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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 2022

FINANCIAL HIGHLIGHTS

- The Group's revenue for the six months ended 30 June 2022 amounted to approximately HK\$2,278.5 million, representing an increase of approximately 9.7% as compared to the six months ended 30 June 2021.

Sales revenue of lingerie fabric materials for the six months ended 30 June 2022 recorded a period-on-period growth of approximately 20.2% and amounted to approximately HK\$674.0 million (for the six months ended 30 June 2021: approximately HK\$560.8 million).

Sales revenue of sportswear and apparel fabric materials for the six months ended 30 June 2022 recorded a period-on-period growth of approximately 6.4% and amounted to approximately HK\$1,046.7 million (for the six months ended 30 June 2021: approximately HK\$983.4 million).

- The Group's gross profit for the six months ended 30 June 2022 amounted to approximately HK\$456.1 million, representing a decrease of approximately 10.0% as compared to the six months ended 30 June 2021. The Group's gross profit margin dropped by approximately 4.4% during the Reporting Period.
- The Group's net profit for the six months ended 30 June 2022 amounted to approximately HK\$167.9 million, representing a decrease of approximately 0.5% as compared to approximately HK\$168.7 million for the six months ended 30 June 2021. The Group's net profit margin for the six months ended 30 June 2022 decreased by approximately 0.7% to approximately 7.4% as compared to approximately 8.1% for the six months ended 30 June 2021.
- Profit attributable to owners of the Company for the six months ended 30 June 2022 amounted to approximately HK\$168.4 million, representing a decrease of approximately 3.9% as compared to the six months ended 30 June 2021.
- Basic earnings per share was approximately HK16.19 cents for the six months ended 30 June 2022, representing a decrease of approximately 3.9% from approximately HK16.85 cents for the six months ended 30 June 2021.
- The Board has resolved to declare an interim dividend of HK7.28 cents for the six months ended 30 June 2022 (for the six months ended 30 June 2021: HK7.5 cents).

The board of Directors (the “**Board**”) of Best Pacific International Holdings Limited (the “**Company**” or “**Best Pacific**” or “**we**”) announces the unaudited condensed consolidated interim results of the Company and its subsidiaries (the “**Group**”) for the six months ended 30 June 2022 (the “**Reporting Period**”), together with the comparative figures for the six months ended 30 June 2021, as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2022 (unaudited)

	<i>Notes</i>	Six months ended	
		30.6.2022	30.6.2021
		HK\$'000	HK\$'000
		(unaudited)	(unaudited)
Revenue	4	2,278,466	2,076,272
Cost of sales		(1,822,383)	(1,569,237)
Gross profit		456,083	507,035
Other income		22,974	22,932
Other gains and losses		26,423	(32)
Net remeasurement of credit loss allowance for trade receivables	10	2,974	(7,881)
Selling and distribution expenses		(92,910)	(97,220)
Administrative expenses		(144,497)	(153,017)
Research and development costs		(53,891)	(50,734)
Share of result of a joint venture		1,535	1,634
Finance costs		(29,920)	(27,505)
Profit before taxation	5	188,771	195,212
Income tax expense	6	(20,887)	(26,520)
Profit for the period		167,884	168,692
Profit (loss) for the period attributable to			
– Owners of the Company		168,384	175,230
– Non-controlling interests		(500)	(6,538)
		167,884	168,692
Earnings per share	8		
Basic (HK cents)		16.19	16.85

	Six months ended	
	30.6.2022	30.6.2021
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Profit for the period	<u>167,884</u>	<u>168,692</u>
Other comprehensive (expense) income		
<i>Items that may be reclassified subsequently to profit or loss:</i>		
Exchange differences arising on translation of foreign operations	(173,625)	42,760
Share of translation reserve of a joint venture	<u>(916)</u>	<u>365</u>
Other comprehensive (expense) income for the period	<u>(174,541)</u>	<u>43,125</u>
Total comprehensive (expense) income for the period	<u><u>(6,657)</u></u>	<u><u>211,817</u></u>
Total comprehensive (expense) income for the period attributable to		
– Owners of the Company	(6,157)	218,355
– Non-controlling interests	<u>(500)</u>	<u>(6,538)</u>
	<u><u>(6,657)</u></u>	<u><u>211,817</u></u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 30 June 2022 (unaudited)

	<i>Notes</i>	30.6.2022 HK\$'000 (unaudited)	31.12.2021 HK\$'000 (audited)
Non-current assets			
Property, plant and equipment	<i>9</i>	2,879,029	2,925,355
Right-of-use assets	<i>9</i>	323,902	350,376
Interest in a joint venture		39,287	38,669
Deposits		49,327	58,349
Deferred tax assets		16,264	5,576
		3,307,809	3,378,325
Current assets			
Inventories		1,357,242	1,456,797
Trade and bills receivables	<i>10</i>	609,999	849,430
Other receivables, deposits and prepayments		146,559	128,194
Tax recoverables		—	4,783
Pledged bank deposits		84,468	121,607
Short term bank deposits		195,322	163,814
Bank balances and cash		890,532	898,868
		3,284,122	3,623,493
Current liabilities			
Trade payables	<i>11</i>	246,715	370,193
Bills payables	<i>11</i>	282,936	444,038
Other payables and accrued charges		262,403	357,062
Dividend payable	<i>7</i>	122,697	—
Contract liabilities		26,376	34,855
Bank and other borrowings	<i>12</i>	1,691,928	1,511,615
Lease liabilities		43,569	42,743
Tax payables		62,009	46,745
Derivative financial instrument		—	1,092
		2,738,633	2,808,343
Net current assets		545,489	815,150
Total assets less current liabilities		3,853,298	4,193,475

	<i>Note</i>	30.6.2022 HK\$'000 (unaudited)	31.12.2021 HK\$'000 (audited)
Non-current liabilities			
Bank and other borrowings	<i>12</i>	435,127	648,789
Lease liabilities		111,106	128,972
Deferred income		13,372	15,390
Deferred tax liabilities		10,151	9,698
Retirement benefit obligations		10,431	9,789
Other liabilities		7,434	7,591
		<u>587,621</u>	<u>820,229</u>
Net assets		<u>3,265,677</u>	<u>3,373,246</u>
Capital and reserves			
Share capital		10,398	10,398
Reserves		3,142,206	3,271,060
		<u>3,152,604</u>	<u>3,281,458</u>
Equity attributable to owners of the Company		<u>3,152,604</u>	<u>3,281,458</u>
Non-controlling interests		<u>113,073</u>	<u>91,788</u>
		<u>3,265,677</u>	<u>3,373,246</u>
Total equity		<u>3,265,677</u>	<u>3,373,246</u>

NOTES

For the six months ended 30 June 2022

1. GENERAL INFORMATION

The Company is a public company incorporated as an exempted company and registered in the Cayman Islands with limited liability under the Companies Law Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands on 14 June 2013. Its immediate and ultimate holding company is Grandview Capital Investment Limited, which is incorporated in the British Virgin Islands and is wholly owned by Mr. Lu Yuguang, who is the Chairman and executive director of the Company. The Company's shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 23 May 2014.

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

2. BASIS OF PREPARATION

The condensed consolidated financial statements of the Group for the six months ended 30 June 2022 have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange.

3. PRINCIPAL ACCOUNTING POLICIES

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

Other than additional accounting policies resulting from application of amendments to Hong Kong Financial Reporting Standards ("HKFRSs") as disclosed below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2022 are the same as those presented in the Group's annual financial statements for the year ended 31 December 2021.

Application of amendments to HKFRSs

In the current interim period, the Group had applied the following amendments to HKFRSs issued by the HKICPA, for the first time, which were mandatorily effective for the annual periods beginning on or after 1 January 2022 for the preparation of the Group's condensed consolidated financial statements:

Amendments to HKFRS 3	Reference to the Conceptual Framework
Amendment to HKFRS 16	Covid-19-Related Rent Concessions beyond 30 June 2021
Amendments to HKAS 16	Property, Plant and Equipment – Proceeds before Intended Use
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018-2020

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

3.1 Impacts and changes in accounting policies on application of Amendments to HKFRS 3 Reference to the Conceptual Framework

3.1.1 Accounting policies

For business combinations in which the acquisition date is on or after 1 January 2022, the identifiable assets acquired and liabilities assumed must meet the definitions of an asset and a liability in the Conceptual Framework for Financial Reporting 2018 issued in June 2018 (the “**Conceptual Framework**”) except for transactions and events within the scope of HKAS 37 Provisions, Contingent Liabilities and Contingent Assets or HK(IFRIC)-Int 21 Levies, in which the Group applies HKAS 37 or HK(IFRIC)-Int 21 instead of the Conceptual Framework to identify the liabilities it has assumed in a business combination. Contingent assets are not recognised.

3.1.2 Transition and summary of effects

The Group applies the amendments to business combinations for which the acquisition date is on or after 1 January 2022. The application of the amendments in the current period had no impact on the condensed consolidated financial statements.

3.2 Impacts and accounting policies on application of Amendments to HKAS 16 Property, Plant and Equipment – Proceeds before Intended Use

3.2.1 Accounting policies

Property, plant and equipment

Costs include any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management, including costs of testing the related assets functioning properly and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Sale proceeds of items that are produced while bringing an item of property, plant and equipment to the location and condition necessary for it to be capable of operating in the manner intended by management (such as samples produced when testing whether the asset is functioning properly), and the related costs of producing those items are recognised in the profit or loss.

3.2.2 Transition and summary of effects

The application of the amendments has had no material impact on the Group's financial position and performance.

3.3 Impacts on application of Amendments to HKFRSs Annual Improvements to HKFRSs 2018-2020

The Group has applied the annual improvements which make amendments to the following standards:

HKFRS 9 Financial Instruments

The amendment clarifies that for the purpose of assessing whether modification of terms of original financial liability constitutes substantial modification under the "10 per cent" test, a borrower includes only fees paid or received between the borrower and the lender, including fees paid or received by either the borrower or the lender on the other's behalf.

HKFRS 16 Leases

The amendment to Illustrative Example 13 accompanying HKFRS 16 removes from the example the illustration of reimbursement relating to leasehold improvements by the lessor in order to remove any potential confusion.

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

4. REVENUE AND SEGMENT INFORMATION

Revenue

The Group's revenue is derived from manufacturing and trading of elastic fabric, lace and elastic webbing in the People's Republic of China (the "PRC"), Hong Kong, the Socialist Republic of Vietnam ("Vietnam") and the Democratic Socialist Republic of Sri Lanka ("Sri Lanka"), net of discounts and sales related taxes. The Group's revenue is recognised at a point in time.

Disaggregation of revenue from contracts with customers

For the six months ended 30 June 2022 (unaudited)

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

For the six months ended 30 June 2021 (unaudited)

<u>Types of goods</u>	Manufacturing and trading of elastic fabric and lace HK\$'000	Manufacturing and trading of elastic webbing HK\$'000	Total HK\$'000
Sales of products			
Elastic fabric			
– Sportswear and apparel	983,409	–	983,409
– Lingerie	560,752	–	560,752
	<u>1,544,161</u>	<u>–</u>	<u>1,544,161</u>
Lace	43,688	–	43,688
Elastic webbing	–	488,423	488,423
	<u>1,587,849</u>	<u>488,423</u>	<u>2,076,272</u>

Segment information

The financial information reported to executive directors of the Company, being the chief operating decision makers (“CODM”), for the purpose of assessment of segment performance and resources allocation focuses on types of goods delivered.

The Group’s operating and reportable segments under HKFRS 8 are as follows:

- Manufacturing and trading of elastic fabric and lace

This segment derives its revenue from manufacturing and trading of elastic fabric and lace made from synthetic fibres that are commonly used in high-end knitted lingerie, sportswear and apparel products.

- Manufacturing and trading of elastic webbing

This segment derives its revenue from manufacturing and trading of elastic webbing made from synthetic fibres that are commonly used as shoulder straps, lingerie trims and waistbands.

Segment revenue and results

The following is an analysis of the Group’s revenue and results by operating and reportable segments:

For the six months ended 30 June 2022 (unaudited)

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

For the six months ended 30 June 2021 (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	<u>1,587,849</u>	<u>488,423</u>	<u>2,076,272</u>
Segment gross profit	<u>354,773</u>	<u>152,262</u>	<u>507,035</u>
Segment profit	<u>139,278</u>	<u>83,448</u>	222,726
Unallocated other income			12,274
Unallocated other gains and losses			(32)
Unallocated corporate expenses			(13,885)
Share of result of a joint venture			1,634
Finance costs			<u>(27,505)</u>
Profit before taxation			<u>195,212</u>

The accounting policies of the operating and reportable segments are the same as the Group's accounting policies. Segment profit represents the results of each segment without allocation of corporate items including mainly bank interest income, change in fair value of a derivative financial instrument, net foreign exchange gain (loss), gain from derecognition of derivative financial liability, corporate expenses, share of result of a joint venture and finance costs. Corporate expenses include directors' remuneration paid or payable by the Group and certain administrative expenses for corporate functions. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

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 2022 (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	<u>4,543,155</u>	<u>789,995</u>	5,333,150
Property, plant and equipment			4,501
Right-of-use assets			16,580
Interest in a joint venture			39,287
Deferred tax assets			16,264
Other receivables, deposits and prepayments			11,827
Pledged bank deposits			84,468
Short term bank deposits			195,322
Bank balances and cash			<u>890,532</u>
Total assets			<u>6,591,931</u>
LIABILITIES			
Segment liabilities	<u>770,549</u>	<u>194,317</u>	964,866
Other payables and accrued charges			21,254
Dividend payable			122,697
Bank and other borrowings			2,127,055
Lease liabilities			18,222
Tax payables			62,009
Deferred tax liabilities			<u>10,151</u>
Total liabilities			<u>3,326,254</u>

As at 31 December 2021 (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	<u>4,926,126</u>	<u>787,685</u>	5,713,811
Property, plant and equipment			6,054
Right-of-use assets			18,595
Interest in a joint venture			38,669
Deferred tax assets			5,576
Other receivables, deposits and prepayments			30,041
Tax recoverables			4,783
Pledged bank deposits			121,607
Short term bank deposits			163,814
Bank balances and cash			<u>898,868</u>
Total assets			<u><u>7,001,818</u></u>
LIABILITIES			
Segment liabilities	<u>1,062,375</u>	<u>281,469</u>	1,343,844
Other payables and accrued charges			46,581
Bank and other borrowings			2,160,404
Lease liabilities			20,208
Tax payables			46,745
Derivative financial instrument			1,092
Deferred tax liabilities			<u>9,698</u>
Total liabilities			<u><u>3,628,572</u></u>

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

- all assets are allocated to operating and reportable segments, other than certain property, plant and equipment and right-of-use assets for corporate use, interest in a joint venture, deferred tax assets, tax recoverables, pledged bank deposits, short term bank deposits and bank balances and cash and certain other corporate assets.
- all liabilities are allocated to operating and reportable segments, other than dividend payable, bank and other borrowings, lease liabilities for corporate use, tax payables, derivative financial instrument, deferred tax liabilities and certain other corporate liabilities.

5. PROFIT BEFORE TAXATION

	Six months ended	
	30.6.2022 HK\$'000 (unaudited)	30.6.2021 HK\$'000 (unaudited)
Profit before taxation has been arrived at after charging (crediting):		
Depreciation of property, plant and equipment	166,105	167,028
Depreciation of right-of-use assets	18,323	13,832
Depreciation capitalised in inventories	<u>(142,446)</u>	<u>(140,586)</u>
	41,982	40,274
Cost of inventories recognised as an expense	1,822,383	1,569,237
Including: reversal of allowance for slow-moving inventories	(5,164)	(5,629)
Bank interest income (included in other income)	(6,945)	(10,455)
Government grants (included in other income)	(5,157)	(6,984)
Net proceeds from sales of scrap materials (included in other income)	(4,321)	(2,462)
Net foreign exchange (gain) loss (included in other gains and losses)	(26,990)	32
Gain from derecognition of derivative financial liability (included in other gains and losses)	<u>(1,092)</u>	<u>–</u>

6. INCOME TAX EXPENSE

	Six months ended	
	30.6.2022 HK\$'000 (unaudited)	30.6.2021 HK\$'000 (unaudited)
Current tax:		
Hong Kong Profits Tax	28,892	9,741
The PRC Enterprise Income Tax (“EIT”)	1,683	13,656
Income tax in other jurisdictions	890	80
(Over)/under provision in prior years:		
The PRC EIT	<u>(1,650)</u>	<u>1,461</u>
	29,815	24,938
Deferred taxation	<u>(8,928)</u>	<u>1,582</u>
	<u>20,887</u>	<u>26,520</u>

Under the two-tiered profits tax rates regime passed by the Hong Kong Legislative Council in March 2018, the first HK\$2 million profit of the qualifying group entity will be taxed at 8.25%, and profit above HK\$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%. The two-tiered profits tax rates regime is applicable to the year of assessment commencing on or after 1 April 2018.

Accordingly, the Hong Kong Profits Tax for the qualifying group entity had been calculated at 8.25% on the first HK\$2 million of the estimated assessable profit and at 16.5% on the estimated assessable profit above HK\$2 million.

Under the Law of the PRC on Enterprise Income Tax (the “**EIT Law**”) and Implementation Regulation of the EIT Law, the tax rate of the PRC companies is 25% during the six months ended 30 June 2022 and 2021 respectively, unless there is any applicable preferential tax treatment.

The Company’s subsidiaries, Dongguan Best Pacific Textile Company Limited (“**Dongguan BPT**”) and Dongguan New Horizon Elastic Fabric Company Limited (“**Dongguan NHE**”), had obtained the qualification as high and new technology enterprises since 2010 and 2016, respectively, which had been renewed for an additional three years from the year ended 31 December 2019. Hence, Dongguan BPT and Dongguan NHE were subject to the preferential tax treatment and the applicable tax rate for the six months ended 30 June 2022 and 2021 was 15%.

Withholding tax on dividends was calculated at 5% of the estimated dividends to be received from the subsidiaries in the PRC during the six months ended 30 June 2022 and 2021.

Pursuant to the relevant Vietnam Enterprises Income Tax rules and regulations, the applicable tax rate for the subsidiary operating in Vietnam is 20%. The subsidiary of the Group in Vietnam is eligible for tax holiday for two financial years since the first financial year of taxable profit and tax concession at a tax rate of 10% for the following four financial years. With the new incentive in place during the year ended 31 December 2018 and by fulfilling certain stated requirements as set by the Ministry of Industry and Trade of Vietnam, the subsidiary of the Group in Vietnam had been eligible for tax holiday for four financial years since 2018, tax concession at a tax rate of 5% for the following nine financial years and tax concession at a tax rate of 10% for the next following two financial years.

Pursuant to the Inland Revenue Act, No. 10 of 2021 in Sri Lanka, the applicable tax rate for the subsidiaries of the Group operating in Sri Lanka is 24% for the six months ended 30 June 2022 and 2021. By fulfilling certain export requirements as set by the Board of Investment of Sri Lanka, the subsidiaries of the Group in Sri Lanka had enjoyed a preferential tax rate of 14% for the six months ended 30 June 2022 and 2021. In addition, one of these subsidiaries is currently eligible for tax holiday till the year ending 31 December 2024.

Taxation arising in any other jurisdiction is calculated at the rate prevailing in the relevant jurisdiction.

7. DIVIDENDS

During the current interim period, a final dividend of HK11.8 cents per ordinary share in respect of the year ended 31 December 2021 (2021: HK7.4 cents per ordinary share in respect of the year ended 31 December 2020) was declared to the shareholders of the Company and was approved by the shareholders at the annual general meeting on 28 June 2022. The aggregate amount of final dividend amounted to approximately HK\$122,697,000 (2021: approximately HK\$76,946,000) was subsequently paid to shareholders in August 2022 (2021: July 2021).

Subsequent to the end of the current interim period, the directors of the Company have resolved to declare interim dividend of HK7.28 cents for the six months ended 30 June 2022.

8. EARNINGS PER SHARE

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

	Six months ended	
	30.6.2022	30.6.2021
	(unaudited)	(unaudited)
Earnings		
Earnings for the purposes of basic earnings per share (profit for the period attributable to owners of the Company) (HK\$'000)	<u>168,384</u>	<u>175,230</u>
Number of shares		
Number of ordinary shares for the purpose of basic earnings per share	<u>1,039,808,000</u>	<u>1,039,808,000</u>

No diluted earnings per share for the six months ended 30 June 2022 and 2021 was presented as there was no potential ordinary shares in issue for the six months ended 30 June 2022 and 2021.

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

During the six months ended 30 June 2022, total additions to property, plant and equipment were approximately HK\$206,576,000 (for the six months ended 30 June 2021: approximately HK\$104,071,000), which mainly included additions to construction in progress of approximately HK\$145,093,000 (for the six months ended 30 June 2021: approximately HK\$51,888,000), additions to machinery of approximately HK\$54,757,000 (for the six months ended 30 June 2021: approximately HK\$18,440,000). During the six months ended 30 June 2021, there were additions to computer and office equipment and machinery of approximately HK\$19,819,000 arising from acquisition of a business.

During the six months ended 30 June 2022, the Group entered into several new lease agreements with lease terms ranged from two to six years. On lease commencement, the Group recognised lease liabilities of approximately HK\$3,094,000 (for the six months ended 30 June 2021: approximately HK\$16,178,000) and total additions to right-of-use assets were approximately HK\$3,094,000 (for the six months ended 30 June 2021: approximately HK\$16,178,000), which mainly included additions of approximately HK\$3,094,000 in relation to new lease agreements entered by the Group for leasing an office in the PRC.

10. TRADE AND BILLS RECEIVABLES

	30.06.2022 HK\$'000 (unaudited)	31.12.2021 HK\$'000 (audited)
Trade receivables	624,950	845,799
Less: Allowance for credit losses	(21,662)	(24,636)
Net trade receivables	603,288	821,163
Bills receivables	6,711	28,267
Total trade and bills receivables	609,999	849,430

Trade receivables balance mainly represented receivables from customers in relation to the sale of elastic fabric, lace and elastic webbing. The credit period granted to the customers ranges from 30 to 90 days from the date of issuance of a monthly statement for sales delivered in that particular month.

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

	30.6.2022 HK\$'000 (unaudited)	31.12.2021 HK\$'000 (audited)
Trade receivables		
0 – 90 days	547,467	765,207
91 – 180 days	54,486	49,914
Over 180 days	1,335	6,042
	603,288	821,163
Bills receivables		
0 – 90 days	6,709	26,002
91 – 180 days	2	1,746
Over 180 days	–	519
	6,711	28,267
	609,999	849,430

The following is the movement in the allowance for impairment in respect of trade receivables during the six months ended 30 June 2022:

	HK\$'000
Balance at 1 January 2022 (audited)	24,636
Net remeasurement of credit loss allowance	(2,974)
Balance at 30 June 2022 (unaudited)	21,662

Trade receivables balances with related parties included in the Group's trade receivables balance are listed below:

	30.6.2022 HK\$'000 (unaudited)	31.12.2021 HK\$'000 (audited)
Related companies		
Related companies*	47,752	54,401
Other related companies#	<u>100,016</u>	<u>112,399</u>
	<u>147,768</u>	<u>166,800</u>

* Related companies controlled by a director and close family members of certain directors of the Company.

Other related companies are fellow subsidiaries of the non-controlling shareholders of subsidiaries who have significant influence over certain subsidiaries of the Group.

The above trade receivables balances with related companies are unsecured, interest-free and with a credit term of 30 to 90 days from the date of issuance of a monthly statement for sales delivered in that particular month. The following is an ageing analysis of trade receivables balances with related companies presented based on the invoice date at the end of each reporting period.

	30.6.2022 HK\$'000 (unaudited)	31.12.2021 HK\$'000 (audited)
0 – 90 days	125,560	155,974
91 – 180 days	<u>22,208</u>	<u>10,826</u>
	<u>147,768</u>	<u>166,800</u>

All bills received are held by the Group for future settlement of trade receivables and are with a maturity period of less than one year. The Group continues to recognise their full carrying amounts at the end of the reporting period.

11. TRADE AND BILLS PAYABLES

Trade payables

The credit period granted by the Group's creditors ranges from approximately 30 to 90 days. The following is an ageing analysis of trade payables presented based on the invoice date at the end of each reporting period:

	30.6.2022 HK\$'000 (unaudited)	31.12.2021 HK\$'000 (audited)
0 – 90 days	234,085	359,387
91 – 180 days	12,630	10,806
	246,715	370,193

As at 30 June 2022, included in the Group's trade payables balance was an amount due to a joint venture of approximately HK\$22,887,000 (as at 31 December 2021: approximately HK\$26,328,000). Such balance due to a joint venture was unsecured, interest-free and with a credit term of 30 days from the date of issuance of a monthly statement for purchases delivered in that particular month. Such balance was aged within 90 days at the end of the reporting period.

Bills payables

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

	30.6.2022 HK\$'000 (unaudited)	31.12.2021 HK\$'000 (audited)
0 – 90 days	164,012	282,431
91 – 180 days	118,924	161,607
	282,936	444,038

12. BANK AND OTHER BORROWINGS/BANK OVERDRAFTS

	30.6.2022 HK\$'000 (unaudited)	31.12.2021 HK\$'000 (audited)
Bank overdrafts	14,641	29,111
Unsecured syndicated loan	709,098	793,883
Unsecured bank borrowings	1,301,116	1,267,386
Unsecured other borrowings (<i>Note</i>)	102,200	70,024
	<u>2,127,055</u>	<u>2,160,404</u>
Carrying amount repayable*		
Within one year	1,583,080	1,364,879
More than one year, but not exceeding two years	438,319	202,464
More than two years, but not more than five years	105,656	593,061
	<u>2,127,055</u>	<u>2,160,404</u>
Less: Amounts due within one year or contain a repayment on demand clause shown under current liabilities	<u>(1,691,928)</u>	<u>(1,511,615)</u>
Amounts shown under non-current liabilities	<u>435,127</u>	<u>648,789</u>
Carrying amount of bank borrowings that are repayable within one year and contain a repayment on demand clause	1,206,910	1,149,761
Carrying amount of bank borrowings that are repayable more than one year but contain a repayment on demand clause	108,848	146,736
	<u>1,315,758</u>	<u>1,296,497</u>

* The amounts due are based on scheduled repayment dates set out in the loan agreements and include the unamortised portion of the prepaid transaction cost in relation to the unsecured syndicated loan.

Note: Other borrowings represent loans from non-controlling shareholders of subsidiaries which are unsecured, carry interest at London Interbank Offered Rate (“LIBOR”) plus 2.15% to 4.35% per annum and repayable from the year ending 31 December 2023 to the year ending 31 December 2025. Such other borrowings were denominated in United States Dollar (“US\$”).

During the year ended 31 December 2020, the Group entered into a new facility agreement for an unsecured syndicated loan, which would be repayable by installments, from 31 December 2021 to 31 December 2023 and was with an interest rate at Hong Kong Interbank Offered Rate plus 2.2% per annum for HK\$ loan tranche and LIBOR plus 2.2% per annum for US\$ loan tranche. The unsecured syndicated loan was guaranteed by the Company.

The unsecured bank borrowings and bank overdrafts were guaranteed by the Company and/or certain of its subsidiaries as at 30 June 2022 and 31 December 2021.

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET AND BUSINESS REVIEW

Moving into the first half of 2022, international geopolitical tensions and global economic headwinds had created a lot of challenges and complications for all businesses and market conditions had turned to be volatile for the textile and apparel sector.

Economic growth was hammered whilst food and fuel prices have increased significantly as a result of the outbreak of the Russia-Ukraine war, which added weight to the elevated inflation across the globe. In mid-July 2022, the United States of America (the “U.S.”) reported an elevated inflation rate of 9.1% for the first half of 2022. The following tightened fiscal policy by the U.S. Federal Reserve to curb the alarming inflation had undermined investment prospects, and a negative gross domestic product (“GDP”) of 1.6% and 0.6% were recorded in the U.S. in the first and second quarter of 2022 respectively, with widening worries that recession might occur. On the other hand, in response to the resurgence of the 2019 novel coronavirus disease pandemic (the “Pandemic”) in China, frequent and wider-ranged lockdowns in various regions in China were implemented in the first half of 2022. Production and economic activities had been negatively affected in those regions in the first half of 2022 and the GDP of China were 4.8% and 0.4% for the first and second quarter of 2022 respectively, according to the National Bureau of Statistics of China.

Our business was inevitably affected to a certain extent by the macroeconomic environment in the first half of 2022. General households were forced to allocate a relatively larger portion of their disposable income in purchasing daily necessities as a result of the robust surge in food and fuel prices. In view of the prevailing market uncertainties, selected brand customers had turned to be more conservative by focusing on clearing their existing stockpiles and adopting a lower inventory level strategy. Nonetheless, we were gracious for our strong customer base and the customers’ recognition of our high product quality and innovation, Best Pacific had also been devoted to further penetrate into its existing customers and had attained a historical high half-year revenue in the first half of 2022. The overall sales revenue had grown up to approximately HK\$2,278.5 million for the six months ended 30 June 2022, representing an approximately 9.7% growth as compared to the corresponding period in 2021.

Meanwhile, we faced increased costs pressure in the first half of 2022, which undermined our profitability to a certain extent. By the end of 2021, Bruent Crude oil price had already climbed up to approximately US\$78 per barrel, and it had further increased by more than 50% by mid-2022 as a result of the outbreak of the Russia-Ukraine war. The notable increase in the prices of oil and many oil by-products had added enormous pressure on our raw materials prices. The upsurge in raw materials costs during the first six months of 2022 had certainly added weight to our overall production costs. We strived our best to digest these costs pressures through a combination of measures which included but not limited to further optimization of our production efficiencies, more stringent wastage control and the exploration with our customers and partnering brands on the possibilities of product price adjustments.

Our international operations

Leveraging on our international manufacturing footprint which had always formed a vital part of our agile business model, Best Pacific was able to provide sustainable supply chain solutions to cater for the best interests of our customers – which encompassed reduction in production lead time, catering for trade and tariff considerations as well as reducing impact from supply chain disturbances as a result of the intermittent anti-pandemic measures. With a wider vaccination among the global population, the “living with the virus” strategy adopted by the international communities and the continuous government efforts to restore economic activities to pre-pandemic level, our operations in Vietnam and Sri Lanka had been operating as normal during the six months ended 30 June 2022.

VIETNAM

According to the statistics released by the General Department of Customs of Vietnam, Vietnam had become the second largest exporting country for textile and apparel products. The export of textile and garment products reached approximately US\$18.5 billion in the first half of 2022, up by approximately 20.8%, as compared to the corresponding period in 2021. On the other hand, Vietnam had achieved a GDP growth of 6.42% in the first half of 2022, according to General Statistics Office of Vietnam, outperforming a majority of the international economies. In view of Vietnam being a member state of various free trade agreements, its advantageous population size and composition, relatively lower labour costs, its positive economic growth prospects and its government efforts in improving infrastructures and favourable policies for attracting foreign investments, many of our customers have strategically set up their manufacturing facilities in Vietnam. In turn, our customers continued to show significant interests in our production capacity in Vietnam and a continual growth of approximately 8.2% was recorded in the first half of 2022.

SRI LANKA

Sri Lanka had been facing an acute fuel shortage due to the depletion of its foreign exchange reserves and the country had been ensnared in a chaotic public debt default during the first half of 2022. Nonetheless, according to the Sri Lankan Apparel Exporters Association, apparel exports accounted for more than 40% of the total export income in Sri Lanka during the first half of 2022. In the first half of 2022, the relevant export value had reached US\$2.8 billion, another all-time high figure which had beaten the record achieved in the first half of 2019 of US\$2.6 billion. During the first half of 2022, the apparel sector had enjoyed preferential support from the Sri Lankan government, and had been able to secure the necessary resources to maintain its normal operations. It was also noted that the ports and

airports in Sri Lanka continued to function and therefore import and export of goods by the apparel sector remained normal during the Reporting Period. In light of the current political instability, our management had been closely monitoring the situation and our operations in Sri Lanka. Various measures taken included: (i) maintaining a continuous dialogue with our local joint venture partners and seeking assistance as needed; (ii) maintaining sufficient fuel storage for facilitating smooth operations of our manufacturing plants in Sri Lanka; and (iii) providing extra support to our local employees by granting special allowances in response to the stiff depreciation of Sri Lankan Rupee (“**LKR**”). Despite the challenging time in Sri Lanka in the first half of 2022, our operations in Sri Lanka had achieved an encouraging revenue growth of approximately 31.3% as compared to the corresponding period in 2021.

FINANCIAL PERFORMANCE

Amid the rather challenging market conditions, we continued to seize market opportunities and our revenue from the sales of elastic fabric continued to increase period-on-period by approximately 11.4% to approximately HK\$1,720.7 million, and the revenue from the sales of elastic webbing continued to increase period-on-period by approximately 6.3%, to approximately HK\$519.3 million. In particular, we had attained an encouraging growth of approximately 38.1% in the domestic sales revenue of our sportswear and apparel fabric segment.

The Group’s gross profit for the Reporting Period amounted to approximately HK\$456.1 million, representing a decrease of approximately 10.0% as compared to the six months ended 30 June 2021. The Group’s gross profit margin for the Reporting Period decreased by approximately 4.4 percentage points to approximately 20.0%, as compared to the six months ended 30 June 2021. As explained in the section headed “**MARKET AND BUSINESS REVIEW**”, the significant upsurge in raw materials costs has dragged down our gross profit and gross profit margin for the Reporting Period. The Group recorded a net profit margin of approximately 7.4% for the Reporting Period, which represented a decrease of approximately 0.7 percentage point as compared to the net profit margin of approximately 8.1% for the six months ended 30 June 2021. The decrease in net profit margin was mainly due to the decrease in gross profit for the six months ended 30 June 2022. Such impact was partly alleviated by (i) the increase in other gains and losses as a result of the currency depreciation of Renminbi (“**RMB**”), Vietnam Dong (“**VND**”) and LKR; (ii) better control in selling and distribution and administrative expenses; and (iii) the reversal of remeasurement of credit loss allowance for trade receivables.

The profit attributable to owners of the Company amounted to approximately HK\$168.4 million for the Reporting Period, representing a decrease of approximately 3.9% as compared to the six months ended 30 June 2021.

Basic earnings per share was approximately HK16.19 cents for the Reporting Period, representing a decrease of approximately 3.9% from approximately HK16.85 cents for the six months ended 30 June 2021.

FINANCIAL REVIEW

Revenue

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

For the six months ended 30 June 2022, revenue amounted to approximately HK\$2,278.5 million, representing an increase of approximately HK\$202.2 million, or approximately 9.7%, from approximately HK\$2,076.3 million for the six months ended 30 June 2021.

A comparison of the Group's revenue for the six months ended 30 June 2022 and the six months ended 30 June 2021 by product categories is as follows:

	Six months ended 30 June				Change	
	2022		2021		(HK\$'000)	%
	Revenue (HK\$'000)	% of Revenue	Revenue (HK\$'000)	% of Revenue	(HK\$'000)	%
Elastic fabric	1,720,740	75.5	1,544,161	74.4	176,579	11.4
– <i>Sportswear and apparel</i>	1,046,714	45.9	983,409	47.4	63,305	6.4
– <i>Lingerie</i>	674,026	29.6	560,752	27.0	113,274	20.2
Elastic webbing	519,279	22.8	488,423	23.5	30,856	6.3
Lace	38,447	1.7	43,688	2.1	(5,241)	(12.0)
Total	2,278,466	100.0	2,076,272	100.0	202,194	9.7

Leveraging on its high product quality, strong customer base, multi-region production advantage and the customers' support in product price adjustments to cope with a portion of the increase in costs of production, the Group's revenue managed to continue its growth during the Reporting Period. Revenue from the sales of elastic fabric amounted to approximately HK\$1,720.7 million for the six months ended 30 June 2022, representing an increase of approximately HK\$176.6 million, or approximately 11.4%, as compared to the six months ended 30 June 2021. With the continuous penetration among the existing lingerie customers, we were able to register an encouraging segment growth of approximately 20.2% during the Reporting Period, as compared to the corresponding period in 2021. On the other hand, the Group had successfully entered into certain new core programmes with partnering brands in the sportswear and apparel business segment. Specifically, the domestic sales revenue of our sportswear and apparel fabric products increased by approximately HK\$37.2 million to HK\$134.9 million for the six months ended 30 June 2022, as compared to the corresponding period in 2021. Despite the encouraging growth in the domestic market, the elastic fabric segment growth in the overseas market was dragged by certain overseas brand customers who had taken a more conservative approach to control their respective inventory levels.

We maintained a moderate growth in the elastic webbing segment by seizing more market share from our core customers. Revenue from the sales of elastic webbing amounted to approximately HK\$519.3 million during the Reporting Period, representing an increase of approximately HK\$30.9 million, or approximately 6.3%, as compared to the six months ended 30 June 2021.

Cost of sales

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

	Six months ended 30 June					
	2022		2021		Change	
	(HK\$'000)	%	(HK\$'000)	%	(HK\$'000)	%
Raw materials	943,474	51.8	746,355	47.6	197,119	26.4
Manufacturing overheads	672,911	36.9	620,141	39.5	52,770	8.5
Direct labour	196,274	10.8	191,841	12.2	4,433	2.3
Others	9,724	0.5	10,900	0.7	(1,176)	(10.8)
Total	1,822,383	100.0	1,569,237	100.0	253,146	16.1

The Group's cost of sales for the six months ended 30 June 2022 amounted to approximately HK\$1,822.4 million, representing an increase of approximately HK\$253.1 million or approximately 16.1%, as compared to the six months ended 30 June 2021. The increase in cost of sales was primarily due to the increase in cost of raw materials, with the relevant contribution to the overall cost of sales elevating to approximately 51.8% during the Reporting Period. Our raw materials were mainly synthetic materials or oil by-products. Therefore, the relevant unit prices were by large correlated to the oil prices, which had generally been on the rise since 2021 and had reached its recent highs in the second quarter of 2022.

During the Reporting Period, we strived to streamline our production processes and enhance our efficiencies so as to curb the increasing labour and utility costs across all manufacturing locations.

Gross profit, gross profit margin and net profit margin

	Six months ended 30 June			
	2022		2021	
	Gross profit (HK\$'000)	Gross profit margin %	Gross profit (HK\$'000)	Gross profit margin %
Elastic fabric	310,477	18.0	337,446	21.9
Elastic webbing	131,563	25.3	152,262	31.2
Lace	14,043	36.5	17,327	39.7
Overall	456,083	20.0	507,035	24.4

The overall gross profit of the Group decreased from approximately HK\$507.0 million for the six months ended 30 June 2021 to approximately HK\$456.1 million for the six months ended 30 June 2022 and the overall gross profit margin of the Group dropped period-on-period by approximately 4.4% during the Reporting Period. Such decrease in gross profit and gross profit margin was mainly due to the high unit raw materials prices throughout the six months ended 30 June 2022.

Net profit for the six months ended 30 June 2022 of the Group amounted to approximately HK\$167.9 million, representing a decrease of approximately 0.5% as compared to approximately HK\$168.7 million for the six months ended 30 June 2021. The Group recorded a net profit margin of approximately 7.4% for the six months ended 30 June 2022, which represented a decrease of approximately 0.7 percentage point as compared to approximately 8.1% for the six months ended 30 June 2021. The decrease in net profit margin was mainly due to the decrease in gross profit for the six months ended 30 June 2022. Such impact was partly alleviated by (i) the increase in other gains and losses as a result of the currency depreciation of RMB, VND and LKR; (ii) better control in selling and distribution and administrative expenses; and (iii) the reversal of remeasurement of credit loss allowance for trade receivables.

Other income

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

	Six months ended 30 June	
	2022 (HK\$'000)	2021 (HK\$'000)
Bank interest income	6,945	10,455
Government grants	5,157	6,984
Net proceeds from sales of scrap materials	4,321	2,462
Others	6,551	3,031
Total	22,974	22,932

The other income for the six months ended 30 June 2022 of the Group amounted to approximately HK\$23.0 million, which was comparable to approximately HK\$22.9 million recorded for the six months ended 30 June 2021. The decrease in bank interest income was mainly due to the generally lower RMB deposit rates during the Reporting Period as compared to the corresponding period in 2021 and such decrease was partially offset by the increase in net proceeds from sales of scrap materials.

Other gains and losses

Other gains and losses in the six months ended 30 June 2022 mainly consisted of a net foreign exchange gain of approximately HK\$27.0 million, as a result of the currency depreciation of RMB, VND and LKR during the Reporting Period.

Selling and distribution expenses

Selling and distribution expenses primarily consisted of employee benefit expenses, transportation, marketing and promotional expenses and other selling and distribution expenses. For the six months ended 30 June 2021 and 2022, the Group's selling and distribution expenses represented approximately 4.7% and approximately 4.1% of its total revenue, respectively. The decrease in the ratio of selling and distribution expenses against total revenue was mainly due to the better management of respective costs and economies of business scale achieved during the Reporting Period.

Administrative expenses

Administrative expenses primarily consist of employee benefit expenses, depreciation, motor vehicle expenses, bank charges and other administrative expenses. For the six months ended 30 June 2021 and 2022, the Group's administrative expenses represented approximately 7.4% and approximately 6.3% of its total revenue, respectively. The decrease in the ratio of administrative expenses against total revenue was mainly due to the better management of respective costs and economies of business scale achieved during the Reporting Period.

Research and development costs

The Group is dedicated to catering to the changing market preferences by introducing innovative lingerie, sportswear and apparel materials. For the six months ended 30 June 2021 and 2022, our research and development costs remained at approximately 2.4% of the revenue of the Group.

Finance costs

The Group's finance costs mainly represent interest expenses for bank and other borrowings and lease liabilities. The finance costs increased by approximately 8.8% from approximately HK\$27.5 million for the six months ended 30 June 2021 to approximately HK\$29.9 million for the six months ended 30 June 2022. The increase in finance costs during the Reporting Period was primarily due to increase in overall market lending interest rate during the Reporting Period.

Income tax expense

Under the two-tiered profits tax rates regime in Hong Kong, the first HK\$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK\$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%. Accordingly, the Hong Kong Profits Tax for the qualifying group entity had been calculated at 8.25% on the first HK\$2 million of the estimated assessable profits and at 16.5% on the estimated assessable profits above HK\$2 million.

Under the EIT Law and Implementation Regulation of the EIT Law, the tax rate of the PRC companies is 25% for the six months ended 30 June 2022 and 2021 respectively, unless there is any applicable preferential tax treatment.

The Company's subsidiaries, Dongguan BPT and Dongguan NHE, had obtained the qualification as high and new technology enterprises since 2010 and 2016, respectively, which were renewed for an additional three years from the year ended 31 December 2019. Hence, Dongguan BPT and Dongguan NHE had been subject to the preferential tax treatment and the applicable tax rate for the six months ended 30 June 2022 and 2021 was 15%.

Withholding tax on dividends was calculated at 5% of the estimated dividends to be received from the subsidiaries in the PRC during the six months ended 30 June 2022 and 2021.

Pursuant to the relevant Vietnam Enterprises Income Tax rules and regulations, the applicable tax rate for the subsidiary operating in Vietnam is 20%. The subsidiary of the Group in Vietnam is eligible for a tax holiday for two financial years since the first financial year of taxable profits and a tax concession at a tax rate of 10% for the following four financial years. With the new incentive in place during the year ended 31 December 2018 and by fulfilling certain stated requirements as set by the Ministry of Industry and Trade of Vietnam, the subsidiary of the Group in Vietnam has been eligible for a tax holiday for four financial years since 2018, a tax concession at a tax rate of 5% for the following nine financial years and a tax concession at a tax rate of 10% for the next following two financial years.

Pursuant to the Inland Revenue (Amendment) Act, No. 10 of 2021 in Sri Lanka, the applicable tax rate for the subsidiaries of the Group operating in Sri Lanka is 24% for the six months ended 30 June 2022 and 2021. By fulfilling certain export requirements as set by the Board of Investment of Sri Lanka, the subsidiaries of the Group in Sri Lanka had enjoyed a preferential tax rate of 14% for the six months ended 30 June 2022 and 2021. In addition, one of these subsidiaries is currently eligible for a tax holiday till the year ending 31 December 2024.

Taxation arising in any other jurisdiction is calculated at the rate prevailing in the relevant jurisdiction.

The effective tax rate was approximately 11.1% for the six months ended 30 June 2022 (for the six months ended 30 June 2021: approximately 13.6%). The decrease in the effective tax rate for the six months ended 30 June 2022 was mainly due to the overall increasing profit contributions from overseas subsidiaries located in jurisdictions with better tax incentives and a higher tax deduction allowed for research and development expenses incurred by our PRC subsidiaries.

Liquidity, financial resources and bank borrowings

As at 30 June 2022, net working capital (calculated as current assets less current liabilities) was approximately HK\$545.5 million, representing a decrease of approximately HK\$269.7 million as compared to approximately HK\$815.2 million as at 31 December 2021. The current ratio (calculated as current assets/current liabilities) is 1.2 times as at 30 June 2022, as compared to 1.3 times as at 31 December 2021.

For the six months ended 30 June 2022, net cash generated from operating activities was approximately HK\$274.8 million, as compared to approximately HK\$255.9 million for the six months ended 30 June 2021. The increase was mainly due to our better control in collection of trade receivables from customers.

Net cash used in investing activities amounted to approximately HK\$198.9 million for the six months ended 30 June 2022, as compared to approximately HK\$97.0 million for the six months ended 30 June 2021. To achieve our long term development goal and to cater for potential business growth in the future, we paid approximately HK\$199.9 million to purchase property, plant and equipment during the Reporting Period.

For the six months ended 30 June 2022, net cash used in financing activities amounted to approximately HK\$41.0 million, as compared to approximately HK\$13.6 million for the six months ended 30 June 2021. The cash used in financing activities for the six months ended 30 June 2022 was mainly used for repayment of borrowings and interests during the Reporting Period.

As at 30 June 2022, the Group's net gearing ratio was approximately 29.3% (as at 31 December 2021: approximately 28.9%), which was calculated on the basis of the amount of net debt position (sum of total bank and other borrowings and bank overdrafts, less bank deposits and bank balances and cash) as a percentage of total equity. The Group was in a net debt position of approximately HK\$956.7 million as at 30 June 2022, as compared to approximately HK\$976.1 million as at 31 December 2021.

Working capital management

As a result of our tightened credit risk management and a more punctual settlement of payments by our customers in general, the trade and bills receivables turnover days was approximately 58.0 days for the six months ended 30 June 2022, as compared to approximately 63.1 days for the year ended 31 December 2021. The inventory turnover days was approximately 139.7 days for the six months ended 30 June 2022, as compared to approximately 118.0 days for the year ended 31 December 2021. The increase in inventory turnover days was primarily due to increase in overall inventory balances as a result of elevated unit raw materials prices since the second half of 2021. On the other hand, the trade and bills payables turnover days was approximately 66.7 days for the six months ended 30 June 2022, as compared to approximately 68.4 days for the year ended 31 December 2021.

Capital expenditures

For the six months ended 30 June 2022, total additions to property, plant and equipment amounted to approximately HK\$206.6 million (for the six months ended 30 June 2021: approximately HK\$104.1 million), which was mainly attributed to the additions to construction in progress of approximately HK\$145.1 million (for the six months ended 30 June 2021: approximately HK\$51.9 million) and the additions to machinery of approximately HK\$54.8 million (for the six months ended 30 June 2021: approximately HK\$18.4 million), in order to cope with the Group's overall business expansion.

Pledge of assets

As at 30 June 2022, the Group pledged bank deposits of approximately HK\$84.5 million (as at 31 December 2021: approximately HK\$121.6 million) to secure the bills payables issued by the Group in connection with its trade transactions.

Foreign exchange risk

A substantial portion of the Group's revenue is denominated in US\$ and HK\$ and a portion of its purchases and expenses are denominated in RMB, VND and LKR. The Group manages its foreign exchange risk by performing regular reviews and monitoring its foreign exchange exposure. Our finance department monitors our foreign exchange risk on a continuous basis by analysing our domestic and overseas sales orders on hand, expected domestic and overseas orders from customers and estimated foreign currency payments for our purchases and expenses. We intend to manage our foreign exchange risks by (i) managing our sales, purchases and expenses denominated in HK\$ and RMB through our subsidiaries in Hong Kong and the PRC, respectively, managing our sales, purchases and expenses denominated in US\$ through our subsidiaries in Hong Kong, Vietnam and Sri Lanka, and managing our purchases and expenses denominated in VND and LKR through our subsidiaries in Vietnam and Sri Lanka, respectively; and (ii) holding cash and bank deposits denominated in HK\$ primarily by the Company and its subsidiaries in Hong Kong, holding cash and bank deposits

denominated in US\$ primarily by the Company and its subsidiaries in Hong Kong, Vietnam and Sri Lanka, and holding cash and bank deposits denominated in RMB, VND and LKR primarily by our subsidiaries in the PRC, Vietnam and Sri Lanka, respectively.

Contingent liabilities

As at 30 June 2022, the Group did not have any significant contingent liabilities.

Employees and remuneration policies

The Group's remuneration packages include salary, bonuses, allowances and retirement benefits based on employee's performance, skills and knowledge. The Group also provides additional benefits to its employees that include subsidised accommodation, meals, accident and medical insurance and share options granted to eligible employees under the share option scheme of the Company from time to time. The Group will continue to provide regular training and competitive remuneration packages to its staff.

As at 30 June 2022, the Group employed a total of 9,370 full-time employees (as at 31 December 2021: 8,957). The increase in the number of employees was mainly due to the overall Group's expansion.

FUTURE STRATEGIES AND PROSPECTS

The elevated inflation and high costs of living are expected to persist for some time in the near future and the apparel market will likely be affected to a certain extent. In light of the challenges and uncertainties in the market environment, we will continue to emphasize on risk management and remain agile and vigilant and to respond swiftly to the ever-changing market conditions.

With all the black swan events in recent years, we have witnessed the industry undergoing a time of rapid market changes and consolidation. We believe that our world-class innovation capabilities, international footprint, strong partnership with customers and our people talent have laid a solid foundation for Best Pacific's sustainable growth and future success.

Despite key economic indicators suggest that the market environment may remain rather challenging in the short term, we start to see some positive developments, such as the recent signs of retreating commodity and raw material prices since the third quarter of 2022. We will continue to maintain a close dialogue with our suppliers and manage our inventory accordingly and we believe that if the downtrend in our raw materials prices continues, it will certainly help improve our Group's overall profitability.

Best Pacific will continue to deploy resources to strengthen our innovation and research and development capabilities and uphold our core value “Built on Innovation and Technology” to satisfy our customers’ rising demand for innovative apparel products. We will also continue our efforts in capturing market share and in particular, we aim at seizing the vast potentials and further penetrate the sportswear and apparel business segment. At the same time, with an encouraging growth in domestic sales revenue of our sportswear and apparel fabric products of approximately 38.1% during the Reporting Period, we are prepared to devote more resources to capture the respective market opportunities.

As at 30 June 2022, the overall annual designed production capacities of elastic fabric, elastic webbing and lace of the Group were approximately 234.4 million meters, 1,899.1 million meters and 45.0 million meters, respectively. We are committed to our multi-location manufacturing strategy and in order to cope with the potential increasing demand of our products in the medium and longer term, we will continue to explore and identify suitable opportunities for our production capacity expansion, both domestically and in overseas. Meanwhile, we will keep abreast of the changing market conditions and carefully manage the associated risks. Best Pacific strongly believes that the continuous strategic expansion will underpin the Group’s long-term sustainability, thereby ensuring its ability to maximize value for 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 2022.

AUDIT COMMITTEE

The Audit Committee of the Company, comprising the three independent non-executive Directors (being Mr. Cheung Yat Ming, Mr. Ding Baoshan and Mr. Kuo Dah Chih, Stanford), has reviewed with the management the unaudited condensed consolidated financial statements of the Group for the six months ended 30 June 2022 and the internal control procedures of the Group, and has discussed the relevant financial reporting matters.

REVIEW OF INTERIM RESULTS

The unaudited condensed consolidated results of the Group for the six months ended 30 June 2022 have been reviewed in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the HKICPA, by Deloitte Touche Tohmatsu, certified public accountants and registered public interest entity auditors in Hong Kong, and the Audit Committee of the Company has no disagreement.

INTERIM DIVIDEND

The Board has resolved to declare an interim dividend of HK7.28 cents per ordinary share of the Company for the six months ended 30 June 2022 (the “**Interim Dividend**”). The Interim Dividend is expected to be paid on Wednesday, 30 November 2022 to all shareholders whose names appear on the register of members of the Company on Monday, 19 September 2022.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Wednesday, 14 September 2022 to Monday, 19 September 2022 (both days inclusive) for the purpose of determining the entitlement to the Interim Dividend. In order to be qualified for the Interim Dividend, unregistered holders of shares of the Company should ensure that all share transfer documents accompanied by the corresponding share certificates are lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Tuesday, 13 September 2022.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Board is of the view that throughout the six months ended 30 June 2022, the Company had complied with the code provisions as set out in the Corporate Governance Code contained in Appendix 14 to the Listing Rules.

APPRECIATION

On behalf of the Board, I would like to thank all our colleagues for their diligence, dedication, loyalty and integrity. I would also like to thank all our shareholders, customers, bankers and other business associates for their trust and support.

By Order of the Board
Best Pacific International Holdings Limited
Lu Yuguang
Chairman

Hong Kong, 29 August 2022

As at the date of this announcement, the Board comprises Mr. Lu Yuguang, Mr. Zhang Haitao, Mr. Wu Shaolun, Ms. Zheng Tingting, Mr. Chan Yiu Sing, Mr. Lu Libin, Mr. Cheung Yat Ming, Mr. Ding Baoshan* and Mr. Kuo Dah Chih, Stanford*.*

* *Independent non-executive Director*