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Win Hanverky Holdings Limited
永嘉集團控股有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock code: 3322)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2020

FINANCIAL HIGHLIGHTS

	Unaudited Six months ended 30 June		
	2020	2019	*Change*
	HK$'000	*HK$'000*	*%*
Revenue	**1,962,700**	2,265,292	−13.4%
Gross profit	**435,856**	691,577	−37.0%
Gross profit margin	**22.2%**	30.5%	−8.3% pt
Operating (loss)/profit	**(187,705)**	84,253	N/A
(Loss)/profit attributable to equity holders	**(166,281)**	27,642	N/A
Basic (loss)/earnings per share *(HK cents)*	**(12.9)**	2.2	N/A
Dividends *(HK cents)*	**N/A**	1.0	N/A

OPERATIONAL HIGHLIGHTS

- Revenue decreased by 13.4% mainly attributable to drop in sales generated from High-end Fashion Retailing Business due to temporary closure of offline stores, drop in store traffic and dampened consumption sentiment amid the COVID-19 pandemic ("**COVID-19**").
- Loss attributable to equity holders was HK$166.3 million (30 June 2019: profit of HK$27.6 million). It was an overall result of decrease in revenue and gross profit due to COVID-19, mitigating by the reduction in operating costs. It also included an effect of one-off non-cash impairment for e.dye Business.
- The Board does not recommend the payment of interim dividend so as to conserve the Group's financial resources under the highly uncertain market situation.

The board of directors (the "**Board**" or "**Directors**") of Win Hanverky Holdings Limited (the "**Company**") presented the unaudited interim results of the Company and its subsidiaries (together the "**Group**") for the six months ended 30 June 2020, together with the comparative amounts for the corresponding period of 2019, as follows:

CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2020

		Unaudited Six months ended 30 June	
		2020	2019
	Note	***HK$'000***	*HK$'000*
Revenue	2	**1,962,700**	2,265,292
Cost of sales		**(1,526,844)**	(1,573,715)
Gross profit		**435,856**	691,577
Selling and distribution costs		**(316,961)**	(359,826)
General and administrative expenses		**(242,286)**	(261,455)
Other net (expenses)/income	3	**(64,314)**	13,957
Operating (loss)/profit		**(187,705)**	84,253
Finance costs — net	4	**(22,946)**	(19,583)
Share of profits/(losses) of associates		**423**	(196)
(Loss)/profit before income tax		**(210,228)**	64,474
Income tax expense	5	**(622)**	(26,977)
(Loss)/profit for the period		**(210,850)**	37,497
(Loss)/profit for the period attributable to:			
Equity holders of the Company		**(166,281)**	27,642
Non-controlling interests		**(44,569)**	9,855
		(210,850)	37,497
(Loss)/earnings per share attributable to equity holders of the Company			
(expressed in HK cents per share)	6		
Basic		**(12.9)**	2.2
Diluted		**(12.9)**	2.2

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2020

	Unaudited	
	Six months ended 30 June	
	2020	2019
	HK$'000	*HK$'000*
(Loss)/profit for the period	**(210,850)**	37,497
Other comprehensive income		
Items that may be reclassified to profit or loss		
Currency translation differences	**(15,879)**	(14,538)
Share of other comprehensive income of associates	**(19)**	210
Item that will not be reclassified to profit or loss		
Change in the fair value of financial assets at fair value through other comprehensive income	**(354)**	—
Item that has been reclassified to profit or loss		
Realisation of accumulated exchange differences upon liquidation of a subsidiary	**—**	(3,613)
Total comprehensive income for the period	**(227,102)**	19,556
Total comprehensive income for the period attributable to:		
Equity holders of the Company	**(181,136)**	9,935
Non-controlling interests	**(45,966)**	9,621
	(227,102)	19,556

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2020

	Note	**Unaudited 30 June 2020 *HK$'000***	Audited 31 December 2019 *HK$'000*
Non-current assets			
Property, plant and equipment		**1,093,886**	1,330,091
Intangible assets		**225,556**	248,828
Investments in associates		**14,270**	13,867
Other receivables and financial assets		**61,693**	90,038
Deferred tax assets		**79,965**	70,935
Pledged bank deposits		**1,095**	1,114
		1,476,465	1,754,873
Current assets			
Inventories		**1,129,282**	1,224,202
Trade and bills receivable	8	**530,107**	637,524
Other receivables and financial assets		**149,472**	215,923
Current tax recoverables		**18,335**	24,780
Cash and bank balances		**669,752**	486,623
		2,496,948	2,589,052
Current liabilities			
Trade and bills payable	9	**250,341**	252,248
Accruals and other payables		**326,993**	414,372
Borrowings	10	**951,132**	874,876
Lease liabilities		**149,750**	179,300
Current tax liabilities		**79,331**	89,709
		1,757,547	1,810,505

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

AS AT 30 JUNE 2020

	Note	**Unaudited 30 June 2020 *HK$'000***	Audited 31 December 2019 *HK$'000*
Non-current liabilities			
Other payables		**28,087**	38,933
Borrowings	10	**141,432**	146,250
Lease liabilities		**157,321**	227,204
Deferred tax liabilities		**7,717**	7,708
		334,557	420,095
Net assets		**1,881,309**	2,113,325
Equity attributable to equity holders of the Company			
Share capital		**128,440**	128,440
Reserves		**1,843,898**	2,028,707
		1,972,338	2,157,147
Non-controlling interests		**(91,029)**	(43,822)
Total equity		**1,881,309**	2,113,325

NOTES:

1. BASIS OF PREPARATION

The condensed interim financial information included in this preliminary announcement of interim results for the six months ended 30 June 2020 does not constitute the Group's interim report but is derived from that interim report.

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

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

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

Save as described above, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2019. Accordingly, readers should read the interim results in conjunction with the annual financial statements for the year ended 31 December 2019, prepared in accordance with Hong Kong Financial Reporting Standards.

2. SEGMENT INFORMATION

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

The executive directors review the performance of the Group mainly from a business operation perspective. The major business segments of the Group for the six months ended 30 June 2020 are Manufacturing and High-end Fashion Retailing.

- The Manufacturing segment represents manufacturing and sales of (i) sportswear and (ii) high-end functional outerwear of which both primarily under OEM arrangements to customers mainly in Europe, the United States, Mainland China and other countries.

- The High-end Fashion Retailing segment represents retail of high-end fashion products in Mainland China, Hong Kong, Macau, Taiwan and Singapore.

- The e.dye segment represents manufacturing and sales of fabric and yarn products, it is disposed of after the end of the reporting period (note 11).

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

2. SEGMENT INFORMATION (CONTINUED)

The segment results for the six months ended 30 June 2020 are as follows:

	Manufacturing				
	Sportswear Manufacturing *HK$'000*	**High-end Functional Outerwear Manufacturing** *HK$'000*	**High-end Fashion Retailing** *HK$'000*	**e.dye** *HK$'000*	**Total** *HK$'000*
Total segment revenue	1,237,498	164,780	542,455	20,009	1,964,742
Inter-segment revenue	(456)	(1,452)	—	(134)	(2,042)
Revenue	1,237,042	163,328	542,455	19,875	1,962,700
Operating loss and segment results	(44,737)	(9,995)	(40,705)	(92,268)	(187,705)
Finance costs — net					(22,946)
Share of profits of associates	423	—	—	—	423
Loss before income tax					(210,228)
Income tax expense					(622)
Loss for the period					(210,850)

Other segment items charged/(credited) to the operating loss for the six months ended 30 June 2020 are as follows:

Depreciation and amortisation of property, plant and equipment, and leased assets	51,953	7,467	100,865	2,871	163,156
Amortisation of intangible assets	—	1,065	349	1,874	3,288
Impairment of:					
— property, plant and equipment, and leased assets	—	—	35,889	12,984	48,873
— intangible assets	—	—	—	19,984	19,984
— trade receivables	—	—	—	6,641	6,641
— other receivables	—	—	—	22,587	22,587
Provision/(write-back of provision) for inventories, net	14,743	2,265	(30,323)	11,637	(1,678)
Loss/(gain) on disposal of property, plant and equipment, net	2,512	134	(6,801)	—	(4,155)

2. SEGMENT INFORMATION (CONTINUED)

The segment results for the six months ended 30 June 2019 are as follows:

	Manufacturing				
	Sportswear Manufacturing	High-end Functional Outerwear Manufacturing	High-end Fashion Retailing	e.dye	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Total segment revenue	1,275,009	151,374	826,911	13,819	2,267,113
Inter-segment revenue	(1,762)	—	—	(59)	(1,821)
Revenue	1,273,247	151,374	826,911	13,760	2,265,292
Operating profit/(loss) and segment results	24,657	(39,923)	123,647	(24,128)	84,253
Finance costs — net					(19,583)
Share of losses of associates	(196)	—	—	—	(196)
Profit before income tax					64,474
Income tax expense					(26,977)
Profit for the period					37,497

Other segment items charged/(credited) to the operating profit for the six months ended 30 June 2019 are as follows:

Depreciation and amortisation of property, plant and equipment, and leased assets	51,137	7,391	98,050	3,892	160,470
Amortisation of intangible assets	—	1,065	349	1,874	3,288
Impairment of trade receivables	—	530	—	—	530
Provision for inventories, net	16,586	672	37,281	1,189	55,728
Loss on disposal of property, plant and equipment, net	810	2,193	18	29	3,050
Gain on disposal and liquidation of subsidiaries, net	(23,420)	—	—	—	(23,420)

2. SEGMENT INFORMATION (CONTINUED)

The segment assets and liabilities are as follows:

	Manufacturing					
	Sportswear Manufacturing *HK$'000*	High-end Functional Outerwear Manufacturing *HK$'000*	High-end Fashion Retailing *HK$'000*	e.dye *HK$'000*	Unallocated *HK$'000*	Total *HK$'000*
Total assets						
30 June 2020	2,045,753	437,673	1,361,249	30,438	98,300	3,973,413
31 December 2019	2,058,851	451,485	1,630,778	107,096	95,715	4,343,925
Total liabilities						
30 June 2020	1,052,409	232,058	702,202	18,387	87,048	2,092,104
31 December 2019	982,068	246,230	889,586	15,299	97,417	2,230,600

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

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

	Six months ended 30 June	
	2020	2019
	HK$'000	*HK$'000*
Mainland China	**761,334**	895,744
Europe	**532,970**	480,059
United States	**258,809**	388,018
Other Asian countries	**233,839**	214,075
Hong Kong	**98,271**	176,531
Canada	**15,167**	50,780
Others	**62,310**	60,085
	1,962,700	2,265,292

2. SEGMENT INFORMATION (CONTINUED)

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

	As at	
	30 June	31 December
	2020	2019
	HK$'000	*HK$'000*
Mainland China	**480,275**	601,938
Hong Kong	**425,477**	546,218
Vietnam	**260,000**	286,170
Cambodia	**210,530**	221,286
Others	**20,218**	28,326
	1,396,500	1,683,938

3. OTHER NET (EXPENSES)/INCOME

	Six months ended 30 June	
	2020	2019
	HK$'000	*HK$'000*
Impairment of assets of e.dye Business *(note)*	**(73,833)**	—
Net exchange losses	**(1,176)**	(740)
Rental income	**735**	663
Gain/(loss) on disposal of property, plant and equipment, net	**4,155**	(3,050)
Gain on disposal and liquidation of subsidiaries, net	**—**	23,420
Others	**5,805**	(6,336)
	(64,314)	13,957

Note: e.dye Business possesses an innovative textile technology for waterless fabric dying. The outlook and pipeline orders of e.dye Business have been deteriorating since the global outbreak of COVID-19 in late March 2020. The crisis has changed the mindset of our major existing and potential customers. Given the uncertainties of global economy, they tend to use traditional water-dye and old fabrics to clear their inventories instead of using new technology fabrics in the near future. The expected revenue breakthrough became pessimistic.

As such, impairment losses have been recognised for e.dye Business for the six months ended 30 June 2020. Details are as follow:

	Note	*HK$'000*
Property, plant and equipment	(a)	12,984
Intangible assets — know-how	(a)	19,984
Trade and bills receivables	(b)	6,641
Other receivables	(b)	22,587
Inventories	(c)	11,637
		73,833

As at 30 June 2020, the Group's management assessed the impairment losses and provisions for e.dye Business as a separate group of cash generating unit by comparing its value in use and fair value less costs of disposal based on the following estimates:

(a) As e.dye Business will be divested and there was no identified alternative usage for the property, plant and equipment and intangible assets, the fair value of these assets less costs of disposal was assessed in determining the recoverable amounts.

(b) The amount of impairment loss of the trade and other receivables is measured as the difference between the carrying amount and the present value of estimated discounted future cash flows.

(c) The amount of provision for inventories are the estimated selling price with committed sales orders on hand less estimated costs of completion and selling expenses.

4. FINANCE COSTS — NET

	Six months ended 30 June	
	2020	2019
	HK$'000	*HK$'000*
Finance income		
— Interest income from bank deposits and receivables from a landlord	**767**	1,237
— Others	**278**	553
	1,045	1,790
Finance cost		
— Interest on bank borrowings	**(16,031)**	(12,252)
— Interest on lease liabilities	**(7,960)**	(9,844)
Less: interest expense capitalised	**—**	723
	(23,991)	(21,373)
	(22,946)	(19,583)

5. INCOME TAX EXPENSE

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

	Six months ended 30 June	
	2020	2019
	HK$'000	*HK$'000*
Current tax		
— Mainland China	**7,233**	38,705
— Hong Kong	**2,001**	1,936
— Overseas	**405**	914
— Under provision in prior years	**6**	523
Deferred tax	**(9,023)**	(15,101)
	622	26,977

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

Mainland China corporate income tax and Hong Kong profits tax have been provided at the rates of 25% (2019: 25%) and 16.5% (2019: 16.5%) on the estimated assessable profits respectively. Taxation on overseas profits has been calculated on the estimated assessable profits for the period at the applicable rates of taxation prevailing in the jurisdictions in which the Group operates.

6. (LOSS)/EARNINGS PER SHARE

	Six months ended 30 June	
	2020	2019
	'000	*'000*
Weighted average number of ordinary shares in issue	**1,284,400**	1,284,400
Adjustment for share option	**—**	71
Weighted average number of ordinary shares for diluted (loss)/earnings per share	**1,284,400**	1,284,471

	Six months ended 30 June	
	2020	2019
(Loss)/earnings per share *(HK cents)*		
Basic	**(12.9)**	2.2
Diluted	**(12.9)**	2.2

The calculation of basic (loss)/earnings per share is based on the consolidated (loss)/profit attributable to equity holders of the Company and on the weighted average number of ordinary shares in issue during the period.

The diluted (loss)/earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. Shares issuable under the share option schemes are the only dilutive potential ordinary shares. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options which have dilutive effect. The diluted loss per share for the six months ended 30 June 2020 is the same as the basic loss per share as the potential ordinary shares arising from the share options granted by the Company outstanding do not have dilutive effect.

7. DIVIDENDS

The Board does not recommend the payment of interim dividend for the six months ended 30 June 2020 (2019: interim dividend of HK1.0 cent per share, amounting to HK$12,844,000).

8. TRADE AND BILLS RECEIVABLE

	As at 30 June 2020 *HK$'000*	As at 31 December 2019 *HK$'000*
Trade receivables		
— from third parties	**528,272**	625,308
— from related parties	**6,621**	6,682
Bills receivable	**3,426**	7,145
	538,319	639,135
Less: impairment of trade receivables	**(8,212)**	(1,611)
Financial assets measured at amortised cost	**530,107**	637,524

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

	As at 30 June 2020 *HK$'000*	As at 31 December 2019 *HK$'000*
0–90 days	**517,284**	629,006
91–180 days	**9,390**	661
181–365 days	**3,849**	2,428
Over 365 days	**7,796**	7,040
	538,319	639,135

9. TRADE AND BILLS PAYABLE

	As at 30 June 2020 HK$'000	As at 31 December 2019 HK$'000
Trade payables		
— to third parties	**244,011**	245,503
— to related parties	**5,830**	6,340
Bills payable	**500**	405
Financial liabilities measured at amortised cost	**250,341**	252,248

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

	As at 30 June 2020 HK$'000	As at 31 December 2019 HK$'000
0–90 days	**221,227**	246,538
91–180 days	**26,063**	2,783
181–365 days	**498**	1
Over 365 days	**2,553**	2,926
	250,341	252,248

10. BORROWINGS

The interest-bearing bank borrowings are repayable as follows:

	As at 30 June 2020 HK$'000	As at 31 December 2019 HK$'000
Within 1 year or on demand	**951,132**	874,876
After 1 year but within 2 years	**51,424**	45,000
After 2 years but within 5 years	**90,008**	101,250
	141,432	146,250
	1,092,564	1,021,126

11. NON-ADJUSTING EVENT AFTER THE REPORTING PERIOD

The outlook and pipeline orders of e.dye Business have been deteriorating since the global outbreak of COVID-19 in late March 2020. The crisis has changed the mindset of our major existing and potential customers. Given the uncertainties of global economy, they tend to use traditional water-dye and old fabrics to clear their inventories instead of using new technology fabrics in the near future. The expected revenue breakthrough became pessimistic.

As part of the cost reduction initiatives, the Group has re-assessed its strategic investments and decided to divest e.dye Business after a comprehensive review. It is considered that e.dye Business, being a non-core business operation of the Group, has been underperforming for a number of years and the outlook is gloomy, hence triggering the Group's decision in discontinuing this investment in order to stop further losses and for better deployment of the Group's resources. There is a high urgency that the Group needs to stop the cash burn of e.dye Business immediately given we need to reserve cash resources for our other core businesses which will still face strong headwind in the near future.

We endeavored to search for investors to acquire the Group's equity interest of e.dye Business but all in vain. The investors have become more conservative and they are reluctant to invest in this innovative technology after the global outbreak of COVID-19. Without further funding from the Group, e.dye Business will go into bankrupt and the Group will be obliged to bear huge amount of compensation of staff, liquidation expenses as well as prolonged legal claims. It means the Group needs to spend further funding and time resources for the bankruptcy process with no return. Meanwhile, we have also discussed with one of other shareholders of e.dye Business, Mr. Yang Chou-Fu ("**Mr. Yang**"), and he was willing to take the risk to continue to fund and operate the business given that the Group gives up our equity interest to him. This is the only feasible option for us to stop our loss and cash burn immediately though it means a total impairment of our investment.

As such, subsequent to the end of the reporting period, the 51% equity interest of e.dye Business which represents all the interest held by the Group was sold to Mr. Yang at HK$1 and the shareholder's loan from the Group was waived upon disposal on 20 August 2020. The total impact of impairment and disposal loss to loss attributable to equity holders of the Company, which includes the impairment loss incurred for the six months ended 30 June 2020 amounting to HK$73.8 million, for the full year ending 31 December 2020 is estimated to be approximately HK$133.8 million. No adjustment has been made in this condensed interim financial information in this regard.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group is an integrated manufacturer, distributor and retailer for internationally renowned sports, fashion and outdoor brands. The financial performance of the Group for the six months ended 30 June 2020 is summarised below:

OVERALL REVIEW

Revenue of the Group amounted to HK$1,962.7 million for the six months ended 30 June 2020 (30 June 2019: HK$2,265.3 million), representing a decrease of 13.4%. The decrease was mainly attributable to drop in sales generated from High-end Fashion Retailing Business due to temporary closure of offline stores, drop in store traffic and dampened consumption sentiment amid the COVID-19 pandemic ("**COVID-19**").

Gross profit margin of the Group decreased to 22.2% in the current period (30 June 2019: 30.5%). The decrease in gross profit margin of 8.3 percentage points was mainly attributable to deterioration in gross profit of High-end Fashion Retailing Business due to higher retail discounts offered to motivate customer spending. As a result, gross profit of the Group decreased by HK$255.7 million to HK$435.9 million in the current period (30 June 2019: HK$691.6 million), 37.0% lower than that of the corresponding period of 2019.

Selling and distribution costs decreased by HK$42.8 million to HK$317.0 million (30 June 2019: HK$359.8 million), which was mainly attributable to the decrease in rental and operating expenses of High-end Fashion Retailing Business.

General and administrative expenses decreased by HK$19.2 million to HK$242.3 million (30 June 2019: HK$261.5 million), which was mainly attributable to the results of the Group's cost reduction initiatives.

During the period, a one-off non-cash impairment arising from divestment of e.dye Business amounting to HK$73.8 million was recorded as part of the Group's cost reduction initiatives. e.dye Business was subsequently disposed of on 20 August 2020 and there was no material disposal of subsidiary during the first six months of 2020. In the corresponding period of 2019, an amount of HK$23.4 million (before taxation) was recorded mainly arising from the disposal gain of a subsidiary in Mainland China.

Operating result recorded an operating loss of HK$187.7 million (30 June 2019: operating profit of HK$84.3 million). It was an overall result of decrease in revenue and gross profit due to COVID-19, mitigating by the reduction in operating costs and effect of one-off item mentioned above.

Net finance costs of the Group increased by HK$3.3 million to HK$22.9 million in the current period (30 June 2019: HK$19.6 million). The increase was mainly attributable to the increase in interest on bank borrowings by HK$3.7 million.

Overall, the Group recorded net loss of HK$210.9 million (30 June 2019: net profit of HK$37.5 million), which resulted in the Group recording loss attributable to equity holders of the Company in an amount of HK$166.3 million (30 June 2019: profit of HK$27.6 million).

After considering the highly uncertain market situation ahead, the Board considers to conserve our financial resources and does not recommend any payment of interim dividend for the six months ended 30 June 2020 (30 June 2019: HK1.0 cent per share).

BUSINESS REVIEW

The financial performances of the business segments are summarised below:

Manufacturing Business

The Manufacturing Business of the Group comprises "***Sportswear Manufacturing Business***" and "***High-end Functional Outerwear Manufacturing Business***".

Productions of the factories situated in Mainland China were required to be temporarily suspended due to lockdowns and other social distancing measures imposed following the COVID-19 in early 2020. The delivery of raw materials for production from certain suppliers in Southeast Asian countries has been delayed as affected by logistic impediment. Despite the production activities having resumed in late March 2020, the operating efficiencies of the Group's Sportswear Manufacturing Business and High-end Functional Outerwear Manufacturing Business were hindered in the first half of 2020.

Sportswear Manufacturing Business

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

Revenue from Sportswear Manufacturing Business decreased by HK$36.2 million to HK$1,237.0 million (30 June 2019: HK$1,273.2 million), representing a mild drop of 2.8%. The decrease was mainly due to the reduction of orders received from a major customer since May 2020 attributable to the global outbreak of COVID-19, in particular demand in the United States market was dropped significantly. It was mitigated by full period effect arising from revenue brought in by certain customers who were newly introduced to the Group in the second quarter of 2019.

An operating loss of HK$44.7 million was recorded for the six months ended 30 June 2020 (30 June 2019: operating profit of HK$24.7 million). The significant change was mainly due to the decrease in operating efficiencies as mentioned above and also due to the absence of a one-off disposal gain while the gain mainly arising from disposal of a subsidiary in Mainland China in an amount of HK$23.4 million (before taxation) was recorded in the first half of 2019.

High-end Functional Outerwear Manufacturing Business

Revenue from High-end Functional Outerwear Manufacturing Business increased by HK$11.9 million to HK$163.3 million (30 June 2019: HK$151.4 million), representing an increase of 7.9%, and its operating loss decreased to HK$10.0 million for the six months ended 30 June 2020 (30 June 2019: operating loss of HK$39.9 million). Sport Field Group, being a major revenue driver of High-end Functional Outerwear Manufacturing Business, has successfully developed its business with domestics customers in Mainland China which contributed to the growth in revenue. The improvement of this segment's operating results was driven by the continuous enhancement of cost control in our production lines in Mainland China and Vietnam.

High-end Fashion Retailing Business

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

Revenue from High-end Fashion Retailing Business decreased by HK$284.4 million to HK$542.5 million (30 June 2019: HK$826.9 million), representing a decrease of 34.4% which was mainly attributable to the temporary closure of offline stores, drop in store traffic and dampened consumption sentiment amid the COVID-19 starting from the first quarter of 2020. At the beginning of February 2020, 170 offline stores were temporarily closed in Mainland China. Revenue for the second quarter of 2020 has partially recovered in the Mainland China market after re-opening of the offline stores, gross profit margin of High-end Fashion Retailing Business deteriorated due to higher retail discounts offered to motivate customer spending in order to avoid inventory pile up and clear the aged items. In light of the potential adverse impact on the performance of the Hong Kong retail market as a result of COVID-19, impairment loss of HK$35.9 million was provided mainly for the retail store assets in Hong Kong. Although certain inventory provision made in prior years was reversed upon clearance sales of aged items together with reduction in rental and staff expenses of retail stores offset part of the impact, an operating loss of HK$40.7 million was recorded in the first half of 2020 (30 June 2019: operating profit of HK$123.6 million).

As at 30 June 2020, the total number of offline stores increased to 222 (30 June 2019: 209), of which 178 stores were in Mainland China, 34 stores were in Hong Kong and Macau, and 10 stores in Taiwan and Singapore.

e.dye Business

Revenue from e.dye Business increased by HK$6.1 million to HK$19.9 million (30 June 2019: HK$13.8 million). The increase was far behind our expectation. In particular, the outlook and pipeline orders of e.dye Business have been deteriorating since the global outbreak of COVID-19 in late March 2020. The crisis has changed the mindset of our major existing and potential customers. Given the uncertainties of global economy, they tend to use traditional water-dye and old fabrics to clear their inventories instead of using new technology fabrics in the near future. The expected revenue breakthrough became pessimistic.

As part of the cost reduction initiatives, the Group has re-assessed its strategic investments and decided to divest e.dye Business after a comprehensive review. It is considered that e.dye Business, being a non-core business operation of the Group, has been underperforming for a number of years and the outlook is gloomy, hence triggering the Group's decision in discontinuing this investment in order to stop further losses and for better deployment of the Group's resources. There is a high urgency that the Group needs to stop the cash burn of e.dye Business immediately given we need to reserve cash resources for our other core businesses which will still face strong headwind in the near future.

We endeavored to search for investors to acquire the Group's equity interest of e.dye Business but all in vain. The investors have become more conservative and they are reluctant to invest in this innovative technology after the global outbreak of COVID-19. Without further funding from the Group, e.dye Business will go into bankrupt and the Group will be obliged to bear huge amount of compensation of staff, liquidation expenses as well as prolonged legal claims. It means the Group needs to spend further funding and time resources for the bankruptcy process with no return. Meanwhile, we have also discussed with one of other shareholders of e.dye Business, Mr. Yang Chou-Fu and he was willing to take the risk to continue to fund and operate the business given that the Group gives up our equity interest to him. This is the only feasible option for us to stop our loss and cash burn immediately though it means a total impairment of our investment.

As such, a one-off non-cash impairment in a total amount of HK$73.8 million has been provided for on the assets of e.dye Business, resulting an operating loss of HK$92.3 million in the first half of 2020 (30 June 2019: operating loss of HK$24.1 million). Subsequent to 30 June 2020, e.dye Business has been disposed of and its shareholder's loan from the Group was waived upon disposal. Consequently, the total impact of impairment and disposal loss to loss attributable to equity holders of the Company, which includes the impairment loss incurred for the six months ended 30 June 2020 amounting to HK$73.8 million, for the full year ending 31 December 2020 is estimated to be approximately HK$133.8 million.

PROSPECTS

The unprecedented pandemic of COVID-19 that is raging worldwide has made the operating environment extremely difficult. Moreover, there are still huge uncertainties around how the COVID-19 may continue to impact the orders and sales for the Group, which will inevitably impact the Group's performance throughout the remainder of 2020. The Group has made all-out efforts to reduce costs to preserve working capital including but not limited to applications for government subsidies, social security exemption and reduction, negotiation with landlords for rental reductions, adjustment on factory operation mode and size of workforce, implementation of staff no pay leaves, as well as a 30% temporary salary reduction for all directors of the Company.

Manufacturing Business

Sportswear Manufacturing Business

Sportswear Manufacturing Business has been impacted by the global economic uncertainties and exacerbated by the outbreak of COVID-19 around the world. Nevertheless, we have secured our sales volume by our long-term well-established relationships with existing customers who have honored the orders already placed. As such, there was only a low single digit percentage drop of sales in the first half of 2020.

Since the global outbreak of COVID-19, many shopping malls and retail stores are closed, with areas in lockdown and implementation of social distance as part of the precautionary measurements. These conditions may last for several months and will continuously affect our business as a consequence of shrinking market demand for sportswear products. We anticipate that end consumers will be cautious and continue to hold off spending. In the retail market, inventory will be piled up due to low level of product sell-through, hence, sales orders from our customers will be inevitably reduced. Therefore, it is believed that the surge to the business will be hysteresis and the adverse impact will continue under the indeterminate sportswear market in the remainder of 2020. According to the latest forecasted orderings from our major customers, the Group estimates that Sportswear Manufacturing Business will record approximately 20% decrease in its full year revenue for 2020.

Under such uncertain market situation, we are more cautious on deployment of our resources by adjusting factory operation mode and hold up capital expenditure projects. However, we foresee that the cost saving from adjustment of operation mode may not be able to cover the loss of gross profit from the drop of revenue, therefore, the business segment will incur further loss in the second half of 2020. We will continue to suspend the development of our new factory in Vinh Long, Vietnam.

High-end Functional Outerwear Manufacturing Business

High-end Functional Outerwear Manufacturing Business has successfully developed its business with domestic customers in Mainland China through its main business driver, Sport Field Group which was acquired by the Group in 2018. The Mainland China market has recovered faster than other markets from the outbreak of COVID-19, and which we believe is favourable to this business segment. We will continue to improve our production efficiency and enhance cost control in our factory in Mainland China and production facilities in Vietnam in order to reach their optimal operation levels.

High-end Fashion Retailing Business

Mainland China will remain as the major market of our High-end Fashion Retailing Business. Our business in Mainland China was seriously affected by the spread of COVID-19 started from the beginning of 2020 but the situation has been gradually improved since mid-March 2020. Given that COVID-19 is continuously under control in Mainland China, we are cautiously optimistic on the recovery of our business in this market and we will resume our mild expansion plan of offline stores in Mainland China in the second half of 2020. COVID-19 has also accelerated the growth of e-commerce business as consumers are changing their shopping behaviour, which has resulted in more online transactions. The Group's same store sales of the online store of "Y-3" has achieved a remarkable increase by +122% in the second quarter of 2020, mainly contributed by our successful presence at the "618 Mid-year Mega Sale" campaign. As e-commerce is further booming as a result of COVID-19, the Group plans to introduce its first online multi-brand shop at Tmall platform of Alibaba Group in the second half of 2020. In terms of enhancing its brand portfolio, the Group is in the final stage of negotiations with certain international brands for introduction and development of business in Mainland China.

The impact arising from COVID-19 to our offline stores in Hong Kong, Macau and Singapore is severe and we estimate that the negative impact will carry on throughout the remainder of 2020 until reopening of the cities to tourists. As such, we have reduced purchase orders for 2020 winter products and put the establishment of new shops on hold. On the other hand, we will continue to increase promotional activities to stimulate customer spending but inevitably the profit margin would be impacted to a certain extent. In order to diminish the impact, we will continue to negotiate with landlords for rental reductions and revisit the profitability of some retail shops across the region. Subject to the outcome, certain retail shops would be closed down upon the expiry of leases.

The Group is considering a spin-off ("**Proposed Spin-off**") and separate listing of High-end Fashion Retailing Business on The Stock Exchange of Hong Kong Limited ("**Stock Exchange**"). It is believed that the Proposed Spin-off, if it proceeds, will better position each of the remaining business of the Group and the spin-off entity for growth in the respective businesses. At the date of this announcement, the Proposed Spin-off is still under consideration by the Stock Exchange.

FINANCIAL POSITION AND LIQUIDITY

The Group generally finances its operations with internally generated cashflow and banking facilities. 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 maintains a healthy liquidity position. Against the backdrop of the challenging business environment, the Group's financial and liquidity position remains stable. As at 30 June 2020, it has cash and bank balances amounting to HK$669.8 million (31 December 2019: HK$486.6 million). The net increase was mainly attributable to the cash generated from operating activities and bank borrowings, net with payments for investing activities.

As at 30 June 2020, the Group had bank borrowings amount to HK$1,092.6 million (31 December 2019: HK$1,021.1 million) which were on floating rates and unutilised banking facilities amounting to HK$498.1 million (31 December 2019: HK$493.4 million). The net gearing ratio, being total borrowings (including bank borrowings and loans from non-controlling interests of subsidiaries) less cash and bank balances divided by total equity, as at 30 June 2020, was 22.7% (31 December 2019: 25.5%).

FOREIGN CURRENCY EXPOSURE

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

The Group's revenue and purchases were primarily denominated in USD, Renminbi ("**RMB**") and HKD. During the period, approximately 58.1%, 35.5% and 4.4% of revenue were denominated in USD, RMB and HKD respectively, whereas approximately 82.6%, 11.4% and 3.7% of purchases were denominated in USD, RMB and HKD respectively.

As at 30 June 2020, approximately 54.5%, 30.2% and 13.2% of cash and bank balances were denominated in USD, RMB and HKD respectively, and approximately 48.8%, 42.8% and 8.3% of bank borrowings were denominated in HKD, USD and RMB respectively.

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

EMPLOYEE AND REMUNERATION POLICIES

As at 30 June 2020, the Group had approximately 20,000 employees (31 December 2019: approximately 21,000 employees). The Group remunerates employees based on their performance, working experience and prevailing market conditions. Other employee benefits include retirement benefits, insurance, medical coverage and share option schemes.

CHARGES ON THE GROUP'S ASSETS

As at 30 June 2020, bank deposits of HK$1.1 million (31 December 2019: HK$1.1 million) was pledged as security deposit at Custom Department for a subsidiary of the Group; and land and properties with carrying value of HK$57.5 million (31 December 2019: HK$59.2 million) was pledged to banks for certain banking facilities of the Group.

CONTINGENT LIABILITIES

The Group had no significant contingent liabilities, litigation or arbitration of material importance as at 30 June 2020.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the code of conduct regarding directors' securities transactions as set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**"). All Directors have confirmed that they have complied with the required standards as set out in the Model Code throughout the six months ended 30 June 2020.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2020.

DIVIDENDS

The Board does not recommend the payment of interim dividend for the six months ended 30 June 2020.

CORPORATE GOVERNANCE

The Company has applied the principles and complied with the code provisions in the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules throughout the six months ended 30 June 2020.

REVIEW OF FINANCIAL INFORMATION

The Audit Committee has discussed with the management of the Company the internal control and financial reporting matters related to the preparation of the unaudited condensed interim financial information for the six months ended 30 June 2020. It has also reviewed the unaudited condensed interim financial information for the six months ended 30 June 2020 with the management and the auditor of the Company and recommended them to the Board for approval.

The Company's auditor, PricewaterhouseCoopers, has also reviewed the unaudited condensed interim financial information for the six months ended 30 June 2020 in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

This results announcement is published on the websites of Hong Kong Exchanges and Clearing Limited (http://www.hkexnews.hk) and the Company (http://www.winhanverky.com). The interim report for the six months ended 30 June 2020 will be dispatched to the shareholders and will be available on the aforesaid websites in due course.

BOARD OF DIRECTORS

As at the date of this announcement, the Board comprises Mr. LI Kwok Tung Roy, Mr. LAI Ching Ping, Mr. LEE Kwok Leung and Mr. WONG Chi Keung being the executive directors, and Dr. CHAN Kwong Fai, Mr. MA Ka Chun, Mr. KWAN Kai Cheong and Mr. CHAN Ka Kui being the independent non-executive directors.

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

Hong Kong, 27 August 2020