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Tristate Holdings Limited

(Incorporated in Bermuda with limited liability)

(Stock Code: 458)

ANNOUNCEMENT OF 2023 ANNUAL RESULTS

FINANCIAL SUMMARY OF 2023 ANNUAL RESULTS

- Revenue of HK$4,216 million
- Profit attributable to equity shareholders of HK$171 million
- Earnings per share of HK$0.63
- Final dividend of HK$0.19 per share

RESULTS

The board of directors (the "**Board**") of Tristate Holdings Limited (the "**Company**") is pleased to present the consolidated results of the Company and its subsidiaries (together, the "**Group**") for the year ended 31 December 2023 together with comparative figures for 2022.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2023

	Note	**2023** *HK$'000*	2022 *HK$'000*
Revenue	3	**4,215,667**	3,731,194
Cost of sales		**(2,432,652)**	(2,282,219)
Gross profit		**1,783,015**	1,448,975
Other net loss	4	**(48,931)**	(18,613)
Selling and distribution expenses		**(862,206)**	(715,491)
General and administrative expenses		**(563,676)**	(532,818)
Profit from operations	5	**308,202**	182,053
Finance income	6	**3,516**	999
Finance costs	6	**(64,301)**	(61,875)
Profit before taxation		**247,417**	121,177
Income tax charge	7	**(67,244)**	(81,353)
Profit for the year		**180,173**	39,824
Attributable to:			
Equity shareholders of the Company		**171,232**	30,772
Non-controlling interests		**8,941**	9,052
Profit for the year		**180,173**	39,824
Earnings per share attributable to equity shareholders of the Company:			
Basic	9	**HK$0.63**	HK$0.11
Diluted	9	**HK$0.63**	HK$0.11

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 2023

	2023	2022
	HK$'000	*HK$'000*
Profit for the year	**180,173**	39,824
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 arising during the year	**(10,216)**	(5,575)
– Transferred to and included in the following line items in the consolidated statement of profit or loss:		
– Cost of sales	**5,076**	1,572
– General and administrative expenses	**2,894**	1,831
Realisation of exchange reserve upon liquidation and disposal of subsidiaries	**(766)**	592
Exchange difference on translation of financial statements of overseas subsidiaries	**11,357**	(41,153)
Items that will not be reclassified to profit or loss		
Remeasurements of defined benefit plans and long service payment liabilities	**(4,106)**	5,606
Income tax effect	**138**	(162)
Other comprehensive income for the year	**4,377**	(37,289)
Total comprehensive income for the year	**184,550**	2,535
Attributable to:		
Equity shareholders of the Company	**175,609**	(6,517)
Non-controlling interests	**8,941**	9,052
Total comprehensive income for the year	**184,550**	2,535

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2023

	Note	At 31 December 2023 *HK$'000*	At 31 December 2022 *HK$'000*
Non-current Assets			
Property, plant and equipment		**587,387**	552,245
Intangible assets		**630,925**	719,705
Other long-term assets		**27,083**	18,425
Deferred tax assets		**16,998**	17,570
Defined benefit plan assets		**10,561**	10,447
Forward foreign exchange contracts		**–**	2,992
Interest in an associate		**–**	–
		1,272,954	1,321,384
Current Assets			
Inventories	10	**741,108**	854,170
Accounts receivable and bills receivable	11	**568,955**	492,049
Forward foreign exchange contracts		**266**	2,974
Prepayments and other receivables		**69,326**	104,108
Current tax recoverable		**1,414**	162
Cash and bank balances		**462,655**	301,362
		1,843,724	1,754,825
Current Liabilities			
Accounts payable and bills payable	12	**444,483**	437,321
Accruals and other payables and contract liabilities		**483,790**	487,099
Lease liabilities		**101,603**	96,668
Forward foreign exchange contracts		**432**	3,886
Current tax liabilities		**44,063**	93,141
Bank borrowings		**32,752**	107,008
		1,107,123	1,225,123
Net Current Assets		**736,601**	529,702
Total Assets Less Current Liabilities		**2,009,555**	1,851,086
Non-current Liabilities			
Retirement benefits and other post retirement obligations		**25,910**	21,034
Licence fees payable		**592,408**	624,780
Lease liabilities		**145,196**	126,620
Deferred tax liabilities		**40,983**	39,174
		804,497	811,608
Net Assets		**1,205,058**	1,039,478
Capital and Reserves			
Share capital		**27,161**	27,161
Reserves		**1,153,040**	992,990
Total equity attributable to equity shareholders of the Company		**1,180,201**	1,020,151
Non-controlling interests		**24,857**	19,327
Total Equity		**1,205,058**	1,039,478

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 2023 but are extracted from those financial statements.

The basis of preparation and material accounting policies applied in the preparation of the consolidated financial statements are set out below. These policies 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 HKFRSs, 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. These 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 comprise the Group and the Group's interest in an associate.

The measurement basis used in the preparation of these consolidated 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 the consolidated 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

(a) The Group has applied the following amendments to HKFRSs issued by the HKICPA to these consolidated financial statements for the current accounting period:

- Amendments to HKAS 8, *Accounting policies, changes in accounting estimates and errors: Definition of accounting estimates*

- Amendments to HKAS 1, *Presentation of financial statements* and HKFRS Practice Statement 2*, Making materiality judgements: Disclosure of accounting policies*

- Amendments to HKAS 12, *Income taxes: Deferred tax related to assets and liabilities arising from a single transaction*

2. Changes in Accounting Policies (Continued)

(a) (Continued)

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period. Impacts of the adoption of the amendments to HKFRSs are discussed below:

Amendments to HKAS 8, *Accounting policies, changes in accounting estimates and errors: Definition of accounting estimates*

The amendments provide further guidance on the distinction between changes in accounting policies and changes in accounting estimates. The amendments do not have a material impact on these financial statements as the Group's approach in distinguishing changes in accounting policies and changes in accounting estimates is consistent with the amendments.

Amendments to HKAS 1, *Presentation of financial statements* and HKFRS Practice Statement 2*, Making materiality judgements: Disclosure of accounting policies*

The amendments require entities to disclose material accounting policy information and provide guidance on applying the concept of materiality to accounting policy disclosure. The Group has revisited the accounting policy information it has been disclosing and considered it is consistent with the amendments.

Amendments to HKAS 12, *Income taxes: Deferred tax related to assets and liabilities arising from a single transaction*

Prior to the amendments, the Group determined the temporary difference arising from a right-of-use asset and the related lease liability on a net basis on the basis they arise from a single transaction. Following the amendments, the Group has determined the temporary differences in relation to right-of-use assets and lease liabilities separately. The change primarily impacts disclosures of components of deferred tax assets and liabilities in notes to the consolidated financial statements but does not impact the overall deferred tax balances presented in the consolidated statement of financial position as the related deferred tax balances qualify for offsetting under HKAS 12.

(b) New HKICPA guidance on the accounting implications of the abolition of the MPF-LSP offsetting mechanism

In June 2022, the Hong Kong SAR Government (the "**Government**") gazetted the Hong Kong Employment and Retirement Schemes Legislation (Offsetting Arrangement) (Amendment) Ordinance 2022 (the "**Amendment Ordinance**"), which will come into effect from 1 May 2025 (the "**Transition Date**"). Once the Amendment Ordinance takes effect, an employer can no longer use any of the accrued benefits derived from its mandatory contributions to mandatory provident fund ("**MPF**") scheme to reduce the long service payment ("**LSP**") in respect of an employee's service from the Transition Date (the abolition of the "**offsetting mechanism**"). In addition, the LSP in respect of the service before the Transition Date will be calculated based on the employee's monthly salary immediately before the Transition Date and the years of service up to that date.

In July 2023, the HKICPA published "Accounting implications of the abolition of the MPF-LSP offsetting mechanism in Hong Kong" that provides accounting guidance relating to the offsetting mechanism and the abolition of the mechanism. In particular, the guidance indicates that entities may account for the accrued benefits derived from mandatory MPF contributions that are expected to be used to reduce the LSP payable to an employee as deemed contributions by that employee towards the LSP.

2. Changes in Accounting Policies (Continued)

(b) New HKICPA guidance on the accounting implications of the abolition of the MPF-LSP offsetting mechanism (Continued)

However, applying this approach, upon the enactment of the Amendment Ordinance in June 2022, it is no longer permissible to apply the practical expedient in paragraph 93(b) of HKAS 19 that previously allowed such deemed contributions to be recognised as reduction of service cost (negative service cost) in the period the contributions were made; instead these deemed contributions should be attributed to periods of service in the same manner as the gross LSP benefit.

To better reflect the substance of the abolition of the offsetting mechanism, the Group has changed its accounting policy in connection with its LSP liability and has applied the above HKICPA guidance retrospectively. The cessation of applying the practical expedient in paragraph 93(b) of HKAS 19 in conjunction with the enactment of the Amendment Ordinance resulted in a catch-up profit or loss adjustment in June 2022 for the service cost up to that date and consequential impacts on current service cost, interest expense and remeasurement effects from changes in actuarial assumptions for the rest of 2022, with the corresponding adjustment to the comparative carrying amount of the LSP liability. This change in accounting policy did not have a material impact on the Group's financial statements for the years ended 31 December 2022 and 31 December 2023.

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, excluding value added tax or other sales taxes and net off of any trade discounts.

Revenue from sales of goods was recognised at point in time for the years ended 31 December 2023 and 2022.

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

At 31 December 2023, 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. The measurement basis is changed from profit or loss after taxation to profit or loss before taxation from the current reporting period.

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 (iii))*		Total	
	2023	2022	**2023**	2022	**2023**	2022	**2023**	2022
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Reportable segment revenue	**2,036,739**	2,041,740	**2,283,328**	1,792,708	**–**	–	**4,320,067**	3,834,448
Less: Inter-segment revenue	**(103,883)**	(102,663)	**(517)**	(591)	**–**	–	**(104,400)**	(103,254)
Revenue	**1,932,856**	1,939,077	**2,282,811**	1,792,117	**–**	–	**4,215,667**	3,731,194
Reportable segment EBITDA *(Note (i))*	**279,595**	273,060	**303,904**	129,314	**18,042**	21,461	**601,541**	423,835
Finance income	**–**	–	**360**	4	**3,156**	995	**3,516**	999
Finance costs								
– Interest on bank borrowings	**–**	–	**(130)**	(102)	**(3,578)**	(5,144)	**(3,708)**	(5,246)
– Interest on licence fees payable	**–**	–	**(50,581)**	(46,636)	**–**	–	**(50,581)**	(46,636)
– Interest on lease liabilities	**(1,731)**	(1,607)	**(7,802)**	(5,520)	**(353)**	(154)	**(9,886)**	(7,281)
– Other bank charges on accounts receivable factoring	**–**	–	**–**	–	**(126)**	(2,712)	**(126)**	(2,712)
Depreciation charge								
– Owned property, plant and equipment	**(18,092)**	(19,155)	**(51,048)**	(36,949)	**(7,250)**	(9,302)	**(76,390)**	(65,406)
– Right-of-use assets	**(9,820)**	(8,162)	**(90,663)**	(69,707)	**(7,839)**	(10,382)	**(108,322)**	(88,251)
Amortisation of intangible assets	**–**	–	**(56,396)**	(52,145)	**–**	–	**(56,396)**	(52,145)
Impairment losses of property, plant and equipment	**–**	–	**(6,176)**	(19,808)	**–**	–	**(6,176)**	(19,808)
Impairment losses of intangible assets	**–**	–	**(46,055)**	(16,172)	**–**	–	**(46,055)**	(16,172)
Reportable segment profit/(loss) before taxation	**249,952**	244,136	**(4,587)**	(117,721)	**2,052**	(5,238)	**247,417**	121,177
Income tax charge							**(67,244)**	(81,353)
Profit for the year							**180,173**	39,824

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

Notes:

(i) EBITDA is defined as earnings before finance income, finance costs, income tax (charge)/credit, depreciation, amortisation and impairment. 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) 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 classify rentals paid under the capitalised leases as financing cash outflows.

(iii) 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.

	Garment manufacturing		**Brands business**		**Unallocated** *(Note (i))*		**Total**	
	At 31 December 2023	At 31 December 2022	**At 31 December 2023**	At 31 December 2022	**At 31 December 2023**	At 31 December 2022	**At 31 December 2023**	At 31 December 2022
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Reportable segment assets	**777,700**	783,072	**1,761,780**	1,869,783	**577,198**	423,354	**3,116,678**	3,076,209
Reportable segment liabilities	**407,109**	475,605	**1,408,736**	1,451,279	**95,775**	109,847	**1,911,620**	2,036,731

	Year ended 31 December							
	2023	2022	**2023**	2022	**2023**	2022	**2023**	2022
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
(Provision for)/ reversal of impairment of receivables, net	**(439)**	28	**(484)**	(949)	**–**	–	**(923)**	(921)
Write-down of inventories to net realisable value, net	**(11,450)**	(8,186)	**(31,174)**	(77,238)	**–**	–	**(42,624)**	(85,424)
Additions to property, plant and equipment (including right-of-use assets)	**23,721**	17,808	**178,282**	192,877	**636**	719	**202,639**	211,404

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, Italy and Singapore, 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		Singapore		Other countries		Total	
	2023	2022	**2023**	2022	**2023**	2022	**2023**	2022	**2023**	2022	**2023**	2022	**2023**	2022
	HK$'000	*HK$'000*	***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	**1,358,669**	1,010,185	**920,525**	750,774	**387,112**	464,159	**558,625**	402,037	**206,052**	260,281	**784,684**	843,758	**4,215,667**	3,731,194

Included in revenue derived from the PRC was HK$117,675,000 (2022: HK$194,067,000) which was generated in Hong Kong.

For the year ended 31 December 2023, revenue from one customer (2022: two customers) in the garment manufacturing segment accounted for more than 10% of the Group's total revenue and it represented approximately 14% (2022: 13% and 12%) of the total revenue.

	PRC *(Note (iii))*		**Switzerland**		**Thailand**		**Other countries**		**Total**	
	At 31 December 2023	At 31 December 2022	**At 31 December 2023**	At 31 December 2022	**At 31 December 2023**	At 31 December 2022	**At 31 December 2023**	At 31 December 2022	**At 31 December 2023**	At 31 December 2022
	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))*	**830,891**	938,889	**215,712**	175,362	**63,617**	63,181	**135,175**	112,943	**1,245,395**	1,290,375

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$19,771,000 (2022: HK$569,334,000) which was related to assets located in Hong Kong. The reduction in non-current assets located in Hong Kong was mainly due to the change of location of the Group's licence rights from Hong Kong to Mainland China during 2023 following our subsidiary in Mainland China agreed to take up and perform the payment obligation of minimum licensee fees to respective brand business licensors.

4. Other Net Loss

	2023	2022
	HK$'000	*HK$'000*
Government subsidies *(Note (i))*	**867**	5,952
Impairment losses of property, plant and equipment *(Note (ii))*	**(6,176)**	(19,808)
Impairment losses of intangible assets *(Note (ii))*	**(46,055)**	(16,172)
Net loss on disposals of property, plant and equipment	**(3,983)**	(1,624)
Net gain on liquidation and disposal of subsidiaries	**790**	4,554
Net gain on derecognition of right-of-use assets and lease liabilities	**2,383**	4,424
Sundry income	**3,243**	4,061
	(48,931)	(18,613)

Notes:

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

(ii) In 2023 and 2022, certain cash generating units ("**CGUs**") of the brands business underperformed. The Group performed impairment assessments of the CGUs. As a result, impairment losses of HK$6,176,000 (2022: HK$19,808,000) on property, plant and equipment and HK$46,055,000 (2022: HK$16,172,000) on intangible assets were charged to other net loss.

5. Profit from Operations

Profit from operations is stated after charging:

	2023	2022
	HK$'000	*HK$'000*
Amortisation of intangible assets	**56,396**	52,145
Depreciation charge		
– Owned property, plant and equipment	**76,390**	65,406
– Right-of-use assets	**108,322**	88,251
Variable lease payments not included in the measurement of lease liabilities	**14,802**	13,631
Expenses related to short-term leases	**23,719**	19,283
Provision for impairment of receivables, net	**923**	921
Cost of inventories	**2,432,652**	2,282,219
Employee benefit expenses	**732,940**	665,341

6. Finance Income and Finance Costs

	2023	2022
	HK$'000	*HK$'000*
Finance income		
Interest income from bank deposits	**3,125**	523
Imputed interest on long-term rental deposits	**391**	476
	3,516	999
Finance costs		
Interest on licence fees payable	**50,581**	46,636
Interest on lease liabilities	**9,886**	7,281
Interest on bank borrowings	**3,708**	5,246
Other bank charges on accounts receivable factoring	**126**	2,712
	64,301	61,875

7. Income Tax Charge

	2023	2022
	HK$'000	*HK$'000*
Current income tax		
Hong Kong Profits Tax	**24,057**	24,987
Non-Hong Kong tax	**46,080**	51,632
(Over)/under provision of prior years	**(5,744)**	201
	64,393	76,820
Deferred tax	**2,851**	4,533
	67,244	81,353

The provision for Hong Kong Profits Tax for 2023 and 2022 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

Dividends payable to equity shareholders of the Company attributable to the year:

	2023	2022
	HK$'000	*HK$'000*
Interim dividend of HK$0.06 (2022: Nil) per share paid	**16,296**	–
Final dividend of HK$0.19 (2022: Nil) per share proposed after the end of the year	**51,605**	–
	67,901	–

On 25 March 2024, the Board has proposed a final dividend of HK$0.19 per share which is subject to approval by the shareholders at the forthcoming annual general meeting of the Company. The amount will be reflected as an appropriation of retained profits for the year ending 31 December 2024.

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 2023 of HK$171,232,000 (2022: HK$30,772,000) by the weighted average number of 271,607,253 (2022: 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 2023 and 2022, 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 2023 and 2022.

10. Inventories

	2023	2022
	HK$'000	*HK$'000*
Raw materials	**79,305**	101,700
Work-in-progress	**132,690**	140,016
Finished goods *(Note)*	**496,008**	587,302
Goods in transit	**33,105**	25,152
	741,108	854,170

Note:

Finished goods at 31 December 2023 were lower than a year earlier as the Group has been reducing inventories of brands business after the COVID-19 pandemic.

11. Accounts Receivable and Bills Receivable

	2023	2022
	HK$'000	*HK$'000*
Accounts receivable at amortised cost, net of loss allowance	**421,889**	380,970
Accounts receivable to be sold at fair value through other comprehensive income (recycling)	**147,066**	111,079
	568,955	492,049

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

	2023	2022
	HK$'000	*HK$'000*
Less than 3 months	**523,316**	417,768
3 months to 6 months	**46,129**	72,266
Over 6 months	**4,109**	5,929
	573,554	495,963
Less: Loss allowance	**(4,599)**	(3,914)
	568,955	492,049

11. Accounts Receivable and Bills Receivable (Continued)

The majority of accounts receivable were with customers having an appropriate credit history and are on open account. The Group grants its customers credit terms mainly ranging from 45 days to 90 days (2022: 45 days 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.

At 31 December 2023 and 31 December 2022, the fair value changes on accounts receivable at fair value through other comprehensive income (recycling) are insignificant and accordingly, no fair value changes are recognised in equity as fair value to other comprehensive income reserve.

12. Accounts Payable and Bills Payable

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

	2023 ***HK$'000***	2022 *HK$'000*
Less than 3 months	**399,126**	377,136
3 months to 6 months	**26,133**	44,129
Over 6 months	**19,224**	16,056
	444,483	437,321

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.

13. Capital Commitments

	2023	2022
	HK$'000	*HK$'000*
Contracted but not provided for in respect of leasehold improvement	**1,131**	–

At 31 December 2022, the Group was also committed to entering into a new lease of 3 years that was not yet commenced, the lease payments under which amounted to HK$793,000 per annum. At 31 December 2023, the Group did not have lease entered but not yet commenced.

14. Events after the Reporting Period

On 15 January 2024, Eltshore Enterprises Limited, an indirect wholly-owned subsidiary of the Company, entered into an option agreement with two vendors to acquire from the vendors an option in consideration of the grant price of EUR687,000. The option may be exercised during the option period commencing from 1 January 2027 to purchase in aggregate 45% of the issued capital of MO IP Srl (which owns the MASSIMO OSTI brand) at the purchase consideration of EUR3,435,000.

Also, on 15 January 2024, Tristate International SA (an indirect 95% owned subsidiary of the Company) entered into a licence agreement with MO IP Srl pursuant to which Tristate International SA was granted an exclusive right to use certain trademarks and domain names related to the MASSIMO OSTI brand in the manufacturing, sale, advertising, promotion and/or distribution of apparel products bearing the MASSIMO OSTI brand name during the term of the licence agreement.

In addition, if and after the option is duly exercised and if the actual aggregate performance of the MASSIMO OSTI brand business segment for the six financial years ending 31 December 2029 can meet certain pre-determined key performance indicators, the two vendors will be paid an additional payment of no more than EUR2,250,000, the exact amount of which to be paid will be determined with reference to the extent of fulfilment of the relevant key performance indicators.

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 2023.

Overview

For the year ended 31 December 2023, the Group recorded profit attributable to equity shareholders of HK$171 million as compared to the profit of HK$31 million for 2022. While our garment manufacturing business and our own brand C.P. Company continued to contribute steady revenue and profit in 2023, the overall substantial increase in profit attributable to equity shareholders of the Company in the year was primarily attributable to the significant reduction in losses of the Group's licensed brands, Nautica and Spyder, due to revenue increase and improved performance.

Own Brands

C.P. Company continued to contribute steady revenue and profitability in 2023. The brand's revenue recorded a low single-digit growth in 2023 and was flat in 2023 at constant exchange rates due to slowdown in the fashion market and a warm autumn in Europe. In 2023, wholesale business in Europe dropped by 6% while retail sales and e-commerce saw revenue increase. Italy, UK and France remained the largest contributors to C.P. Company's wholesale revenue. The brand opened two more direct retail stores in Lyon and Cannes of France and a new showroom in Milan, Italy during 2023. At the end of December 2023, this brand had eight directly managed retail stores and outlets in the upmarket streets of London, Milan, Riccione, Amsterdam, Cannes, Lyon, Mendrisio and Noventa di Piave.

Our unique French concept premium ladies wear Cissonne continued to gradually expand through direct retailing in China's major cities. This brand has now eight stores located in Beijing China World Mall, Shanghai Grand Gateway 66, Shanghai Jiu Guang, Nanjing Deji Plaza, Qingdao MIXC, Qingdao Hisense Plaza, Hangzhou MIXC, and Wuhan International Plaza respectively.

Licensed Brands

After the lifting of COVID-19 control measures in China in late 2022 and the recovery of local economic activities, all our licensed brands in China recorded revenue jump in 2023 as compared to 2022. Revenue of Nautica grew 53% over the last year. We added e-commerce channels and full-price image stores for this brand in the year. The brand reported a substantial reduction in operating loss mainly attributable to the top line increase and tight cost control. At 31 December 2023, Nautica had 71 directly managed retail stores and another 90 stores operated by partners (31 December 2022: 167 stores in total).

Spyder was officially launched in China in November 2019 and soon after that, it was severely hit by the COVID-19 outbreak in China in early 2020, followed by the elongated lockdowns in 2022. After the pandemic, Spyder reported an increase in revenue of 67% over 2022. The brand also narrowed its net losses as compared to last year, mainly due to increased revenue, write-back of inventory provisions and continued effort on cost control. At 31 December 2023, Spyder had 50 stores across China (31 December 2022: 58 stores).

Reebok recorded a full year revenue in 2023 as compared to revenue contribution only from 1 May in 2022. Reebok's China and Hong Kong businesses were primarily direct-to-consumer through mono-brand stores and e-commerce. The brand expanded e-commerce platforms, added retail stores, and invested in elevating brand heat during 2023. Nonetheless, store revenue and performance in 2023 were still behind our expectations. Net losses of the brand increased in 2023 as compared to last year, including impairment losses of HK$49 million on licence rights and property, plant and equipment. At 31 December 2023, Reebok had 30 stores across China (31 December 2022: 15 stores).

Garment Manufacturing

In the year under review, our garment manufacturing business continued to post strong revenue. Our China and Thailand factories are serving our "premium business" for fashion and complicated outerwear products. Our Vietnam and Myanmar factories allow us to stay competitive in cost to support our "better business" for better tailoring products. In the year, we saw some customer revenue mix changes within both our premium business and better business. Overall, our garment manufacturing business was able to achieve a slightly improved gross margin and continued to report steady bottom-line results in 2023.

Financial Highlights

	Note	**2023**	2022	Change
Operating results (HK$ million)				
Revenue		**4,216**	3,731	+13%
Gross profit		**1,783**	1,449	+23%
EBITDA		**602**	424	+42%
Depreciation on right-of-use assets	1	**(108)**	(88)	-23%
Interest on lease liabilities	1	**(10)**	(7)	-43%
Amortisation of licence rights	2	**(56)**	(52)	-8%
Interest on licence fees payable	2	**(51)**	(47)	-9%
Depreciation on owned property, plant and equipment		**(76)**	(65)	-17%
Impairment losses of intangible assets		**(46)**	(16)	-188%
Impairment losses of property, plant and equipment		**(6)**	(20)	+70%
Income tax charge		**(67)**	(81)	+17%
Profit attributable to equity shareholders		**171**	31	+452%
Segment results (HK$ million)				
Garment manufacturing EBITDA		**280**	273	+3%
Depreciation on right-of-use assets	1	**(10)**	(8)	-25%
Interest on lease liabilities	1	**(2)**	(2)	–
Depreciation on owned property, plant and equipment		**(18)**	(19)	+5%
Garment manufacturing results before tax		**250**	244	+2%
Brands business EBITDA		**304**	129	+136%
Depreciation on right-of-use assets	1	**(91)**	(70)	-30%
Interest on lease liabilities	1	**(8)**	(6)	-33%
Amortisation of licence rights	2	**(56)**	(52)	-8%
Interest on licence fees payable	2	**(51)**	(47)	-9%
Depreciation on owned property, plant and equipment		**(51)**	(37)	-38%
Impairment losses of intangible assets		**(46)**	(16)	-188%
Impairment losses of property, plant and equipment		**(6)**	(20)	+70%
Brands business results before tax		**(5)**	(118)	+96%
Cash flow (HK$ million)				
Cash generated from operations		**590**	107	+451%
Income tax paid		**(118)**	(46)	-157%
Payment for the purchase of property, plant and equipment		**(98)**	(90)	-9%
Rental payments under capitalised leases	1	**(120)**	(97)	-24%
Financial position (HK$ million)				
Cash and bank balances		**463**	301	+54%
Bank borrowings		**33**	107	+69%
Total equity		**1,205**	1,039	+16%
Key ratios				
Gross profit margin		**42.3%**	38.8%	+3.5pp
Net profit margin attributable to equity shareholders		**4.1%**	0.8%	+3.3pp
Return on average equity (“**ROE**”)	3	**15.3%**	3.0%	+ 12.3pp

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 classify rentals paid under the capitalised leases as financing cash outflows.

2. Licence related amortisation and imputed interest on licence fees payable are non-cash items recognised in accordance with accounting policy for our long-term licences – Nautica, Spyder and Reebok.

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 was HK$4,216 million (2022: HK$3,731 million), representing an increase of 13% over last year.

Revenue from our brands business was increased to HK$2,283 million in 2023 as compared to HK$1,792 million in 2022. Revenue of C.P. Company remained strong and was flat at constant exchange rates in 2023 due to slowdown in the fashion market and a warm autumn in Europe. After the lifting of all pandemic control measures in China in late 2022, all our licensed brands in China recorded revenue jump in 2023 as compared to last year. Revenue of Nautica and Spyder were up 53% and 67% respectively over last year, while Reebok recorded a full year revenue in 2023 as compared to revenue contribution from May in 2022.

Revenue from garment manufacturing business in the year was HK$1,933 million as compared to HK$1,939 million in 2022. Revenue from premium business, which accounted for 71% (2022: 76%) of the segment revenue, dropped by 6% as compared to last year. Revenue from better business rose 15% in 2023. During the year under review, we saw some customer revenue mix changes within both our premium and better businesses.

Geographically, major markets of the Group are PRC, UK, Italy and Canada, which accounted for 32% (2022: 27%), 22% (2022: 20%), 13% (2022: 11%) and 9% (2022: 12%) of the Group's total revenue respectively. The change in proportion among different geographical markets in the year was mainly due to the increase in revenue of our licensed brands in China and change in customer revenue mix of our garment manufacturing business.

In this reporting year, the Group's business slightly skewed towards the second half year mainly due to the seasonality effect 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 with such order pattern from customers.

Gross Profit

During the year, the Group's overall gross profit recorded at HK$1,783 million (2022: HK$1,449 million), representing a gross profit margin of 42.3% (2022: 38.8%). The increase in gross profit was mainly attributable to the increased turnover. Gross profit margin of our garment manufacturing business was slightly better than a year ago due to change in customer revenue mix, lowered freight-in costs and the weakening of Renminbi. The gross profit margin of our brands business remained stable as compared to last year. Gross profit margin of C.P. Company slightly dropped while gross profit margins of the licensed brands in China increased mainly due to less inventory provisions in the year. Overall, the Group's gross profit margin increased to 42.3% in 2023 from 38.8% in 2022. This was due to the rise in the revenue proportion of the brands business which contributed a relatively higher gross profit margin.

Other Net Losses

In 2023, other net losses included impairment losses on intangible assets and property, plant and equipment totaling HK$52 million (2022: HK$36 million), of which HK$49 million was in relation to impairment of Reebok licence rights and property, plant and equipment (2022: HK$31 million relating to Spyder).

Selling and Distribution Expenses

Selling and distribution expenses comprised mainly retail shop expenses, advertising and promotion, commissions to retail partners and sales agents and brand licence rights amortisation. Selling and distribution expenses increased as compared to 2022 mainly due to the increase in shop expenses paid for Nautica along with its revenue increase as well as the full year shop and other selling expenses incurred for Reebok.

General and Administrative Expenses

General and administrative expenses were increased by 6% as compared to 2022. This was mainly due to increased administrative costs in line with business growth.

Income Tax Charge

Income tax was charged on profits of our garment manufacturing and C.P. Company business. Income tax charges decreased as compared to 2022 mainly due to the write-back of tax overprovided for previous years and income tax was attributable to different entities in these two years.

Segment Results

Our garment manufacturing business recorded a steady segment result in 2023 as compared to 2022. For our brands business, C.P. Company continued to report a steady profit during the year. The operating losses of Nautica and Spyder substantially narrowed because of the rise in revenue and improved gross margin. Reebok reported an increase in losses in 2023 as store revenue and performance were behind our expectations. Our brands business as a whole reported a substantial reduction in losses for the reporting year.

Financial Resources and Liquidity

At 31 December 2023, cash and bank balances amounted to HK$463 million (31 December 2022: HK$301 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 2023, the Group had short-term bank borrowings of HK$33 million (31 December 2022: HK$107 million). At the end of 2023, short-term bank borrowings were denominated in Renminbi (31 December 2022: denominated in US dollars, Euro and Renminbi) and bearing interest at fixed rates. At 31 December 2023, bank deposits of HK$10 million (31 December 2022: 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 any net borrowings at 31 December 2023 and 31 December 2022, and accordingly, no information on gearing ratio as at these dates is provided.

For the cash flow, the Group generated more cash flow from operation in 2023 than 2022 due to better operating performance while more cash was used for Reebok initial inventory purchase in the last year. For working capital, inventories at 31 December 2023 were lower than a year earlier as the Group has been reducing inventories of brands business after the pandemic.

Shareholders' equity at 31 December 2023 increased over 2022 mainly due to profit attributable to equity shareholders for the year less interim dividend paid 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 years ended 31 December 2022 and 2023, the Group had forward foreign exchange contracts to hedge against the foreign exchange exposures arising from Renminbi manufacturing costs of our PRC factories and Pound Sterling sales receipts of a European subsidiary.

Contingent Liabilities and Capital Commitments

Apart from the capital commitments as disclosed in Note 13 in this announcement, there were no other material capital commitments or contingent liabilities at 31 December 2023.

Events after the Reporting Period

On 15 January 2024, Eltshore Enterprises Limited, an indirect wholly-owned subsidiary of the Company, had, in consideration of a grant price of EUR687,000, acquired an option which, if exercised during the option period commencing from 1 January 2027, would enable the Group to purchase 45% of the issued capital of an Italian company MO IP Srl at the purchase consideration of EUR3,435,000. MO IP Srl owns the MASSIMO OSTI brand (including, among others, Massimo Osti Studio). Also, on 15 January 2024, the Group, through Tristate International SA (an indirect 95% owned subsidiary of the Company), had signed up an exclusive licence with MO IP Srl to use certain trademarks and domain names related to the MASSIMO OSTI brand (including, among others, Massimo Osti Studio) in the manufacturing, sale and distribution of apparel products.

Further details relating to the option and the licence are set out in the paragraph headed "Event After the Reporting Period – Discloseable and Connected Transactions" below in this announcement.

Human Resources

The Group had about 6,370 employees at 31 December 2023 (2022: 6,360). Fair and competitive remuneration packages and benefits are offered to employees. Those employees with outstanding performance may also be awarded discretionary bonuses and share options.

Outlook

Our own global brand C.P. Company has a sound business foundation. The brand is attentive to its market-winning trajectory and new strategies to achieve breakthroughs and further developments, and at the same time stays vigilant on the geopolitical tension and economic volatility that could affect consumer sentiment. The brand will further increase its brand awareness, expand customer segment, and create brand momentum through marketing initiatives and collaborations. We will continue to focus on existing key wholesale markets (Italy, UK, France, Germany and Benelux) and expand into other countries in Europe, Asia, the Middle East and South America by partnering with key wholesale accounts. We will continue to grow e-commerce and plan to open more direct retail stores in key European markets in coming years. In early 2024, after the Group entered into the licence agreement for the use of trademarks related to the MASSIMO OSTI brand, Massimo Osti Studio, a contemporary label celebrating the legacy of the late Italian designer Massimo OSTI, the founder of C.P. Company, was launched to the market. This brand pays homage to the work of the late Massimo OSTI and his ongoing legacy by redefining the paradigms of modern sportswear and focusing on fabric research, experimental silhouettes, and functional shapes. The addition of Massimo Osti Studio has further enlarged the Group's brand offerings.

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. We aim to enhance the Nautica brand image, increase sell-through and further improve store performance and profitability. For e-commerce, we will grow existing and new online platforms. We will also continue to invest in our CRM systems with the goal of enhancing membership services and promoting engagement with our 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. We will continue to focus our investment on quality stores together with selected retail partners, and control the operating expenses of the brand.

Reebok has a celebrated heritage and has inspired, connected and created great products for athletes and consumers across the world for decades. The brand is deeply rooted in professional sports, sneaker culture, and performance apparel. The Group will continue to leverage Reebok's heritage and deploy strategy to fuse street and fitness styles that provide consumers with Reebok in the fast-growing sports, activewear, and outerwear segments. The team will focus on designing successful collections for the China market, elevating brand heat and icons, opening quality retail stores, driving e-commerce sales and strengthening our Reebok community. We are committed to driving innovation and growth of the brand.

Our garment manufacturing business had continued to deliver strong performance in 2023. Looking ahead, cautious consumer spending, strong competition 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. We have expanded the capacity of our factory in Vietnam to cope with the demand from customers and expect to start production around the end of the first quarter of 2024. Our diversified production base, unique production system together with flexible supply chain will enable us to work closely with our customers and respond to their needs.

The Group is dedicated to continually strengthening its own capability and investing in every valuable opportunity it may come across, with a view to striving for the long-term success of our business. Against a challenging economic backdrop, we expect our own brand C.P. Company and garment manufacturing business will continue to post profits and generate strong cash flow to support the Group's businesses. China's economy is facing challenges. We will strive to improve the performance of our licensed brands in China and keep a firm grip on costs. The Group has 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 implements 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 to 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 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 earns cut and make profit. Increased cost in fabric material has little impact on the Group. • Diversification of factories and supply chain in various countries in Asia and production process improvements will help 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 an 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, and 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-shops, the safety of the systems underlying the e-shops and the protection of the personal data according to applicable laws and market practices.

Nature of Risk	Responses
Operational Risks (Continued)	
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.	• Proactive sourcing of suppliers in different countries and regional production facilities help 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.
Financial Risks	
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.	• 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.
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 are both subject to the rules and regulations of foreign exchange in the PRC.	• 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.

Relationship with Business Partners and Stakeholders

Relationship with Customers

The Group maintains long-term relationships with customers of our garment manufacturing and brands 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 may be 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 of governance and meet relevant requirements under applicable laws and regulations when conducting our business. We were not aware of any material non-compliance of relevant standards, laws 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 corporate citizen, the Group is 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 members of the Group 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 the Company's annual report for 2023 for details of our environmental and social initiatives and performance.

Discloseable and Connected Transactions

On 15 January 2024, Eltshore Enterprises Limited (the "**Purchaser**"), an indirect wholly-owned subsidiary of the Company, entered into an option agreement (the "**Option Agreement**") with Mr. Lorenzo OSTI, Ms. Agata OSTI, Mr. Stefano POLATO and MO IP Srl (the "**Target Company**"), pursuant to which Mr. Lorenzo OSTI and Ms. Agata OSTI (collectively, the "**Vendors**"), in consideration of the grant price of EUR687,000 (the "**Grant Price**"), granted to the Purchaser an option (the "**Option**") which may be exercised by the Purchaser at its absolute discretion during the option period commencing from 1 January 2027 to purchase in aggregate 45% of the issued capital of the Target Company (the "**Option Quotas**") at the purchase consideration of EUR3,435,000 (the "**Purchase Consideration**").

Mr. Lorenzo OSTI is a director and the president of Tristate International SA, an indirect 95% owned subsidiary of the Company, and thus a connected person of the Company at subsidiary level. Ms. Agata OSTI is the sister of Mr. Lorenzo OSTI and accordingly an associate (as defined under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**")) of Mr. Lorenzo OSTI. Further, as at the date of the Option Agreement, Mr. Lorenzo OSTI held a 45% interest in the Target Company and hence the Target Company was also an associate (as defined under the Listing Rules) of Mr. Lorenzo OSTI. Therefore, as at the date of the Option Agreement, Mr. Lorenzo OSTI, Ms. Agata OSTI and the Target Company were all connected persons of the Company at subsidiary level.

The Target Company owns the MASSIMO OSTI brand (which is the main asset of the Target Company). By entering into the Option Agreement, the Company has obtained the opportunity to invest in the MASSIMO OSTI brand. The late Massimo OSTI was an Italian designer known as the founder of the well-known apparel brands C.P. Company and Stone Island. C.P. Company was acquired by the Group in 2015 and has already contributed to the Group with its promising revenue and profitability. The MASSIMO OSTI brand, which uses the name of the late Massimo OSTI, is itself a rich legacy. The Group believes in the potential of the MASSIMO OSTI brand.

At the same time of the entering into of the Option Agreement, the Target Company also entered into a licence agreement dated 15 January 2024 (the "**Licence Agreement**") with Tristate International SA, pursuant to which Tristate International SA was granted an exclusive right to use certain trademarks and domain names related to the MASSIMO OSTI brand in the manufacturing, sale, advertising, promotion and/or distribution of related branded products. Under such licensing arrangement, the Group is able to design and produce apparel products bearing the MASSIMO OSTI brand name for its customers during the term of the Licence Agreement. Leveraging on the Group's capabilities in product development and international distribution, the Group expects that the MASSIMO OSTI brand business will contribute to the overall revenue and performance of the Group.

The Grant Price had been paid by the Purchaser to the Vendors on 15 January 2024 (being the date of the Option Agreement) in equal share. If the Purchaser exercises the Option to purchase the Option Quotas during the option period commencing from 1 January 2027, the Purchase Consideration shall be paid by the Purchaser in the following manner: (a) 20%, being EUR687,000, shall be treated as paid by applying the Grant Price towards payment; and (b) a residual balance of 80%, being EUR2,748,000, shall be paid by the Purchaser to the Vendors in equal share upon completion of the exercise of the Option. The purchase price of the Option Quotas has been locked at the Purchase Consideration. Should the value of the MASSIMO OSTI brand enhance significantly when the Option is exercised, the Group will still be able to purchase the Option Quotas at the Purchase Consideration.

The Purchase Consideration was determined after arm's length negotiation and with reference to, among others:

(i) the appraised value of the Target Company (which corresponded to the appraised value of the MASSIMO OSTI brand, being the main asset of the Target Company) (the "**Appraised Value**") at 31 December 2022 and 31 December 2023, respectively, which represented the average of the valuation results in respect of the Target Company at the relevant dates calculated based on the discounted cash flow method under the income approach and the venture capital method by the market approach as adopted by an independent third party valuer (being Celio Cavadini & Partners, whose founding partner has extensive experience in business valuation and valuation of various assets such as brands and intellectual property). The discounted cash flow method under the income approach would determine the current value of a start-up company by discounting the future free cash flow generated by the business by a discount rate that reflects the risk of the activity and the time value of money, and the venture capital method by the market approach is often used in valuation of pre-revenue companies and would reflect the potential exit value for an investor; and

(ii) the prospects of the business of the MASSIMO OSTI brand.

After arm's length negotiation by the Purchaser with the Vendors, the Purchase Consideration was determined based on the lower of the Appraised Value at 31 December 2022 and 31 December 2023 respectively, and proportionated by 45%, being the shareholding to be acquired by the Group in the Target Company should the Option be exercised. It was considered that the determination of the Purchase Consideration was fair and reasonable as the valuation methods were adopted by the independent third party valuer on the background that the MASSIMO OSTI brand would be re-launched as if it were a new brand, and the valuation had taken into account of the prospects of the MASSIMO OSTI brand by considering the brand's financial plan for the re-launch. An extensive pre-transaction due diligence exercise on the Target Company and the MASSIMO OSTI brand were also performed to provide sufficient safeguards over the Company's assets and interests.

The Grant Price was determined at 20% of the Purchase Consideration after arm's length negotiation between the parties. As the MASSIMO OSTI brand was re-launched on the market after inactive use for some time and would require time to re-build its customer base, the Option would enable the Group to evaluate the performance and prospects of the brand after a reasonable period of operation and thereby decide on whether to invest directly in the Target Company or to exit from further investment commitment at a later stage. In addition, as the Group has secured a direct and exclusive right in the development and operation of the MASSIMO OSTI brand through the Licence Agreement, and if the Group sees further potential in the development of the brand over its operation, it can make a deferred decision to invest in the Target Company pursuant to the Option Agreement in 2027 when the option period commences. As such, the Company considers that the obtaining of the Option and the payment of the Grant Price for the Option at this initial stage is in essence a deferred payment arrangement which would mitigate the inherent investment risks, and such arrangement is in the best interest of the Company and its shareholders as a whole.

In light of the above-mentioned and details as disclosed in the Company's announcement dated 15 January 2024 in relation to, among others, the Option Agreement (the "**MO Announcement**"), the Board (including all the Independent Non-Executive Directors) had formed the view that the transactions contemplated under the Option Agreement were on normal commercial terms or better, and the terms of the Option Agreement were fair and reasonable and in the interest of the Company and its shareholders as a whole.

If and upon the exercise of the Option, the Group will only become interested in 45% of the issued corporate capital of the Target Company, and the Target Company will not be consolidated into the financial statements of the Company as a subsidiary of the Company.

In addition, if and after the Option is duly exercised and if the actual aggregate performance of the MASSIMO OSTI brand business segment as reflected in the management accounts of Tristate International SA for the six financial years ending 31 December 2029 can meet pre-determined key performance indicators in respect of net sales, gross profit, EBITDA (earnings before interest, taxes, depreciation and amortisation) and EBIT (earnings before interest and taxes), the Purchaser will make an additional payment (the "**Additional Payment**") of no more than EUR2,250,000 to the Vendors. Such Additional Payment will be made within two months of the issue of the management accounts of Tristate International SA as reviewed by Tristate International SA's auditor for the year ending 31 December 2029. The exact amount of the Additional Payment to be paid will be determined with reference to the extent of fulfilment of the key performance indicators.

The Company will make further announcement(s) as and when appropriate upon exercise of the Option and also after the exact amount of the Additional Payment is determined.

Further details of the Option Agreement and transactions contemplated thereunder were set out in the MO Announcement and in Note 14 in this announcement and will be set out in the annual report for the year ended 31 December 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 2023 as set out in this 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 this 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 2023 had been reviewed by the Audit Committee in conjunction with the management of the Group.

CORPORATE GOVERNANCE CODE

Throughout the year ended 31 December 2023, the Company had complied with all the code provisions of the Corporate Governance Code (the "**CG Code**") as set out in Appendix C1 to the Listing Rules, except for the deviations from code provisions C.2.1 and F.2.2.

Code provision C.2.1 of the CG Code stipulates that the roles of chairman and chief executive should be separate and should not be performed by the same individual. Mr. WANG Kin Chung, Peter is the Chairman of the Board and the Chief Executive Officer of the Company, which constitutes a deviation from the said code provision C.2.1. The Board considers that it is in the interest of the Group to have Mr. WANG Kin Chung, Peter to hold both the offices of the Chairman of the Board and the Chief Executive Officer so that the Board can enjoy the benefit of a chairman who is knowledgeable about the business of the Group and capable of guiding discussions and briefing the Board in a timely manner on key issues and developments.

Code provision F.2.2 of the CG Code requires the chairman of the board to attend the annual general meeting. Mr. WANG Kin Chung, Peter, the Chairman of the Board, was not able to attend the annual general meeting of the Company held on 19 June 2023 (the "**2023 AGM**") due to his prior commitment to another important business engagement. Ms. MAK WANG Wing Yee, Winnie, a Non-Executive Director of the Company, was invited to take the chair of the 2023 AGM who, together with other members of the Board present at the 2023 AGM, was of sufficient calibre to handle the meeting proceedings and answer questions from the shareholders of the Company thereat.

Further information of the Company's corporate governance practices will be set out in the "Corporate Governance Report" of the Company's 2023 annual report, which will be published as soon as practicable.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year ended 31 December 2023, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

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, 24 June 2024 (the "**2024 AGM**"). Notice convening the 2024 AGM will be published and despatched to the shareholders of the Company in the manner as required by the bye-laws of the Company and the Listing Rules.

DIVIDENDS

The Board has resolved to recommend the payment of a final dividend of HK$0.19 (2022: Nil) per share for the year ended 31 December 2023 to those shareholders whose names appear on the register of members of the Company on Friday, 5 July 2024.

Subject to the approval by the shareholders of the Company at the 2024 AGM, the proposed final dividend is expected to be paid on Tuesday, 16 July 2024.

Together with the interim dividend of HK$0.06 (2022: Nil) per share paid on Friday, 29 September 2023, total dividends for the year will amount to HK$0.25 (2022: Nil) per share.

CLOSURE OF REGISTER OF MEMBERS

2024 AGM

For the purpose of ascertaining shareholders' right to attend the 2024 AGM, the register of members of the Company will be closed from Wednesday, 19 June 2024 to Monday, 24 June 2024, both days inclusive, during which period no transfer of shares will be registered. To qualify for attending and voting at the 2024 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, for registration not later than 4:30 p.m. on Tuesday, 18 June 2024.

Final Dividend

For the purpose of ascertaining shareholders' entitlement to the proposed final dividend, the register of members of the Company will be closed from Tuesday, 2 July 2024 to Friday, 5 July 2024, both days inclusive, during which period no transfer of shares will be registered. The record date for the proposed final dividend will be Friday, 5 July 2024. To qualify for the proposed final dividend, 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, for registration not later than 4:30 p.m. on Friday, 28 June 2024. In the event that the 2024 AGM is held on a date later than Monday, 24 June 2024 because of bad weather or other reasons, the book closure dates together with the record date for determining the entitlement to the proposed final dividend will be deferred accordingly. In such circumstances, the Company will make an announcement of the new book closure dates and the record date.

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

Hong Kong, 25 March 2024

As at the date of this announcement, the Board comprises one Executive Director, namely 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.