17,199	2,136	(17,521)	1,814
(Gain)/loss on disposal of property, plant and equipment, and lease modifications, net	(1,124)	63	—	(1,061)
	(1,124)	63	—	(1,061)

2. SEGMENT INFORMATION (CONTINUED)

The segment assets and liabilities are as follows:

	Manufacturing			Unallocated <i>HK\$'000</i>	Total <i>HK\$'000</i>
	Sportswear Manufacturing <i>HK\$'000</i>	High-end Functional Outerwear Manufacturing <i>HK\$'000</i>	High-end Fashion Retailing <i>HK\$'000</i>		
Total assets					
30 June 2022	2,079,488	490,131	1,066,332	136,421	3,772,372
31 December 2021	2,069,552	488,475	1,268,999	118,231	3,945,257
Total liabilities					
30 June 2022	1,047,959	273,336	452,238	89,153	1,862,686
31 December 2021	1,032,808	279,605	608,374	81,819	2,002,606

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

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

	Six months ended 30 June	
	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Europe	772,218	458,647
Mainland China	674,121	855,387
Other Asian countries	328,214	268,232
United States	294,653	323,807
Hong Kong	55,591	89,721
Canada	38,034	21,562
Others	99,142	70,035
	2,261,973	2,087,391

2. SEGMENT INFORMATION (CONTINUED)

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

	As at	
	30 June 2022 <i>HK\$'000</i>	31 December 2021 <i>HK\$'000</i>
Mainland China	423,475	476,985
Hong Kong	379,398	401,366
Vietnam	286,107	268,239
Cambodia	165,838	177,150
Others	16,489	18,158
	<u>1,271,307</u>	<u>1,341,898</u>

3. OTHER NET INCOME

	Six months ended 30 June	
	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Gain on disposal of a subsidiary, net (<i>Note</i>)	14,560	—
Government subsidies	5,338	525
Gain on disposal of ancillary materials, net	752	844
Rental income	734	703
Net exchange gain/(loss)	88	(712)
(Loss)/gain on disposal of property, plant and equipment, and lease modifications, net	(1,934)	1,061
Others	486	698
	<u>20,024</u>	<u>3,119</u>

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

4. FINANCE COSTS — NET

	Six months ended 30 June	
	2022	2021
	HK\$'000	HK\$'000
Finance income		
— Interest income from bank deposits and receivables from a landlord	379	566
— Interest income from non-controlling interest of a subsidiary	110	104
	<u>489</u>	<u>670</u>
Finance cost		
— Interest on bank borrowings	(9,894)	(8,012)
— Interest on lease liabilities	(8,585)	(8,102)
	<u>(18,479)</u>	<u>(16,114)</u>
	<u>(17,990)</u>	<u>(15,444)</u>

5. INCOME TAX

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

	Six months ended 30 June	
	2022	2021
	HK\$'000	HK\$'000
Current tax		
— Hong Kong	7,334	788
— Mainland China	6,889	6,786
— Overseas	891	889
— Over-provision in prior years	(723)	(14)
Deferred tax	<u>(21,503)</u>	<u>(1,883)</u>
	<u>(7,112)</u>	<u>6,566</u>

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

Mainland China corporate income tax and Hong Kong profits tax have been provided at the rates of 25% (2021: 25%) and 16.5% (2021: 16.5%) on the estimated assessable profits respectively. Taxation on overseas profits has been calculated on the estimated assessable profits for the period at the applicable rates of taxation prevailing in the jurisdictions in which the Group operates.

6. EARNINGS PER SHARE

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 of 1,284,400,000 shares (30 June 2021: 1,284,400,000 shares) in issue during the period.

	Six months ended 30 June	
	2022	2021
Basic and diluted earnings per share (<i>HK cents</i>)	<u>1.6</u>	<u>2.6</u>

The diluted earnings per share for the six months ended 30 June 2022 and 2021 are the same as the basic earnings per share as the potential ordinary shares arising from the share options granted by the Company outstanding do not have dilutive effect.

7. DIVIDENDS

The Board does not recommend the payment of interim dividend for the six months ended 30 June 2022 (30 June 2021: Nil).

8. TRADE AND BILLS RECEIVABLE

	As at	
	30 June 2022 <i>HK\$'000</i>	31 December 2021 <i>HK\$'000</i>
Trade receivables	505,899	547,726
Bills receivable	<u>4,932</u>	<u>3,413</u>
	510,831	551,139
Less: impairment of trade receivables	<u>(3,258)</u>	<u>(3,342)</u>
Financial assets measured at amortised cost	<u>507,573</u>	<u>547,797</u>

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

	As at	
	30 June 2022 <i>HK\$'000</i>	31 December 2021 <i>HK\$'000</i>
0–90 days	488,691	535,779
91–180 days	14,277	10,089
181–365 days	3,907	1,036
Over 365 days	<u>3,956</u>	<u>4,235</u>
	<u>510,831</u>	<u>551,139</u>

9. TRADE AND BILLS PAYABLE

	As at	
	30 June 2022 <i>HK\$'000</i>	31 December 2021 <i>HK\$'000</i>
Trade payables		
— to third parties	309,988	313,674
— to a related party	10,517	15,229
Bills payable	<u>5,861</u>	<u>3,379</u>
Financial liabilities measured at amortised cost	<u>326,366</u>	<u>332,282</u>

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

	As at	
	30 June 2022 <i>HK\$'000</i>	31 December 2021 <i>HK\$'000</i>
0–90 days	316,935	309,405
91–180 days	7,920	22,549
181–365 days	1,284	152
Over 365 days	<u>227</u>	<u>176</u>
	<u>326,366</u>	<u>332,282</u>

10. BORROWINGS

	As at	
	30 June 2022 <i>HK\$'000</i>	31 December 2021 <i>HK\$'000</i>
Within 1 year or on demand	<u>819,040</u>	<u>942,216</u>

As at 30 June 2022, based on the repayment dates set out in the payment schedules ignoring the effect of any repayment on demand clause, the interest-bearing bank borrowings were due for payment as follows:

	As at	
	30 June 2022 <i>HK\$'000</i>	31 December 2021 <i>HK\$'000</i>
Within 1 year	771,540	863,049
After 1 year but within 2 years	47,500	63,334
After 2 years but within 3 years	<u>—</u>	<u>15,833</u>
	<u>819,040</u>	<u>942,216</u>

MANAGEMENT DISCUSSION AND ANALYSIS

The Group is an integrated manufacturer and retailer for internationally renowned sports, fashion and outdoor brands. The financial performance of the Group for the six months ended 30 June 2022 is summarised below:

OVERALL REVIEW

Revenue of the Group amounted to HK\$2,262.0 million (30 June 2021: HK\$2,087.4 million), representing an increase of 8.4%. The increase was mainly attributable to the increased orders received from customers of Manufacturing Business as well as the fulfillment of orders brought forward from the temporary production suspension at the Vietnam factories in the second half of 2021. It was partially offset by the decrease in revenue from High-end Fashion Retailing Business due to the temporary store closures in some major cities of Mainland China amid the COVID-19 pandemic (“**COVID-19**”).

Gross profit margin of the Group decreased to 23.3% (30 June 2021: 26.2%). The decrease in gross profit margin of 2.9 percentage points was mainly attributable to the change in proportion of business mix. The decrease in proportion of revenue contributed by High-end Fashion Retailing Business which has a higher gross profit margin than Manufacturing Business dragged down the Group’s overall gross profit margin.

Gross profit of the Group decreased by HK\$20.4 million to HK\$526.7 million (30 June 2021: HK\$547.1 million), 3.7% lower than that of the corresponding period of 2021. The decrease in gross profit was mainly attributable to the decreased revenue from High-end Fashion Retailing Business due to the temporary store closures from end of March to early June 2022 in some major cities of Mainland China, which outweighed the additional gross profit brought in by the increased revenue from Manufacturing Business.

Selling and distribution costs remained stable at HK\$293.2 million (30 June 2021: HK\$291.9 million) while general and administrative expenses recorded a mild increase of HK\$13.1 million to HK\$222.2 million (30 June 2021: HK\$209.1 million).

Other net income mainly comprised a gain of HK\$14.6 million from the disposal of a subsidiary holding a warehouse in Hong Kong which had not been fully utilised.

Consequently, operating result recorded a profit of HK\$31.3 million (30 June 2021: profit of HK\$49.3 million).

Net finance costs increased by HK\$2.6 million to HK\$18.0 million (30 June 2021: HK\$15.4 million), which was mainly attributable to the increase in interest on bank borrowings by HK\$1.9 million as a result of increase in interest rates.

Overall, despite the severe market condition facing by High-end Fashion Retailing Business, Manufacturing Business has shown a good recovery to mitigate the impact and the Group still maintained a stable profit after taxation of HK\$21.3 million (30 June 2021: profit of HK\$27.3 million).

The Board considers to conserve financial resources and does not recommend the payment of interim dividend for the six months ended 30 June 2022 (30 June 2021: Nil) in view of the challenges and uncertainties ahead. We will continue to monitor the market situation and review our dividend payout from time to time.

BUSINESS REVIEW

The operating environment remained complex and surrounded by uncertainties in the first half of 2022. The new crisis in Ukraine, the lingering effects of COVID-19, and the changing monetary and fiscal responses to these events have presented a set of risks to the global market. Foremost among them is inflation. Russia's invasion of Ukraine has materially altered the global economic environment. Wide-ranging sanctions against Russia implemented by the United States and its allies have injected new volatility into supply chains, which were already under pressure as post-pandemic re-opening in some countries coincided with ongoing COVID-19 restrictions in others. Meanwhile, the resurgence of COVID-19 cases combined with strict safety measures depressed consumer spending in Mainland China.

The financial performance of the business segments is summarised below:

Manufacturing Business

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

Sportswear Manufacturing Business

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

Revenue from Sportswear Manufacturing Business increased by HK\$216.7 million to HK\$1,506.8 million (30 June 2021: HK\$1,290.1 million), representing an increase of 16.8%. The increase was mainly due to the increased orders received from customers as well as the fulfilment of orders brought forward from the temporary production suspension at the Vietnam factories in the second half of 2021, in particular, demand from the European market recorded a modest growth in the first half of 2022.

The Group completed the disposal of a subsidiary and a gain of HK\$14.6 million was recorded in the six months ended 30 June 2022. The subsidiary was principally engaged in property holding in Hong Kong and its principal asset was a property which was under-utilised as the Group's warehouse. The proceeds of approximately HK\$39.8 million from the consideration of disposal have enhanced the financial position of the Group.

Operating profit increased to HK\$63.4 million (30 June 2021: profit of HK\$29.4 million) which included the gain on disposal of a subsidiary as mentioned above. Excluding such gain on disposal of a subsidiary, the increase in operating profit was mainly attributable to the additional gross profit brought in as driven by the increased revenue.

High-end Functional Outerwear Manufacturing Business

Revenue from High-end Functional Outerwear Manufacturing Business increased by HK\$127.3 million to HK\$280.0 million (30 June 2021: HK\$152.7 million), representing a strong growth of 83.4%. It was attributable to the increased orders received from customers, particularly demand from the European market recorded a significant growth in the first half of 2022, and the continued growth of orders received from domestic customers since the successful business development in the Mainland China market resulting from the establishments of strategic partnership with nationwide renowned brands.

Operating profit of HK\$4.4 million was recorded for the six months ended 30 June 2022 (30 June 2021: loss of HK\$17.7 million). The first time this highly seasonal winter product business recorded operating profit for the first half of the year since the commencement of this business in 2018. It was attributable to the gross profit brought in by the increased revenue from the European and Mainland China markets.

High-end Fashion Retailing Business

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

Revenue from High-end Fashion Retailing Business decreased by HK\$169.4 million to HK\$475.2 million (30 June 2021: HK\$644.6 million), representing a decrease of 26.3%. The highly infectious Omicron variant of COVID-19 struck a handful of cities in Mainland China and business activities were seriously curtailed during the first half of 2022. In particular, there were lockdowns in some major cities of Mainland China where the Group was operating, including the lockdown in Shanghai which spanned from end of March to early June 2022 and resulted in temporary closure of all the stores for approximately two months. In this regard, an average of approximately 30 to 40 stores in Mainland China were temporarily closed daily in April and May 2022.

As the number of COVID-19 cases subsequently decreased, cities and districts lifted lockdown restrictions and public venues gradually re-opened though regular COVID-19 tests are still required. All of our stores have been subsequently re-opened from temporary closure since early June 2022 and revenue generated from the Mainland China market in June 2022 gradually improved as compared to April and May 2022. Having said that, operating loss arising from the temporary store closures amounting to HK\$11.9 million was reported inevitably, resulting in overall operating loss of HK\$36.5 million for the six months ended 30 June 2022 (30 June 2021: profit of HK\$37.6 million). Apart from the impact arising from the temporary store closures, the profitability of High-end Fashion Retailing Business was highly pressurised by the fierce market competition during the tough economic environment which was exacerbated particularly in those cities where the Group was operating as non-exclusive distributors of certain brands.

As at 30 June 2022, the total number of stores increased to 248 (30 June 2021: 242), of which 216 (30 June 2021: 205) stores were in Mainland China, 22 (30 June 2021: 27) stores were in Hong Kong and Macau, and 10 (30 June 2021: 10) stores in Taiwan and Singapore.

PROSPECTS

The global economic outlook continues to be clouded by the ongoing COVID-19, mixing with the elevating interest rate and inflation rate, the fallout from the war between Russia and Ukraine as well as the surging energy and commodity prices.

Against the backdrop of various economic challenges, we will continue to closely monitor the developments of the dynamic environment and will remain agile and vigilant by promptly adjusting our operational mode and making swift responses to minimise the impact to our businesses.

Manufacturing Business

Sportswear Manufacturing Business

Sportswear Manufacturing Business has been seriously impacted by COVID-19 and global economic uncertainties in the last few years. Nevertheless, the existing global awareness for health and wellness, increased sports participation rates, as well as the return of large-scale major sports events, demand for sportswear products is anticipated to be continuously attractive in the long run. We are cautiously optimistic about the business opportunities.

In short-term, it is unavoidable that the global economic environment will be volatile and surrounded by uncertainties. Facing the foreseeable challenges, we will continue to enhance our operational excellence and diligently apply cost controls to rein in spending in order to confront with a bumpy path ahead.

The development plan for our new factories in Vinh Long, Vietnam has been resumed to cater for the medium to long-term needs of our customers. However, the new Ukraine crisis has brought new uncertainty and risk to the global economy while its impact to global demand is still difficult to ascertain at the moment. We will adopt a more prudent approach in developing the plan.

High-end Functional Outerwear Manufacturing Business

High-end Functional Outerwear Manufacturing Business made a decent progress in the Mainland China market which was driven by the successful strategic partnership establishments with nationwide renowned brands. As we have a solid order book on hand and demand from the European market resumed, it is believed that the positive momentum will be carried forward to the second half of 2022.

High-end Fashion Retailing Business

Mainland China will remain as the major market of High-end Fashion Retailing Business and it is anticipated that the performance to restore with the gradual relaxation of COVID-19 restrictions. In other markets, it is expected that shop footfall will increase subject to the progressive relaxation of COVID-19 related measures, particularly in Hong Kong and Macau regions. Nevertheless, a full recovery will depend on the full re-opening of the border with Mainland China.

In order to stimulate customer spending, we will continue to offer shopping incentives at our stores to boost the local consumption. On the other hand, we will extend the negotiation with landlords for further rental reductions to minimise the pressure on profit margin. We will also continue to prudently assess the profitability of the retail stores across the region and subject to the outcome, certain stores would be closed when necessary.

FINANCIAL POSITION AND LIQUIDITY

The lingering effects of COVID-19, the unprecedented geopolitical tensions between Russia and Ukraine, and the changing monetary and fiscal responses to these events have made the operating environment extremely difficult. In view of the challenges and uncertainties ahead, the Group will continue to proactively monitor the situation and impose strict cost control measures and focus on its cashflow management to ensure that it remains a healthy liquidity position.

As at 30 June 2022, the Group had cash and bank balances of HK\$336.7 million (31 December 2021: HK\$415.8 million) and net borrowings (bank borrowings and loans from non-controlling interests of subsidiaries less cash and bank balances) of HK\$487.1 million (31 December 2021: HK\$530.7 million), together with available undrawn banking facilities of HK\$576.1 million (31 December 2021: HK\$457.2 million). The net change was mainly attributable to the cash generated from operating activities, net with repayment of bank borrowings. The net gearing ratio (being net borrowings divided by total equity) as at 30 June 2022 was 25.5% (31 December 2021: 27.3%).

During the first half of 2022, the Group disposed of a subsidiary which held an under-utilised warehouse to enhance the cash and financial position of the Group. Given the highly uncertain global economic environment, the Group will continue to assess the usage of its assets and their market values. If opportunities come along, the Group may consider realising their values for further enhancement of the Group's cash and financial position to safeguard against the strong headwinds.

The Group expects that there will be steady cash inflow from operations and additional cash inflow from the realisation of assets, coupled with sufficient cash and bank balances and based on its readily available banking facilities, amid of COVID-19 continues to impact the Group's operations, the Group has adequate liquidity and financial resources to cover its operating costs and meet its financial obligations as and when they fall due in the coming twelve months from the date of this interim results announcement.

FOREIGN CURRENCY EXPOSURE

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

The Group’s revenue and purchases were primarily denominated in USD, Renminbi (“**RMB**”) and HKD. During the period, approximately 69.4%, 26.9% and 2.2% of revenue were denominated in USD, RMB and HKD respectively, whereas approximately 85.4%, 10.8% and 2.4% of purchases were denominated in USD, RMB and HKD respectively.

As at 30 June 2022, approximately 56.4%, 29.7% and 8.6% of cash and bank balances were denominated in USD, RMB and HKD respectively, and approximately 47.3%, 46.6% and 6.1% of bank borrowings were denominated in USD, HKD and RMB respectively.

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

EMPLOYEE AND REMUNERATION POLICIES

As at 30 June 2022, the Group had approximately 20,000 employees (31 December 2021: approximately 19,000 employees). The Group remunerates employees based on their performance, working experience and prevailing market conditions. Other employee benefits include retirement benefits, insurance, medical coverage and share option schemes.

CHARGES ON THE GROUP’S ASSETS

As at 30 June 2022, bank deposit of HK\$1.3 million (31 December 2021: HK\$1.2 million) was pledged as security deposit at Custom Department for a subsidiary of the Group; and land and properties with an aggregate carrying amount of HK\$76.8 million (31 December 2021: HK\$55.1 million) were pledged to banks for certain banking facilities of the Group.

CONTINGENT LIABILITIES

The Group had no significant contingent liabilities, litigation or arbitration of material importance as at 30 June 2022.

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 six months ended 30 June 2022.

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 2022.

DIVIDENDS

The Board does not recommend the payment of interim dividend for the six months ended 30 June 2022.

CORPORATE GOVERNANCE

The Company has applied the principles and complied with the code provisions in the Corporate Governance Code as set out in Appendix 14 to the Listing Rules throughout the six months ended 30 June 2022.

REVIEW OF FINANCIAL INFORMATION

The Audit Committee has discussed with the management of the Company the financial reporting matters related to the preparation of the unaudited condensed interim financial information for the six months ended 30 June 2022. It has also reviewed the unaudited condensed interim financial information for the six months ended 30 June 2022 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 interim financial information for the six months ended 30 June 2022 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 2022 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 Mr. KWAN Kai Cheong, Mr. MA Ka Chun, Mr. CHAN Ka Kui and Ms. CHAN Kit Fun Fanny being the independent non-executive directors.

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

Hong Kong, 25 August 2022