Tristate Holdings Limited

(Incorporated in Bermuda with limited liability)

(Stock Code: 458)

ANNOUNCEMENT OF 2022 ANNUAL RESULTS

FINANCIAL SUMMARY OF 2022 ANNUAL RESULTS

- Revenue of HK$3,731 million
- Profit attributable to equity shareholders of HK$31 million
- Earnings per share of HK$0.11

RESULTS

The board of directors (the "Board") of Tristate Holdings Limited (the "Company") presents the consolidated results of the Company and its subsidiaries (together, the "Group") for the year ended 31 December 2022 together with comparative figures for 2021.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2022

	Note	**2022** *HK$'000*	2021 *HK$'000*
Revenue	3	**3,731,194**	3,037,662
Cost of sales		**(2,282,219)**	(1,812,830)
Gross profit		**1,448,975**	1,224,832
Other net loss	4	**(18,613)**	(46,489)
Selling and distribution expenses		**(715,491)**	(586,909)
General and administrative expenses		**(532,818)**	(476,446)
Profit from operations	5	**182,053**	114,988
Finance income	6	**999**	1,375
Finance costs	6	**(61,875)**	(31,875)
Profit before taxation		**121,177**	84,488
Income tax charge	7	**(81,353)**	(55,291)
Profit for the year		**39,824**	29,197
Attributable to:			
Equity shareholders of the Company		**30,772**	21,134
Non-controlling interests		**9,052**	8,063
Profit for the year		**39,824**	29,197
Earnings per share attributable to equity shareholders of the Company:			
Basic	9	**HK$0.11**	HK$0.08
Diluted	9	**HK$0.11**	HK$0.08

Details of dividends payable to equity shareholders of the Company are set out in note 8.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2022

	2022 *HK$'000*	2021 *HK$'000*
Profit for the year	**39,824**	29,197
Other comprehensive income, net of nil tax unless specified:		
Items that may be reclassified subsequently to profit or loss		
Fair value changes on cash flow hedges:		
(Losses)/gains arising during the year	**(5,575)**	4,657
Transferred to and included in the following line items in the consolidated statement of profit or loss:		
Cost of sales	**1,572**	(12,170)
General and administrative expenses	**1,831**	(2,178)
Realisation upon disposal of a subsidiary	**592**	–
Exchange difference on translation of financial statements of overseas subsidiaries	**(41,153)**	(25,708)
Items that will not be reclassified to profit or loss		
Remeasurements of defined benefit plans and long service payment liabilities	**5,606**	4,182
Income tax effect	**(162)**	(690)
Other comprehensive income for the year	**(37,289)**	(31,907)
Total comprehensive income for the year	**2,535**	(2,710)
Attributable to:		
Equity shareholders of the Company	**(6,517)**	(10,773)
Non-controlling interests	**9,052**	8,063
Total comprehensive income for the year	**2,535**	(2,710)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2022

	Note	**As at 31 December 2022** ***HK$'000***	As at 31 December 2021 *HK$'000*
Non-Current Assets			
Property, plant and equipment		**552,245**	538,224
Intangible assets	10	**719,705**	400,754
Other long-term assets		**18,425**	16,998
Deferred tax assets		**17,570**	16,855
Defined benefit plan assets		**10,447**	10,260
Forward foreign exchange contracts		**2,992**	768
Interest in an associate		**–**	–
		1,321,384	983,859
Current Assets			
Inventories	11	**854,170**	531,189
Accounts receivable and bills receivable	12	**492,049**	435,914
Forward foreign exchange contracts		**2,974**	5,267
Prepayments and other receivables		**104,108**	79,538
Current tax recoverable		**162**	57
Cash and bank balances		**301,362**	378,913
		1,754,825	1,430,878
Current Liabilities			
Accounts payable and bills payable	13	**437,321**	344,117
Accruals and other payables and contract liabilities		**487,099**	359,742
Lease liabilities		**96,668**	78,780
Forward foreign exchange contracts		**3,886**	1,783
Current tax liabilities		**93,141**	64,512
Bank borrowings		**107,008**	42,027
		1,225,123	890,961
Net Current Assets		**529,702**	539,917
Total Assets Less Current Liabilities		**1,851,086**	1,523,776
Non-Current Liabilities			
Retirement benefits and other post retirement obligations		**21,034**	27,084
Licence fees payable	10	**624,780**	310,296
Lease liabilities		**126,620**	117,071
Deferred tax liabilities		**39,174**	33,108
		811,608	487,559
Net Assets		**1,039,478**	1,036,217
Capital and Reserves			
Share capital		**27,161**	27,161
Reserves		**992,990**	998,781
Total equity attributable to equity shareholders of the Company		**1,020,151**	1,025,942
Non-controlling interests		**19,327**	10,275
Total Equity		**1,039,478**	1,036,217

Notes:

1. Statement of Compliance and Basis of Preparation of the Financial Statements

The consolidated results set out in this announcement do not constitute the Group's annual consolidated financial statements for the year ended 31 December 2022 but are extracted from those financial statements.

The basis of preparation and significant accounting policies applied in the preparation of the consolidated financial statements have been consistently applied to all the years presented, unless otherwise stated.

The consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. The consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The consolidated financial statements for the year ended 31 December 2022 comprise the Group and the Group's interest in an associate.

The measurement basis used in the preparation of the financial statements is the historical cost basis except that the derivative financial instruments and accounts receivable to be sold at fair value through other comprehensive income (recycling) which are stated at their fair values.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

2. Changes in Accounting Policies

The Group has applied the following amendment to HKFRSs issued by the HKICPA to these financial statements for the current accounting period:

- Amendments to HKAS 16, *Property, plant and equipment: Proceeds before intended use*
- Amendments to HKAS 37, *Provisions, contingent liabilities and contingent assets: Onerous contracts – cost of fulfilling a contract*

None of these developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented in these financial statements. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

3. Revenue and Segment Reporting

(a) Revenue

The principal activities of the Group are (i) garment manufacturing, and (ii) brands business.

Revenue represents the fair value of the consideration received or receivable from products sold, excludes value added tax or other sales taxes and is net off of any trade discounts.

Revenue from sales of goods was recognised at point in time for the years ended 31 December 2022 and 2021.

Revenue expected to be recognised in the future arising from contracts with customers in existence at the reporting date

As at 31 December 2022 and 31 December 2021, none of the remaining performance obligations under the Group's existing contracts had an original expected duration of more than one year.

For remaining performance obligations of existing contracts that had an original expected duration of one year or less, the Group has applied the practical expedient in paragraph 121 of HKFRS 15 such that it does not include information about revenue for the remaining performance obligations under the contracts.

(b) Segment reporting

Reportable segments are reported in a manner consistent with internal reports of the Group that are regularly reviewed by the chief operating decision makers (the Chief Executive Officer and Senior Management collectively) in order to assess performance and allocate resources. The Group manages its business by business units, which are organised by business lines and geography. The Group identified two reportable segments: (i) garment manufacturing, and (ii) brands business. The chief operating decision makers assess the segment performance and allocate resources between segments based on the measure of profit or loss generated. This measurement basis is equivalent to profit/loss for the year of that reportable segment.

3. **Revenue and Segment Reporting (Continued)**

Segment assets include all tangible, intangible assets and current assets employed by the segments. Segment liabilities include all current liabilities and non-current liabilities managed directly by the segments. Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments. Inter-segment sales are priced with reference to prices charged to external parties for similar orders. The segment information is as follows:

	Garment manufacturing		**Brands business**		**Unallocated** *(Note(ii))*		**Total**	
	2022	2021	**2022**	2021	**2022**	2021	**2022**	2021
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Reportable segment revenue	**2,041,740**	1,648,405	**1,792,708**	1,489,692	**–**	–	**3,834,448**	3,138,097
Less: Inter-segment revenue	**(102,663)**	(100,023)	**(591)**	(412)	**–**	–	**(103,254)**	(100,435)
Revenue	**1,939,077**	1,548,382	**1,792,117**	1,489,280	**–**	–	**3,731,194**	3,037,662
Reportable segment EBITDA *(Note (i))*	**273,060**	135,802	**129,314**	201,976	**21,461**	29,756	**423,835**	367,534
Finance income	**–**	–	**4**	636	**995**	739	**999**	1,375
Finance costs								
– Interest on bank borrowings	**–**	–	**(102)**	(152)	**(5,144)**	(1,079)	**(5,246)**	(1,231)
– Interest on licence fees payable	**–**	–	**(46,636)**	(20,823)	**–**	–	**(46,636)**	(20,823)
– Interest on lease liabilities	**(1,607)**	(2,155)	**(5,520)**	(5,981)	**(154)**	(294)	**(7,281)**	(8,430)
– Other bank charges on accounts receivable factoring	**–**	–	**–**	–	**(2,712)**	(1,391)	**(2,712)**	(1,391)
Depreciation charge								
– Owned property, plant and equipment	**(19,155)**	(20,319)	**(36,949)**	(44,429)	**(9,302)**	(11,634)	**(65,406)**	(76,382)
– Right-of-use assets	**(8,162)**	(8,115)	**(69,707)**	(75,845)	**(10,382)**	(10,643)	**(88,251)**	(94,603)
Amortisation of intangible assets								
– Licence rights	**–**	–	**(52,145)**	(31,585)	**–**	–	**(52,145)**	(31,585)
Impairment losses of property, plant and equipment and right-of-use assets	**–**	(3,618)	**(19,808)**	(16,853)	**–**	–	**(19,808)**	(20,471)
Impairment losses of intangible assets	**–**	–	**(16,172)**	(29,505)	**–**	–	**(16,172)**	(29,505)
Reportable segment profit/((loss) before tax	**244,136**	101,595	**(117,721)**	(22,561)	**(5,238)**	5,454	**121,177**	84,488
Income tax (charge)/credit	**(47,686)**	(15,707)	**(42,112)**	(36,809)	**8,445**	(2,775)	**(81,353)**	(55,291)
Reportable segment profit/(loss) for the year	**196,450**	85,888	**(159,833)**	(59,370)	**3,207**	2,679	**39,824**	29,197

3. **Revenue and Segment Reporting (Continued)**

Notes:

(i) EBITDA is defined as earnings before finance income, finance costs, income tax (charge)/credit, depreciation and amortisation. EBITDA is a non-HKFRS measure used by management for monitoring business performance. It may not be comparable to similar measures presented by other companies.

(ii) Unallocated segment profit or loss for the year mainly include income and expenses arising from unallocated assets and liabilities for corporate purposes and head office expenses.

(iii) Under HKFRS 16, the Group as a lessee is required to recognise interest expenses accrued on the outstanding balance of the lease liability and the depreciation on the right-of-use asset, instead of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. In the cash flow statement, the Group as a lessee is required to classified rentals paid under the capitalised leases as financing cash outflows.

	Garment manufacturing		**Brands business**		**Unallocated** *(Note(i))*		**Total**	
	As at 31 December 2022	As at 31 December 2021	**As at 31 December 2022**	As at 31 December 2021	**As at 31 December 2022**	As at 31 December 2021	**As at 31 December 2022**	As at 31 December 2021
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Reportable segment assets	**783,072**	711,356	**1,869,783**	1,185,228	**423,354**	518,153	**3,076,209**	2,414,737
Reportable segment liabilities	**475,605**	405,189	**1,451,279**	922,391	**109,847**	50,940	**2,036,731**	1,378,520

	2022	2021	**2022**	2021	**2022**	2021	**2022**	2021
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
COVID-19-related rent concessions received	**–**	552	**4,448**	1,238	**–**	–	**4,448**	1,790
Reversal of/(provision for) impairment of receivables, net	**28**	433	**(949)**	(54)	**–**	–	**(921)**	379
(Write-down)/reversal of write-down of inventories to net realisable value, net	**(8,186)**	515	**(77,238)**	(18,910)	**–**	–	**(85,424)**	(18,395)
Additions to property, plant and equipment	**17,808**	13,466	**192,877**	109,791	**719**	15,468	**211,404**	138,725

3. Revenue and Segment Reporting (Continued)

The Group's revenue is mainly derived from customers located in the People's Republic of China (the "PRC"), the United Kingdom ("UK"), Canada and Italy, while the Group's right-of-use assets, production facilities, trademark, licence rights and other assets are located predominantly in the PRC, Switzerland and Thailand. An analysis of the Group's revenue by location of customers and an analysis of the Group's non-current assets by locations of physical assets or the asset holding companies are as follows:

	PRC		UK		Canada		Italy		Other regions		Total	
	2022	2021	**2022**	2021	**2022**	2021	**2022**	2021	**2022**	2021	**2022**	2021
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Revenue	**1,010,185**	937,162	**750,774**	750,418	**464,159**	237,322	**402,037**	325,230	**1,104,039**	787,530	**3,731,194**	3,037,662

Included in revenue derived from the PRC was HK$194,067,000 (2021: HK$170,444,000) which was generated in Hong Kong.

For the year ended 31 December 2022, revenue from two customers (2021: one customer) in the garment manufacturing segment accounted for more than 10% of the Group's total revenue and they represented approximately 13% and 12% (2021: 15%) of the total revenue.

	PRC *(Note (iii))*		Switzerland		Thailand		Other regions		Total	
	As at 31 December 2022	As at 31 December 2021	**As at 31 December 2022**	As at 31 December 2021	**As at 31 December 2022**	As at 31 December 2021	**As at 31 December 2022**	As at 31 December 2021	**As at 31 December 2022**	As at 31 December 2021
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Non-current assets *(Note (ii))*	**938,889**	596,797	**175,362**	189,237	**63,181**	66,487	**112,943**	103,455	**1,290,375**	955,976

Notes:

(i) Unallocated assets and liabilities mainly include centrally-managed cash and bank balances, bank borrowings and property, plant and equipment for corporate purposes.

(ii) Non-current assets exclude deferred tax assets, defined benefit plan assets and foreign forward exchange contracts.

(iii) Included in non-current assets located in the PRC was HK$569,334,000 (2021: HK$243,332,000) which was related to assets located in Hong Kong.

4. Other Net Loss

	2022	2021
	HK$'000	*HK$'000*
Government subsidies *(Note (i))*	**5,952**	1,621
Impairment losses of property, plant and equipment *(Note (ii))*	**(19,808)**	(20,471)
Impairment losses of intangible assets *(Note (iii))*	**(16,172)**	(29,505)
Net loss on disposals of property, plant and equipment	**(1,624)**	(3,451)
Net gain on disposal of a subsidiary *(Note (iv))*	**4,554**	–
Net gain on derecognition of right-of-use assets and lease liabilities	**4,424**	1,276
Sundry income	**4,061**	4,041
	(18,613)	(46,489)

Notes:

(i) During the year ended 31 December 2022, certain subsidiary companies of the Group received government subsidies of HK$5,952,000 (2021: HK$1,621,000), majority of which were COVID-19 related subsidies from the local governments.

(ii) In 2022 and 2021, certain cash generating units ("CGUs") (which comprise stores within the same city) within the brands business underperformed. The Group has assessed the recoverable amounts of the property, plant and equipment of these CGUs as at 31 December 2022 and 31 December 2021. As a result, an impairment loss of HK$19,808,000 (2021: HK$16,853,000) is charged to other net loss in relation to property, plant and equipment of certain loss making cash generating units in Mainland China to reduce the carrying values to recoverable amounts. The aggregate recoverable amounts of these loss making retails stores is HK$Nil (2021: HK$6,044,000) based on value in use calculations.

In addition, during the year ended 31 December 2021, impairment loss has also been recorded for a factory under garment manufacturing segment as management closed down the factory during that year. The Group has assessed the recoverable amount of the property, plant and equipment of this factory as at 31 December 2021. An impairment loss of HK$3,618,000 was charged to other net loss in relation to the property, plant and equipment of this factory to reduce its carrying value to recoverable amount of HK$Nil based on value in use calculations.

(iii) During the year ended 31 December 2022, an impairment loss on intangible assets of HK$16,172,000 (2021: HK$29,505,000) for a loss-making brand business is charged to other net loss to reduce its carrying amount to the recoverable amount. The recoverable amount was HK$Nil (2021: HK$20,414,000) based on value in use calculations.

(iv) During the year ended 31 December 2022, the Group disposed of a wholly-owned subsidiary incorporated in the Philippines at a consideration of HK$6,630,000, with a net gain of HK$4,554,000 after net-off with transaction costs. Out of the total consideration of HK$6,630,000, a retention money of HK$663,000 will be received by the Group in 2027 while the rest of the consideration has been received. The subsidiary was the owner of certain factory buildings in the Philippines.

5. Profit from Operations

Profit from operations is stated after charging/(crediting):

	2022	2021
	HK$'000	*HK$'000*
Amortisation of intangible assets	**52,145**	31,585
Depreciation charge		
– Owned property, plant and equipment	**65,406**	76,382
– Right-of-use assets	**88,251**	94,603
Variable lease payments not included in the measurement of lease liabilities	**13,631**	13,871
Expenses relating to short-term leases	**19,283**	19,959
COVID-19-related rent concessions received	**(4,448)**	(1,790)
Provision for/(reversal of) impairment of receivables, net	**921**	(379)
Cost of inventories	**2,282,219**	1,812,830
Employee benefit expenses	**665,341**	672,470

6. Finance Income and Finance Cost

	2022	2021
	HK$'000	*HK$'000*
Finance income		
Interest income from bank deposits	**523**	1,008
Imputed interest on long-term rental deposits	**476**	367
	999	1,375
Finance costs		
Interest on licence fees payable	**46,636**	20,823
Interest on lease liabilities	**7,281**	8,430
Interest on bank borrowings	**5,246**	1,231
Other bank charges on accounts receivable factoring	**2,712**	1,391
	61,875	31,875

7. Income Tax Charge

	2022	2021
	HK$'000	*HK$'000*
Current income tax		
Hong Kong profits tax	**(24,987)**	(9,979)
Non-Hong Kong tax	**(51,632)**	(49,601)
(Under)/over-provisions of prior years	**(201)**	26
	(76,820)	(59,554)
Deferred tax	**(4,533)**	4,263
	(81,353)	(55,291)

The provision for Hong Kong Profits Tax for 2022 and 2021 is calculated at 16.5% of the estimated assessable profit for the year, except for one subsidiary of the Group which is a qualifying corporation under two-tiered Profits Tax rate regime.

Taxation for overseas subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant countries.

8. Dividends

The Board does not recommend the payment of a final dividend for the year ended 31 December 2022 (2021: Nil).

9. Earnings Per Share

(a) Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity shareholders of the Company for the year ended 31 December 2022 of HK$30,772,000 (2021: HK$21,134,000) by the weighted average number of 271,607,253 (2021: 271,607,253) ordinary shares in issue during the year.

(b) Diluted earnings per share

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares granted under the Company's share option scheme.

During the years ended 31 December 2022 and 2021, the conversion of all potential ordinary shares outstanding would have an anti-dilutive effect on the earnings per share. Hence, there was no dilutive effect on calculation of the diluted earnings per share for the years ended 31 December 2022 and 2021.

10. Intangible Assets/Licence Fees Payable

The increase in intangible assets and licence fees payable at 31 December 2022 was mainly due to the capitalisation of the minimum contractual obligation payable to the licensor at the inception of Reebok licence agreement during the year.

11. Inventories

	2022	2021
	HK$'000	*HK$'000*
Raw materials	**101,700**	64,070
Work-in-progress	**140,016**	112,241
Finished goods	**587,302**	333,778
Goods in transit	**25,152**	21,100
	854,170	531,189

The increase in inventories at 31 December 2022 was mainly due to the purchase of inventories for the Reebok business and the rise of raw material and work in progress for garment manufacturing business in line with business growth.

12. Accounts Receivable and Bills Receivable

	2022	2021
	HK$'000	*HK$'000*
Accounts receivable at amortised cost, net of loss allowance	**380,970**	365,489
Accounts receivable to be sold at fair value through other comprehensive income (recycling)	**111,079**	70,425
	492,049	435,914

As of the end of the reporting period, the ageing of accounts receivable and bills receivable based on invoice date is as follows:

	2022	2021
	HK$'000	*HK$'000*
Less than 3 months	**417,768**	394,273
3 months to 6 months	**72,266**	42,135
Over 6 months	**5,929**	3,761
	495,963	440,169
Less: Loss allowance	**(3,914)**	(4,255)
	492,049	435,914

12. Accounts Receivable and Bills Receivable (Continued)

The majority of accounts receivable are with customers having an appropriate credit history and are on open account. The Group grants its customers credit terms mainly ranging from 45 to 90 days (2021: 60 to 90 days). All of the accounts receivable and bills receivable are expected to be recovered within one year.

The carrying amounts of the accounts receivable and bills receivable approximate their fair values. The maximum exposure to credit risk is the fair value of the above receivables. The Group does not hold any collateral as security.

As part of the Group's cash flow management, the Group has the practice of selling some of the accounts receivable to financial institutions under customers' vendor financing program before the accounts receivable are due for payment. The Group derecognises the accounts receivable sold on the basis that the Group has transferred substantially all risks and rewards to the relevant counterparties.

As at 31 December 2022, the effective interest rates of the sold accounts receivable at fair value to other comprehensive income (recycling) ranged from 5.82% to 6.80% per annum (2021: 1.69% to 2.77%). As at 31 December 2022, the fair value changes on accounts receivable at fair value to other comprehensive income (recycling) are insignificant and accordingly, no fair value changes are recognised in equity as fair value to other comprehensive income reserve.

13. Accounts Payable and Bills Payable

As of the end of the reporting period, the ageing of accounts payable and bills payable based on invoice date is as follows:

	2022	2021
	HK$'000	*HK$'000*
Less than 3 months	**377,136**	292,385
3 months to 6 months	**44,129**	33,967
Over 6 months	**16,056**	17,765
	437,321	344,117

The majority of payment terms with suppliers are within 60 days. All of the accounts payable and bills payable are expected to be settled within one year or are on demand.

The carrying amounts of accounts payable and bills payable approximate their fair values.

14. Capital Commitments

	2022	2021
	HK$'000	*HK$'000*
Contracted but not provided for in respect of leasehold improvement	**–**	880

At 31 December 2022, the Group was also committed to enter into a new lease of 3 years that is not yet commenced, the lease payments under which amounted to HK$793,000 per annum. The Group had no such commitment at 31 December 2021.

In this Management Discussion and Analysis, we present the business review and a discussion on the financial performance of the Group for the year ended 31 December 2022.

Overview

For the year ended 31 December 2022, the Group recorded profit attributable to equity shareholders of HK$31 million compared to the profit of HK$21 million in 2021. Our garment manufacturing business has posted substantial growth in revenue and profit, while our brands business has reported increase in losses. Among our brands, our own brand C.P. Company continued to record impressive revenue and profit growth, while the performance of our licensed brands in China were hit by the resurgence of COVID-19 and the sporadic lockdowns and restriction measures in China and the transitional and initial investment costs for Reebok during its first-year operation.

Own Brands

C.P. Company continued to deliver robust results in 2022 with substantial year-on-year growth in revenue and profitability. The brand recorded 15% increase in revenue in 2022, driven by strong performance in wholesale and e-commerce channel. Wholesale business in Europe, in particular the United Kingdom (“UK”), Italy and France remained the largest contributors of C.P. Company revenue. Sales to other European countries and South Korea have also seen encouraging growth. E-commerce also recorded substantial growth with further growth opportunities. The continued successful implementation of brand, product and sales initiatives have led to robust consumer demand. To complement the wholesale business in Europe, the brand has six directly managed retail stores and outlets in the upmarket streets of London, Milan, Riccione, Mendrisio, Noventa di Piave and Amsterdam.

Our unique French concept premium ladies wear Cissonne continued to gradually expand through e-commerce and direct retailing in China major cities. The brand has now nine stores located in Beijing China World Mall, Beijing Galeries Lafayette, Shanghai Grand Gateway 66, Shanghai Jing An Kerry Centre, Qingdao MIXC, Qingdao Hisense Plaza, Hangzhou MIXC, Wuhan International Plaza and Shanghai Zhenning Road respectively.

Licensed Brands

2022 has been a challenging year for retail in China. Over two months lockdown in the second quarter plus rolling lockdowns and restrictions in many cities across the country throughout the year have been a drag on sales and consumer sentiment. Sales revenue and expansion plans for our licensed brands were hit by the COVID-19 related restrictions in China. The pandemic control policies that restricted consumption back in third quarter of 2021 and throughout 2022 have also led to excess inventory in the market. Despite this backdrop, revenue of Nautica only decreased by 4% in 2022 compared with 2021. However, net losses for the brand have increased due to lower revenue, an increase in inventory provision and the rise of licence rights related expenses after extending the term of the Nautica licence in late 2021. Management has decided to increase inventory provision for excess inventory in 2022 and to avoid rash clearance sales activities in 2022 that would hurt the brand as well as diminish future profitability of key online sales channels. On a constructive note, the Group launched the Nautica “White Sail” concept in December 2021 which targets a younger consumer group and features over-sized, preppy streetwear styling originating from Japan. White Sail has received a very positive response from consumers and industry stakeholders alike. White Sail has not fully displayed its potential in 2022 due to the China lockdown policy. As COVID-19 restrictions ceased in early December 2022, we have seen a return to same store sales growth. As of 31 December 2022, Nautica had 78 directly managed retail stores and another 89 stores operated by partners (2021: 151 stores in total).

Spyder was officially launched in China in November 2019. As a newly launched brand, Spyder was immediately hit by the COVID-19 outbreak in China in early 2020 and was further affected by the rounds of elongated lockdowns in China's major cities in 2022. Despite the challenging environment, Spyder revenue posted a 7% increase in 2022 compared with 2021. Spyder also achieved year-on-year growth in the e-commerce channel as well as in key northern markets such as Xian, Changchun, Harbin, Taiyuan, etc. Same store sales in 2022 also saw increases, reflecting the effectiveness of our merchandise strategies and increased brand awareness. On the bottom line, the brand continued to report a loss. The current year loss is less than last year as a result of reduced operating expenses as well as a lower annual minimum royalty as agreed with the licensor in late 2021. In view of the continued losses for this business, impairment provision of HK$31 million was made in 2022 (2021: HK$40 million) which included impairment for Spyder licence rights, right-of-use assets and leasehold improvements of certain loss-making stores based on value in use calculations. As of 31 December 2022, Spyder had 58 stores across China (2021: 50 stores).

In December 2021, the Group entered into a long-term agreement with Authentic Brands Group to become the core licensee and operator for the Reebok brand in Mainland China, Hong Kong, Macau, and Taiwan. The Group commenced operations for the Reebok business on 1 May 2022 after a two-month transition with the previous operator. The Group directly operates the Mainland China, Hong Kong and Macau markets, and sublicensed the Taiwan business to a renowned local operator. At the outset, the Reebok China and Hong Kong business will be primarily direct-to-consumer through mono-brand stores and e-commerce. The Reebok business reported a loss in its first year of operation in 2022. The business was impacted by the lockdowns in China throughout 2022, and the Group also incurred transitional and investment costs and licence-rights related amortization and interest expenses during the year. As of 31 December 2022, Reebok had 15 stores across China.

Garment Manufacturing

In the year under review, despite resurgence of COVID-19 in China and global inflation, our garment manufacturing business has posted substantial growth in both revenue and net profit compared with the last year. Revenue for 2022 has increased 25% over the last year though still below pre-COVID-19 level. The strong profit increase was mainly attributed to rise in revenue from certain key premium business customers, control of factory costs and the weakening of currencies of Asian countries where our factories operated.

Our China and Thailand factories are serving our "premium business" for fashion and complicated outerwear products. In the year under review, our China factories saw increased orders from certain key customers. Our Vietnam and Myanmar factories allow us to stay competitive in cost to support our "better business" for better tailoring products. In the second half of 2021, our Vietnam factory was disrupted by compulsory COVID-19 lockdown. The factory's production and efficiency returned to normal and achieved turnaround results in 2022.

Financial Highlights

	Note	**2022**	**2021**	**Change**
Operating results (HK$ million)				
Revenue		3,731	3,038	+23%
Gross profit		1,449	1,225	+18%
EBITDA		424	368	+15%
Depreciation on right-of-use assets	1	(88)	(95)	+7%
Interest on lease liabilities	1	(7)	(8)	+13%
Amortisation of licence rights	2	(52)	(32)	-63%
Interest on licence fees payable	2	(47)	(21)	-124%
Depreciation on owned property, plant and equipment		(65)	(76)	+14%
Impairment losses of intangible assets		(16)	(30)	+47%
Impairment losses of right-of-use assets and property, plant and equipment		(20)	(20)	–
Income tax charge		(81)	(55)	-47%
Profit attributable to equity shareholders		31	21	+48%
Segment results (HK$ million)				
Garment manufacturing EBITDA		273	136	+101%
Depreciation on right-of-use assets	1	(8)	(8)	–
Interest on lease liabilities	1	(2)	(2)	–
Depreciation on owned property, plant and equipment		(19)	(20)	+5%
Garment manufacturing results after tax		196	86	+128%
Brands business EBITDA		129	202	-36%
Depreciation on right-of-use assets	1	(70)	(76)	+8%
Interest on lease liabilities	1	(6)	(6)	–
Amortisation of licence rights	2	(52)	(32)	-63%
Interest on licence fees payable	2	(47)	(21)	-124%
Depreciation on owned property, plant and equipment		(37)	(44)	+16%
Impairment losses of intangible assets		(16)	(30)	+47%
Impairment losses of right-of-use assets and property, plant and equipment		(20)	(17)	-18%
Brands business results after tax		(160)	(59)	-171%
Cash flow (HK$ million)				
Cash generated from operations		107	217	-51%
Income tax paid		(46)	(18)	-156%
Payment for the purchase of property, plant and equipment		(90)	(50)	-80%
Rental payments under capitalized leases	1	(97)	(109)	+11%
Financial position (HK$ million)				
Cash and bank balances		301	379	-21%
Bank borrowings		107	42	-155%
Intangible assets	2	720	401	+80%
Licence fees payable				
Non-current portion	2	625	310	-102%
Current portion included in accruals and other payables	2	83	34	-144%
Total equity		1,039	1,036	–
Key ratios				
Gross profit margin		38.8%	40.3%	-1.5pp
Net profit margin attributable to equity shareholders		0.8%	0.7%	+0.1pp
Return on average equity (ROE)	3	3.0%	2.0%	+1.0pp

Notes:

1. Under HKFRS 16, the Group as a lessee is required to recognise interest expense accrued on the outstanding balance of the lease liability and the depreciation on the right-of-use asset, instead of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. In the cash flow statement, the Group as a lessee is required to classified rentals paid under the capitalised leases as financing cash outflows.

2. Licence related amortisation and imputed interest on licence fees payable being non-cash items recognised in accordance with accounting policy for our long-term licences – Nautica, Spyder and Reebok. The increase in intangible assets, licence fees payable, licence related amortisation and imputed interest in 2022 mainly due to the Reebok licence recognised during the year.

3. ROE is calculated as profit attributable to equity shareholders over average total equity for the current and prior year.

Financial Review

Revenue

Total revenue of the Group for the year 2022 was HK$3,731 million (2021: HK$3,038 million), representing an increase of 23% compared with the last year.

Revenue from brands business was HK$1,792 million in 2022, rose from HK$1,489 million in 2021. C.P. Company continued to report strong revenue growth against the last year. Reebok started to contribute revenue from the second quarter of this year. The revenue of other licensed brands Nautica and Spyder fell short of expectations due to the lockdown restrictions in China.

Revenue from garment manufacturing business in the current year increased to HK$1,939 million from HK$1,548 million in 2021, though has yet to return to pre-COVID-19 level. Revenue from premium business, which accounted for 76% (2021: 74%) of the segment revenue, grew 29% as compared with last year. During the year under review, we saw increased orders from certain premium business customers. Revenue from better business also rose 14%.

Geographically, major markets of the Group are the People's Republic of China (the "PRC"), the UK, Canada and Italy, and which accounted for 27% (2021: 31%), 20% (2021: 25%), 12% (2021: 8%) and 11% (2021: 11%) of the Group's total revenue respectively. The change was mainly due to the increase in revenue from Canada within our garment manufacturing business and from other European countries within our brands business.

The Group's business continues skewed towards the second half year mainly due to the seasonality effect in terms of higher quantity and unit selling price for Fall/Winter and holiday seasons shipment for both our garment manufacturing (in particular premium outerwear products) and brands business. The Group expects that the pattern of a larger proportion of sales record in the second half year will continue.

Gross Profit

During the year, the Group's overall gross profit recorded at HK$1,449 million (2021: HK$1,225 million), representing a gross profit margin of 38.8% (2021: 40.3%). The increase in gross profit was mainly attributable to the increased turnover. Gross profit margin of garment manufacturing business increased by low-single-digit attributed to rise in revenue, control of factory costs and the weakening of currencies of Asian countries where our factories operated.

Gross profit margin of brands business dropped in low-single-digit comparing to last year. Gross profit margin of C.P. Company increased due to improvement in supply chain management. This has been offset by the decrease in gross margins of licensed brands in China as more inventory provision was made. The Group's overall gross profit margin decreased in 2022 was due to the rise in revenue proportion of garment manufacturing business which has a lower gross profit margin than brands business.

Other Net Losses

In 2022, other net losses included impairment losses on intangible assets and property, plant and equipment totaling HK$36 million (2021: HK$50 million), of which HK$31 million (2021: HK$40 million) are relating to impairment for Spyder licence rights, right-of-use assets and other property, plant and equipment based on value in use calculations.

Selling and Distribution Expenses

Selling and distribution expenses comprise mainly retail shop expenses, advertising and promotion, commissions to retail partners and sales agents, logistic costs and brand licence rights amortisation. Selling and distribution expenses increased as compared to 2021 mainly due to the additional promotion expenses, shop expenses and licence right amortisation for Reebok; more commissions for C.P. Company and partially reduced by selling costs control for Spyder.

General and Administrative Expenses

General and administrative expenses increased as compared with 2021 mainly due to initial set up and transitional costs for Reebok and increase in foreign exchange losses in 2022.

Income Tax Charge

Income tax charges increased as compared with 2021 because both garment manufacturing business and C.P. Company have reported substantial growth in profit as compared with the last year.

Segment Results

The substantial increase in segment profit of garment manufacturing business was mainly attributed to increased revenue from key premium business customers, control of factory costs and the weakening of currencies of Asian countries where our factories operated. Segment loss of brands business in 2022 has increased over last year. Despite C.P. Company has recorded profit growth in 2022, the performance of our licensed brands was affected by lockdown restrictions in China and transitional and initial investment costs incurred for Reebok during its first-year operation.

Financial Resources and Liquidity

At 31 December 2022, cash and bank balances amounted to HK$301 million (31 December 2021: HK$379 million) which mainly represented United States dollars ("US dollars"), Renminbi and Euro bank deposits and balances.

The Group maintained sufficient banking facilities to support its business. At 31 December 2022, the Group had short-term bank borrowings of HK$107 million (31 December 2021: HK$42 million). At the close of 2022, short term bank borrowings were denominated in US dollars, Euro and Renminbi (31 December 2021: US dollars) and bearing interest at fixed rates. As of 31 December 2022, bank deposits of HK$11 million (31 December 2021: HK$11 million) were pledged to secure bank facilities granted to the Group. Gearing ratio of the Group is calculated as net borrowings divided by total capital. Net borrowings are calculated as total bank borrowings less cash and bank balances, while total capital comprised total equity plus net borrowings. The Group did not have net borrowings as at 31 December 2022 and 31 December 2021, and accordingly, no information on gearing ratio as at that dates is provided.

For cash flow and working capital, the Group used more cash for its operation in 2022 as compared with 2021, mainly for inventory purchase for the Reebok business. Working capital at 31 December 2022 increased as compared with 2021, mainly due to purchase of initial and current season inventories for the Reebok business and the rise of raw material and work in progress for garment manufacturing business in line with business growth.

Shareholders' equity at 31 December 2022 was fairly stable as compared with 2021 mainly due to profit attributable to equity shareholders for the year, and offset by the negative exchange difference on translating financial statements of overseas subsidiaries, mainly from the depreciation of Renminbi, Euro and Thai Baht during the year.

Most of the Group's receipts and payments are denominated in US dollars, Hong Kong dollars, Renminbi, Pound Sterling and Euro. The Group manages the related foreign exchange risk exposure by entering into forward foreign exchange contracts. During the year ended 31 December 2022, the Group had forward foreign exchange contracts to hedge against the foreign exchange exposures arising from US dollars denominated processing income for factories in the PRC and Pound Sterling sales receipts of a European subsidiary.

Contingent Liabilities and Capital Commitments

Apart from the capital commitments as disclosed in note 14 in this announcement, there was no other material capital commitments or contingent liabilities as at 31 December 2022.

Human Resources

The Group had about 6,360 employees as at 31 December 2022 (2021: 6,140). Fair and competitive remuneration packages and benefits are offered to employees. Those employees with outstanding performance are also awarded with discretionary bonuses and share options.

Outlook

Our own global brand C.P. Company has a sound business foundation and reported year-on-year revenue growth since acquisition. The impressive performance reinforces our confidence in the brand's ability to post strong revenue and profitability in the years to come. The brand will expand product range to drive revenue and upgrade our market positioning. We will continue to focus on existing key and growing wholesale markets (UK, Italy, France, Benelux, South Korea and Germany), and will expand into other countries in Europe, the Middle East, South American and Asian markets by partnering with key wholesale accounts. The brand will continue to grow existing e-commerce channels and invest in localised digital channels in Asian countries. We also plan to accelerate the opening of more direct retail stores in key European and Asian markets and enhance store experience and services for our customers. In order to build a strong customer community and increase their loyalty and lifetime value, C.P. Company will further promote the culture of customer centricity.

Leveraging on our strong design and supply chain teams, combined with Nautica's aspirational position, we have a clear path for the brand in terms of distribution channel mix, key retail metrics, and business model. We have identified a clear product concept and merchandise mix; pricing strategies and strategic promotion plans across channels. Building on the momentum in White Sail, we plan to open more full-price image stores and increase wholesale transactions for this collection. As the outlet and e-commerce channels continue to be profit drivers, we plan to enlarge the size of key outlet stores and increase our presence together with select retail partners in top outlet centers where Nautica has yet to penetrate. In the e-commerce channel, we will grow existing and new online platforms. We will also continue to invest into our CRM systems with the goal of enhancing membership services and promoting engagement with our loyal customers.

Spyder's positioning is on-trend with the backdrop of a growing snow sports market and the huge premium sports apparel segment in China. With the agreed reduction of annual minimum royalty, we will grasp all growth opportunities. We will focus investment into quality outlet stores and e-commerce channels. We will continue to control operating expenses.

Reebok has a celebrated heritage and has inspired, connected, and created aspirational products for athletes and consumers across the world for decades. The brand is deeply rooted in professional sports, sneaker culture, and performance apparel. We are excited to bring Reebok to Greater China's consumers in an authentic way. The Group will partner with Reebok Design Group based in Boston for footwear and apparel design, development, innovation and to drive a unified brand vision. The Group will leverage Reebok's heritage and unique DNA and deploy strategy to fuse street and fitness styles that provides consumers with Reebok in the fast-growing sports, activewear, and outerwear segments. Key initiatives for the coming year are to elevate brand heat and icons, design successful apparel collections, open exciting Full Price stores, drive e-commerce sales and strengthen our Reebok community.

Our garment manufacturing business has delivered encouraging profitability growth in 2022. In the year ahead, even with post-pandemic demand recovery, macro-economic uncertainties and rising factory costs remain challenging to the business. To stay resilient, we will continue to streamline our operations and control costs in order to remain competitive and flexible. Our diversified production base, unique production system together with flexible supply chain will enable us to work closely with our premium brands customers and respond to their needs.

The Group is dedicated to strengthening and investing in the long-term success of our business. In the coming year, even faced with certain macro-economic challenges, we expect our own brand C.P. Company and garment manufacturing business will continue to post profits and generate strong cash flow. Since the easing of COVID-19 restrictions, we expect a normalization of market conditions in China. Nautica is on track for a return to same store sales growth and heading for a significantly improved financial performance. We will strive to improve the performance of Spyder. The Reebok licence marks an exciting new phase of development of the Group, and we are committed to making Reebok successful. The Group will have adequate cash and available bank credit facilities to finance working capital and operational requirements. We are confident that we will achieve long-term profitable growth for the Group.

Principal Risks and Uncertainties

The Group has an enterprise risk management mechanism in place to identify, evaluate and manage its exposure to risks (including Environment, Social and Governance risks). Management oversees the risks and implement robust business processes to mitigate the risks. Existing and emerging risks are identified, evaluated and tracked regularly by top management and reported to the Audit Committee.

Principal risks and uncertainties affecting the Group are outlined below:

External Risks	**Operational Risks**	**Financial Risks**
Macroeconomic Environment	Increased Cost	Liquidity and Interest Rate
Business Partner's Change in Business Strategy	Environment and Social Responsibility	Foreign Exchange
Regulatory Risks	IT Risks	
	Business Interruption	

The responses of the Group to the principal risks and uncertainties are set out below:

Nature of Risk	Responses
External Risks	
Macroeconomic Environment • The principal business activities of the Group are garment manufacturing and brands business with worldwide customers located in Europe, North America and Asia. The industries in which the Group operates are affected by the economic conditions and consumer spending behaviour in these countries. Change in economic condition and consumer spending behaviour may reduce the demand of our products.	• Geographic spread of customers and multiple sales channels will mitigate localised economic risks. • Annual budget is approved by the Board. • Quarterly financial performance and forecast are reported to the Board. • Internal review between Business Unit Heads and Corporate Finance Team on the monthly financial performance. • Monthly rolling forecast review where annual budget will be compared with actual and forecast figures. Variance analysis to account for the difference between budget and actual figures. • Monthly meeting to review business, sales and marketing performance.
Business Partner's Change in Business Strategy • Garment manufacturing customer's strategy change in sourcing locations and competitive pricing may cause the Group to lose orders and revenue. • Change in market entry and licensing strategy by brand owners of our licensed brands may cause the Group to lose distribution rights in licensing branded products.	• Our factories are located in different countries and serve a wide range of products with different price levels. • The Group's ongoing strategy in developing our own brands and long term licensed brands business will help to sustain the revenue of brands business.
Regulatory Risks • The Group is increasingly subject to a broad and changing legal, tax, and regulatory requirements in the various jurisdictions the Group operates. New and changing policies or applications by governments may pose a risk to the Group's returns and/or subject the Group to legal challenge.	• The Group continually monitors changes in local government policies and legislation. • Ongoing long-term strategic reviews with assessment of market and country concentration.

Nature of Risk	Responses
Operational Risks	
Increased Cost • Increased cost will impact the profitability of our business.	• For our brands business, we have our own sourcing team with diversified supply network to handle product sourcing. • For garment manufacturing business, our Group effectively earns cut and make profit. Increased cost in fabric material has little impact to the Group. • Diversification of factories and supply chain in various countries in Asia and production process improvements will help to offset the rise in wages and staff costs.
Environment and Social Responsibility • Failure to comply with applicable laws, regulations or standards related to environment and social responsibility may adversely impact our employees, lose production time and attract negative media attention and regulators' interest.	• Manage internal controls over our significant environmental aspects with aim to enhance the efficiency of resource use and reduce environmental emissions in our business operation. • Apply equal opportunities principles in all employment policies.
IT Risks • When there is IT system outage or cyberattack, all the IT systems may come to a halt causing not only business interruption but also loss of confidential information such as personal data of employees or consumers of the e-shop.	• Appropriate controls and technology have been deployed to mitigate the risk of system outages and cyberattack. They include preventive system maintenance, regular security checks, installation of fire-wall and anti-virus software, multi-level security, uninterrupted power supply, daily off-site backup of key application systems and data, regular disaster recovery drill, assignment of job-related access rights, well-defined access controls system. • Although certain e-shops are run on third-party platform, the e-Commerce service agreement specifies that the operator should maintain and update all the technological elements necessary to guarantee the proper functioning of the e-shop, the safety of the systems underlying the e-shop and the protection of the personal data according to applicable laws and market practices.

<table>
<tr><th>Nature of Risk</th><th>Responses</th></tr>
<tr><td colspan="2">Operational Risks (Continued)</td></tr>
<tr><td>Business Interruption
• The Group’s operations may be interrupted by the occurrence of unexpected events like natural disasters, strikes, epidemics and occupational hazards that may or may not be under the Group’s control.

• The widespread community transmission of COVID-19 may cause disruption in supply chain, and interruption of business operations.</td><td>• Proactive sourcing of suppliers in different countries and regional production facilities help to reduce the reliance on any single site.

• Constant communication with customers for keeping them abreast of any potential disruption of services and endeavour to seek their support and understanding.

• Work from home with the use of conference call, video conferencing and remote access to the Group’s IT systems.</td></tr>
<tr><td colspan="2">Financial Risks</td></tr>
<tr><td>Liquidity and Interest Rate
• Cash and treasury management may not be operating effectively leading to liquidity risk.

• Cash flows and profitability will be negatively impacted by the movement of interest rates on bank balances and bank borrowings.</td><td>• Closely monitor to ensure that the combination of cash on hand, available credit lines and expected future operating cash flows is sufficient to satisfy current and planned cash needs.

• Closely monitor the movement of market interest rate and consider interest rate hedging when necessary.</td></tr>
<tr><td>Foreign Exchange
• The Group has operations in the PRC, Europe, North America and various Asian countries. It earns revenues, incurs costs and makes investments in various foreign currencies and is thus exposed to foreign exchange risk arising from various currency exposures.

• The conversion of Renminbi receipts into foreign currencies and the remittance of funds out of the PRC is subject to the rules and regulations of foreign exchange in the PRC.</td><td>• The Group manages significant foreign exchange risk against the respective subsidiaries’ functional currencies arising from future commercial transactions, recognised assets, liabilities and net investment in foreign operations principally by means of forward foreign exchange contracts.

• The Group endeavours to maintain adequate and reasonable amount of Renminbi deposits in the PRC and remit surplus Renminbi out of the PRC.</td></tr>
</table>

Relationship with Business Partners and Stakeholders

Relationship with Customers

The Group maintains long-term relationships with customers of our garment manufacturing and branded products distribution business. The Group has developed multi-products strategy and also strengthened our scope of services to our global brands customers. The Group has no concentration or a high level of dependency on individual customer.

Relationship with Suppliers

The Group maintains long-term relationships with suppliers and subcontractors. The Group has no concentration or a high level of dependency on a small group of suppliers. The suppliers of our garment manufacturing business are generally nominated by customers. For suppliers of our brands business, we communicate with them all the way through for them to understand our policies and requirements.

Relationship with Employees

The Group recognises and supports the culture of attracting, motivating and retaining talents. The Group provides competitive compensation and benefits for its employees. Remuneration packages are generally structured by reference to market and individual merits. Salaries are normally reviewed on an annual basis based on individual performance and financial performance of the Group. Those employees with outstanding performance are also awarded discretionary bonuses and share options. The Group promotes open communications, encourages continuous learning and support different kind of training on leadership development programme.

Compliance with Relevant Laws and Regulations

We uphold high standards and meet relevant requirements under applicable laws or ordinances when conducting our business. We were not aware of any material non-compliance of relevant standards, rules and regulations during the year.

Environmental and Social Policies

The Group is committed to creating a sustainable and greener environment and continues to explore ways to reduce carbon emission, conserve energy and reduce wastage. We have implemented various environmental and sustainability initiatives in our factories. Being a responsible social citizen, the Group has been committed to supporting various charitable events, including making donations in relation to education, disaster reliefs and for the less-privileged, in particular supporting local society needs where our group companies locate for the long term. Since 2015, the Company has been participating in the Caring Company Scheme and we collaborated with The Salvation Army on various charitable activities, such as fund raising and volunteer works. Please refer to the "Environmental, Social and Governance Report" set out in our 2022 Annual Report, which discusses in detail our initiatives on environmental and social aspects and their performance.

CORPORATE GOVERNANCE CODE

Throughout the year ended 31 December 2022, the Company has complied with all the code provisions of the Corporate Governance Code as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), except for deviation from code provision C.2.1 which stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. WANG Kin Chung, Peter ("Mr. WANG") is the Chairman and the Chief Executive Officer (the "CEO") of the Company, which constitutes a deviation from the code provision C.2.1. The Board considers that it is in the interests of the Group that Mr. WANG holds both the offices of the Chairman and the CEO so that the Board can have the benefit of a chairman who is knowledgeable about the business of the Group and is capable of guiding discussions and briefing the Board in a timely manner on key issues and developments. Furthermore, a nomination committee was established by the Company with effect from 1 January 2022 to comply with code provision B.3.

Further information of the Company's corporate governance practices will be set out in the Corporate Governance Report of the Company's Annual Report for the year ended 31 December 2022, which will be published as soon as practicable.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's shares.

FINAL DIVIDEND

No interim dividend was paid by the Company for the six months ended 30 June 2022 (2021: Nil).

The Board does not recommend the payment of a final dividend for the year ended 31 December 2022 (2021: Nil).

ANNUAL GENERAL MEETING

The annual general meeting of the Company will be held at Room 5A, 5th Floor, 66-72 Lei Muk Road, Kwai Chung, New Territories, Hong Kong at 10:00 a.m. on Monday, 19 June 2023 (the "2023 AGM"). Notice convening the 2023 AGM will be published and despatched to the shareholders of the Company in the manner as required by the Listing Rules in due course.

CLOSURE OF REGISTER OF MEMBERS

For the purpose of ascertaining shareholders' right to attend the 2023 AGM, the register of members of the Company will be closed from Wednesday, 14 June 2023 to Monday, 19 June 2023, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for attending and voting at the 2023 AGM, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch registrar and transfer office, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, not later than 4:30 p.m. on Tuesday, 13 June 2023.

SCOPE OF WORK OF KPMG

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss, consolidated statement of comprehensive income and the related notes thereto for the year ended 31 December 2022 as set out in the preliminary announcement have been agreed by the Group's auditor, KPMG, Certified Public Accountants, to the amounts set out in the Group's draft consolidated financial statements for the year. The work performed by KPMG in this respect did not constitute an assurance engagement and consequently no opinion or assurance conclusion has been expressed by KPMG on the preliminary announcement.

AUDIT COMMITTEE'S REVIEW OF FINANCIAL STATEMENTS

The consolidated financial statements and the annual report of the Group for the year ended 31 December 2022 had been reviewed by the Audit Committee together with the management of the Group.

On behalf of the Board
WANG Kin Chung, Peter
Chairman and Chief Executive Officer

Hong Kong, 27 March 2023

As at the date of this announcement, the Board comprises one Executive Director, Mr. WANG Kin Chung, Peter; three Non-Executive Directors, namely Ms. WANG KOO Yik Chun, Ms. MAK WANG Wing Yee, Winnie and Dr. WANG Shui Chung, Patrick; and four Independent Non-Executive Directors, namely Mr. LO Kai Yiu, Anthony, Mr. James Christopher KRALIK, Mr. Peter TAN and Professor Chen LIN.