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Win Hanverky Holdings Limited

永嘉集團控股有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock code: 3322)

PROFIT WARNING AND BUSINESS UPDATE

This announcement is made by Win Hanverky Holdings Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) pursuant to Rule 13.09 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) and the Inside Information Provisions (as defined under the Listing Rules) under Part XIVA of the Securities and Future Ordinance (Chapter 571 of the Laws of Hong Kong).

The board of directors (the “**Board**”) of the Company wishes to inform the shareholders of the Company and potential investors that based on the information currently available and the unaudited consolidated management accounts of the Group for the year ended 31 December 2023 (the “**Current Year**”), the Group is expected to record loss after taxation of approximately HK\$375 million for the Current Year as compared to profit after taxation of HK\$24 million for the year ended 31 December 2022 (the “**Prior Year**”).

The estimated loss after taxation for the Current Year was mainly attributable to the following reasons:

- (i) decrease in revenue from Manufacturing Business by approximately HK\$1,092 million or 31% to HK\$2,466 million (2022: HK\$3,558 million) which was mainly attributable to the decreased orders received from customers since the last quarter of 2022, amid inventory pileup particularly in the sportswear market as a result of lower consumer demand in all the markets. As a consequence, production capacity utilisation rate and operating efficiency declined in spite of the Group’s considerable efforts to reduce costs. In addition, the Current Year was absent of a one-off gain of HK\$55 million recorded in the Prior Year arising from disposal of a land lease right in

Vietnam. As a result, operating loss of approximately HK\$185 million was expected to be recorded for the Current Year (2022: profit of HK\$165 million); and

- (ii) increase in loss after taxation attributable to the discontinued operations of the fashion brand “*Champion*” under High-end Fashion Retailing Business by approximately HK\$62 million to HK\$120 million (2022: HK\$58 million).

BUSINESS UPDATE

Manufacturing Business

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

Sportswear Manufacturing Business

Revenue from Sportswear Manufacturing Business decreased by approximately HK\$1,017 million to HK\$1,880 million (2022: HK\$2,897 million), representing a decrease of 35%. The decrease was mainly due to the decreased orders received from customers since the last quarter of 2022, amid inventory pileup resulting from low consumer demand in all the markets. As a consequence, production capacity utilisation rate and operating efficiency declined in spite of the Group’s considerable efforts to reduce costs. In light of the adverse impact arising from the low utilisation of production facilities, impairment loss of approximately HK\$23 million was provided for certain production facilities. In addition, the Current Year was absent of the disposal gain of HK\$55 million arising from the disposal of a land lease right in Vietnam. As a result, operating loss of approximately HK\$190 million was recorded for the Current Year (2022: profit of HK\$124 million).

Nonetheless, our customers have significantly improved the inventory glut issue after almost a year despite the challenging economic environment. It is noted that the momentum of the customer orders has been re-gained as driven by the increasing consumer demand from the Western markets, in particular arising from large-scale major sports events. As at the date of this announcement, based on the information available to the Company, the actual orders received plus latest order indication received from customers, revenue for the first half of 2024 is expected to increase by more than 20% as compared to the same period in 2023.

High-end Functional Outerwear Manufacturing Business

Revenue from High-end Functional Outerwear Manufacturing Business decreased by approximately HK\$75 million to HK\$586 million (2022: HK\$661 million), representing a decrease of 11%. It was mainly attributable to the decreased orders received from the European market which was partially offset by the increased orders from the United States and Mainland China markets with lower profit margins. As a result, operating profit reduced to approximately HK\$5 million for the Current Year (2022: HK\$41 million).

Subsequent to the decent progress made in the last few years, it is anticipated that the strategic partnership with a comprehensive sportswear conglomerate in the Mainland China market will be further enhanced and we will continue to enlarge the scope of cooperation with this conglomerate particularly with their internationally renowned brands. In addition, as at the date of this announcement, based on the information available to the Company, it is expected that orders from an outdoor recreation services corporation in the United States market may further increase in response to their increasing demands from consumers.

High-end Fashion Retailing Business

Continuing Operations

Revenue from the continuing operations of High-end Fashion Retailing Business increased by approximately HK\$81 million to HK\$607 million (2022: HK\$526 million), representing an increase of 15%. Following the long-awaited cessation of all COVID-19 related control measures, the shop footfall snapped back temporarily in the early of 2023 but the customer demand was still frail after the pent-up demand faded. As such, deep discounts were continued to offer to simulate customer spending and to clear aged inventory, while gross profit contribution was hindered and performance of certain retail stores were adversely impacted by heavy rental costs. In light of the adverse impact on the retail store performance, impairment loss of approximately HK\$25 million (2022: Nil) was provided for certain retail store assets. As a result, operating loss of approximately HK\$45 million was recorded for the Current Year (2022: HK\$57 million).

After capturing the initial upsurge in the first quarter of 2023, the Mainland China market has been re-calibrated and the customer demand was still frail. In other markets, Hong Kong and Macau are gradually recovering after the border re-opening with the Mainland China, but these cities are facing fierce competitions from neighbouring cities at the same time. It is anticipated that the path of resurgence will continue to be bumpy and surrounded by uncertainties.

Discontinued Operations — “Champion”

The Group was an authorised distributor of the fashion brand “*Champion*” in the Mainland China. As the distributorship of “*Champion*” in the Mainland China was non-exclusive and the Group was not the operator of the online stores of such brand in the Mainland China, it was particularly unfavourable to the Group during the head-to-head competition with another distributor in the Mainland China market. In addition, the recovery of customer demand was not as strong as expected despite the cessation of all COVID-19 related control measures in the Mainland China market in the first half of 2023. As a result, the Group suffered huge losses from the operations of “*Champion*” in recent years.

As such, the Group entered into a disposal agreement with a third party who is also an authorised distributor of “*Champion*” in the Mainland China to sell, assign and novate the inventories and licensed stores assets for the fashion brand “*Champion*” to the third party (the “**Disposal**”). The Group ceased to operate licensed stores of “*Champion*” after the completion of the Disposal in December 2023. The Disposal will cut losses of the Group’s operations of “*Champion*” and to clear aged inventories. Furthermore, the net proceeds from the Disposal will provide the Group with cash inflow which will improve and strengthen the cash and financial position of the Group. As a result, loss after taxation of approximately HK\$120 million was recorded for the Current Year (2022: loss of HK\$58 million).

FINANCIAL POSITION AND LIQUIDITY

In view of the challenges and uncertainties ahead, the Group will continue to proactively monitor the situation and impose strict cost control measures and focus on its cash flow management to ensure that it remains a healthy liquidity position.

Against the backdrop of the challenging environment, the Group’s financial and liquidity position remains healthy. As at 31 December 2023, the Group had cash and bank balances of approximately HK\$209 million (2022: HK\$370 million). Subsequent to the year end at 31 January 2024, cash and bank balances increased to approximately HK\$285 million as part of the proceeds from the Disposal had been received. As at 31 December 2023, the Group had net borrowings (bank borrowings and loans from non-controlling interests of subsidiaries less cash and bank balances) of approximately HK\$265 million (2022: HK\$424 million) and the net gearing ratio (being net borrowings divided by the total equity) was approximately 18% (2022: 23%).

The information contained in this announcement is only a preliminary assessment by the management of the Company based on the consolidated management accounts of the Group which have not yet been audited or reviewed by the auditor and audit committee of the Company. The shareholders of the Company and potential investors are advised to refer to the details in the annual results announcement of the Company for the year ended 31 December 2023, which is expected to be published by the end of March 2024. There may be changes or adjustments following the review of the consolidated management accounts by the auditor and audit committee of the Company.

The shareholders of the Company and potential investors are advised to exercise caution when dealing in the shares of the Company.

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

Hong Kong, 8 February 2024

As at the date of this announcement, the directors are Li Kwok Tung Roy, Lai Ching Ping, Lee Kwok Leung, Wong Chi Keung, Kwan Kai Cheong[#], Ma Ka Chun[#] and Chan Kit Fun Fanny[#].

[#] *Independent non-executive directors*