Tristate Holdings Limited

(Incorporated in Bermuda with limited liability)

(Stock Code: 458)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2020

FINANCIAL SUMMARY OF 2020 INTERIM RESULTS

- Revenue of HK$892 million
- Loss attributable to equity shareholders of HK$136 million
- Loss per share of HK$0.50

INTERIM RESULTS

The board of directors (the "Board") of Tristate Holdings Limited (the "Company") presents the unaudited interim results of the Company and its subsidiaries (together, the "Group") for the six months ended 30 June 2020 together with comparative figures for 2019.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2020 – unaudited

		Six months ended 30 June	
		2020	2019
	Note	***HK$'000***	*HK$'000*
Revenue	4	**892,306**	1,304,391
Cost of sales		**(622,220)**	(939,625)
Gross profit		**270,086**	364,766
Other income and other gains	5	**4,233**	14,150
Selling and distribution expenses		**(178,822)**	(143,168)
General and administrative expenses		**(212,111)**	(244,005)
Loss from operations	6	**(116,614)**	(8,257)
Finance income	7	**356**	1,319
Finance costs	7	**(16,612)**	(16,527)
Loss before taxation		**(132,870)**	(23,465)
Income tax charge	8	**(2,704)**	(10,706)
Loss for the period		**(135,574)**	(34,171)
Attributable to:			
Equity shareholders of the Company		**(135,591)**	(35,028)
Non-controlling interests		**17**	857
Loss for the period		**(135,574)**	(34,171)
Loss per share attributable to equity shareholders of the Company:	9		
Basic		**(HK$0.50)**	(HK$0.13)
Diluted		**(HK$0.50)**	(HK$0.13)

CONDENSED CONSOLIDATED INTERIM 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 for the period	**(135,574)**	(34,171)
Other comprehensive income, net of nil tax unless specified:		
Items that may be reclassified subsequently to profit or loss		
Fair value changes on cash flow hedges		
– (Losses)/gains arising during the period	**(1,832)**	1,078
– Transferred to and included in the following line items in the condensed consolidated interim statement of profit or loss		
– Cost of sales	**2,761**	1,853
– General and administrative expenses	**(299)**	324
Exchange difference on translation of financial statements of overseas subsidiaries	**(16,838)**	7,369
Other comprehensive income for the period	**(16,208)**	10,624
Total comprehensive income for the period	**(151,782)**	(23,547)
Attributable to:		
Equity shareholders of the Company	**(151,799)**	(24,404)
Non-controlling interests	**17**	857
Total comprehensive income for the period	**(151,782)**	(23,547)

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION

As at 30 June 2020 – unaudited

	Note	**At 30 June 2020** ***HK$'000***	At 31 December 2019 *HK$'000*
Non-current Assets			
Property, plant and equipment		**621,371**	652,354
Intangible assets		**439,661**	455,674
Other long-term assets		**23,657**	27,223
Deferred tax assets		**3,450**	3,490
Defined benefit plan assets		**8,695**	8,704
Forward foreign exchange contracts		**53**	3
Interest in an associate		**–**	–
		1,096,887	1,147,448
Current Assets			
Inventories		**509,933**	413,974
Accounts receivable and bills receivable	11	**240,167**	352,705
Forward foreign exchange contracts		**1,210**	516
Prepayments and other receivables		**68,988**	76,546
Current tax recoverable		**135**	107
Cash and bank balances		**223,501**	285,363
		1,043,934	1,129,211
Current Liabilities			
Accounts payable and bills payable	12	**215,707**	179,110
Accruals and other payables and contract liabilities		**273,127**	269,277
Lease liabilities		**86,641**	70,286
Forward foreign exchange contracts		**8,018**	7,344
Current tax liabilities		**21,987**	34,347
Bank borrowings		**56,196**	64,540
		661,676	624,904
Net Current Assets		**382,258**	504,307
Total Assets Less Current Liabilities		**1,479,145**	1,651,755
Non-Current Liabilities			
Retirement benefits and other post retirement obligations		**39,887**	43,677
Licence fees payable		**289,453**	301,704
Lease liabilities		**134,832**	144,597
Deferred tax liabilities		**24,509**	23,512
Forward foreign exchange contracts		**1,101**	1,661
Bank borrowings		**4,073**	–
		493,855	515,151
Net Assets		**985,290**	1,136,604
Capital and Reserves			
Share capital		**27,161**	27,161
Reserves		**958,546**	1,109,877
Total equity attributable to equity shareholders of the Company		**985,707**	1,137,038
Non-controlling interests		**(417)**	(434)
Total Equity		**985,290**	1,136,604

Notes:

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

These interim financial statements have been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), including compliance with Hong Kong Accounting Standard ("HKAS") 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The interim financial statements have been prepared in accordance with the same accounting policies adopted in the 2019 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2020 annual financial statements. Details of any changes in accounting policies are set out in Note 2.

These interim financial statements contain condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2019 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

The financial information relating to the financial year ended 31 December 2019 that is included in the interim financial statements as comparative information does not constitute the Company's statutory annual consolidated financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2019 are available from the Company's head office and principal place of business in Hong Kong. The auditors have expressed an unqualified opinion on those financial statements in their report dated 31 March 2020.

2. Changes in Accounting Policies

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

- Amendments to HKFRS 3, *Definition of a Business*
- Amendment to HKFRS 16, *Covid-19-Related Rent Concessions*

The amendments to HKFRS 3 do not have a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented.

Other than the amendment to HKFRS 16, the Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

2. Changes in Accounting Policies (Continued)

Amendment to HKFRS 16, Covid-19-Related Rent Concessions

The amendment provides a practical expedient that allows a lessee to by-pass the need to evaluate whether certain qualifying rent concessions occurring as a direct consequence of the COVID-19 pandemic ("COVID-19-related rent concessions") are lease modifications and, instead, account for those rent concessions as if they were not lease modifications.

The Group has elected to early adopt the amendment and applies the practical expedient to all qualifying COVID-19-related rent concessions granted to the Group during the interim reporting period. Consequently, rent concessions received have been accounted for as negative variable lease payments recognised in profit or loss in the period in which the event or condition that triggers those payments occurred. There is no impact on the opening balance of equity at 1 January 2020.

3. Estimates

The preparation of the interim financial statements in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities, income and expense on a year to date basis. Actual results may differ from these estimates.

4. Segment Information

Reportable segments are reported in the 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 performance of the reportable segments and allocate resources between segments based on the measure of profit or loss generated. This measurement basis is equivalent to profit or loss for the period of that reportable segment.

4. **Segment Information (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:

	Six months ended 30 June							
	Garment manufacturing		Brands business		Unallocated		Total	
	2020	2019	**2020**	2019	**2020**	2019	**2020**	2019
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Reportable segment revenue	**611,296**	995,308	**295,228**	310,929	**–**	–	**906,524**	1,306,237
Less: Inter-segment revenue	**(14,218)**	(1,846)	**–**	–	**–**	–	**(14,218)**	(1,846)
Revenue	**597,078**	993,462	**295,228**	310,929	**–**	–	**892,306**	1,304,391
Reportable segment EBITDA *(Note (i))*	**15,539**	62,523	**(31,854)**	(22,387)	**559**	22,176	**(15,756)**	62,312
Finance income	**–**	–	**–**	–	**356**	1,319	**356**	1,319
Finance costs								
– Interest on bank borrowings	**–**	–	**–**	–	**(1,570)**	(1,626)	**(1,570)**	(1,626)
– Interest on licence fees payable	**–**	–	**(10,616)**	(10,671)	**–**	–	**(10,616)**	(10,671)
– Interest on lease liabilities	**(1,496)**	(1,566)	**(2,741)**	(2,044)	**(186)**	(265)	**(4,423)**	(3,875)
– Others	**–**	–	**(3)**	–	**–**	(355)	**(3)**	(355)
Depreciation charge								
– Owned property, plant and equipment	**(13,318)**	(14,518)	**(18,747)**	(6,397)	**(6,075)**	(6,819)	**(38,140)**	(27,734)
– Right-of-use assets	**(3,587)**	(3,105)	**(37,404)**	(19,067)	**(5,901)**	(4,837)	**(46,892)**	(27,009)
Amortisation of intangible assets								
– Licence rights	**–**	–	**(15,792)**	(15,792)	**–**	–	**(15,792)**	(15,792)
– Other intangible assets	**–**	–	**(34)**	(34)	**–**	–	**(34)**	(34)
Reportable segment (loss)/ profit before taxation	**(2,862)**	43,334	**(117,191)**	(76,392)	**(12,817)**	9,593	**(132,870)**	(23,465)
Income tax credit/(charge)	**442**	(5,178)	**(1,365)**	(4,623)	**(1,781)**	(905)	**(2,704)**	(10,706)
Reportable segment profit/ (loss) for the period	**(2,420)**	38,156	**(118,556)**	(81,015)	**(14,598)**	8,688	**(135,574)**	(34,171)

4. Segment Information (Continued)

	Garment manufacturing		Brands business		Unallocated *(Note (ii))*		Total	
	At 30 June 2020	At 31 December 2019	**At 30 June 2020**	At 31 December 2019	**At 30 June 2020**	At 31 December 2019	**At 30 June 2020**	At 31 December 2019
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Reportable segment assets	**746,619**	799,821	**1,056,177**	1,064,468	**338,025**	412,370	**2,140,821**	2,276,659
Reportable segment liabilities	**370,896**	366,291	**716,978**	698,758	**67,657**	75,006	**1,155,531**	1,140,055

	Six months ended 30 June							
	Garment manufacturing		Brands business		Unallocated		Total	
	2020	2019	**2020**	2019	**2020**	2019	**2020**	2019
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Provision for impairment of receivables, net	**(1,636)**	(46)	**(1,504)**	(1,531)	**–**	–	**(3,140)**	(1,577)
(Write-down)/reversal of write-down of inventories to net realisable value, net	**(13,768)**	(1,011)	**(9,265)**	6,052	**–**	–	**(23,033)**	5,041
Net gain/(loss) on disposals of property, plant and equipment	**55**	(54)	**(896)**	–	**–**	–	**(841)**	(54)
Net gain on disposal of a subsidiary	**–**	–	**–**	–	**–**	10,914	**–**	10,914
Additions to property, plant and equipment	**2,248**	11,165	**68,292**	69,417	**1,091**	17,309	**71,631**	97,891

Notes:

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

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

4. Segment Information (Continued)

The Group's revenue is mainly derived from customers located in the People's Republic of China (the "PRC"), the United States of America (the "US"), the United Kingdom (the "UK") and Canada, while the Group's production facilities, trademark and other assets are located predominantly in the PRC, Luxembourg and Thailand. The PRC includes the Mainland China, Hong Kong and Macau. 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:

	Six months ended 30 June													
	US		UK		PRC		Canada		Singapore		Other countries		Total	
	2020	2019	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2019
	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	**80,076**	242,495	**212,672**	347,343	**186,989**	203,110	**106,449**	180,713	**93,342**	53,148	**212,778**	277,582	**892,306**	1,304,391

Included in revenue derived from the PRC was HK$70,563,000 (2019: HK$105,298,000) related to revenue generated in Hong Kong.

For the six months ended 30 June 2020, revenues from two (2019: three) customers in the garment manufacturing segment each accounted for more than 10% of the Group's total revenue and they represented approximately 16% and 11% (2019: 15%, 14% and 11%) of the total revenue respectively.

	PRC		Luxembourg		Thailand		Other countries		Total	
	At 30 June 2020	At 31 December 2019	**At 30 June 2020**	At 31 December 2019	**At 30 June 2020**	At 31 December 2019	**At 30 June 2020**	At 31 December 2019	**At 30 June 2020**	At 31 December 2019
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Non-current assets *(Note)*	**697,517**	734,887	**171,157**	171,344	**73,292**	75,116	**142,723**	153,904	**1,084,689**	1,135,251

Included in non-current assets located in the PRC was HK$304,927,000 (2019: HK$312,934,000) related to assets located in Hong Kong.

Note: Non-current assets exclude forward foreign exchange contracts, deferred tax assets and defined benefit plan assets.

5. Other Income and Other Gains

	Six months ended 30 June	
	2020	2019
	HK$'000	*HK$'000*
Government subsidy *(Note (i))*	**3,227**	763
Net gain on disposal of a subsidiary *(Note (ii))*	**–**	10,914
Sundry income	**1,006**	2,473
	4,233	14,150

Notes:

(i) The Group received HK$3,227,000 (2019: HK$763,000) government subsidies from PRC and Hong Kong government during the current period, of which HK$1,862,000 representing funding support for the current period from the Employment Support Scheme under the Anti-epidemic Fund, set up by the Hong Kong Government.

(ii) During the six months ended 30 June 2019, the Group disposed of a wholly-owned subsidiary incorporated in the Philippines, with a net gain of HK$10,914,000. Out of the total consideration of HK$16,725,000, a retention money of HK$1,520,000 will be received by the Group in 2024 while the rest of the consideration has been received in 2019. The subsidiary was the owner of a parcel of land and certain factory buildings in the Philippines, and had been inactive in early years.

6. Loss from Operations

Loss from operations is arrived at after charging/(crediting):

	Six months ended 30 June	
	2020	2019
	HK$'000	*HK$'000*
Amortisation of intangible assets	**15,826**	15,826
Depreciation charge		
– Owned property, plant and equipment	**38,140**	27,734
– Right-of-use assets	**46,892**	27,009
Expenses related to short-term lease and variable lease payments	**14,013**	15,037
Provision for impairment of receivables, net	**3,140**	1,577
Provision for/(reversal of) write-down of inventories to net realisable value, net	**23,033**	(5,041)
Employment benefit expenses	**313,697**	366,030
Net loss on disposals of property, plant and equipment	**841**	54

7. Finance Income/Finance Costs

	Six months ended 30 June	
	2020	2019
	HK$'000	*HK$'000*
Finance income		
Interest income from bank deposits	**356**	1,319
Finance costs		
Interest on bank borrowings	**1,570**	1,626
Interest on licence fees payable	**10,616**	10,671
Interest on lease liabilities	**4,423**	3,875
Others	**3**	355
	16,612	16,527

8. Income Tax Charge

	Six months ended 30 June	
	2020	2019
	HK$'000	*HK$'000*
Current income tax *(Note)*		
Hong Kong profits tax	**(49)**	(7,181)
Non-Hong Kong tax	**(1,555)**	(3,879)
Under-provision for prior year	**(41)**	(131)
Deferred income tax	**(1,059)**	485
	(2,704)	(10,706)

Note:

The provision for Hong Kong Profits Tax is calculated by applying the estimated annual effective tax rate of 16.5% (2019: 16.5%) to the six months ended 30 June 2020.

Taxation for overseas subsidiaries is similarly calculated using the estimated annual effective rates of taxation that are expected to be applicable in the relevant countries.

9. Loss Per Share

Basic loss per share is calculated by dividing the consolidated loss attributable to equity shareholders of the Company of HK$135,591,000 (2019: HK$35,028,000) by the weighted average number of 271,607,253 (2019: 271,607,253) ordinary shares in issue for the half year.

Diluted loss 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 six months ended 30 June 2020 and 30 June 2019, the conversion of all potential ordinary shares outstanding would have an anti-dilutive effect on the loss per share. Hence, there was no dilutive effect on calculation of the diluted loss per share for the six months ended 30 June 2020 and 30 June 2019.

10. Interim Dividend

The Board has resolved not to declare an interim dividend for the six months ended 30 June 2020 (2019: Nil).

11. Accounts Receivable and Bills Receivable

The ageing of accounts receivable and bills receivable, based on the invoice date, is as follows:

	At 30 June 2020	At 31 December 2019
	HK$'000	*HK$'000*
Less than 3 months	**224,170**	342,757
3 months to 6 months	**16,804**	9,948
Over 6 months	**9,072**	7,199
	250,046	359,904
Less: Provision for impairment	**(9,879)**	(7,199)
	240,167	352,705

The majority of accounts receivable are with customers having an appropriate credit history and are on open account with customers. The Group grants its customers credit terms mainly ranging from 60 to 90 days.

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

12. Accounts Payable and Bills Payable

The ageing of accounts payable and bills payable, based on invoice date, is as follows:

	At 30 June 2020	At 31 December 2019
	HK$'000	*HK$'000*
Less than 3 months	**194,132**	167,484
3 months to 6 months	**8,803**	2,372
Over 6 months	**12,772**	9,254
	215,707	179,110

The majority of payment terms with suppliers are within 60 days.

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

13. Capital Commitments

	At 30 June 2020	At 31 December 2019
	HK$'000	*HK$'000*
Authorised but not contracted for	**4,578**	15,324

The Group was committed at 30 June 2020 to enter into certain leases with lease periods from 1 to 3 years (31 December 2019: a lease of 4 years) that are not yet commenced, the total future lease payments under which amounted to HK$4,578,000 (31 December 2019: HK$15,324,000).

In this Management Discussion and Analysis, we present the business review and a discussion on the financial performance of the Group for the six months ended 30 June 2020.

Overview

For the six months ended 30 June 2020, the Group recorded a loss attributable to equity shareholders of HK$136 million as compared with the loss of HK$35 million for the corresponding period of last year. As mentioned in the Group's 2019 annual results announcement issued in March 2020, the outbreak of COVID-19 pandemic ("COVID-19") has affected the Group's business and our first half financial performance reflects the unprecedented COVID-19 related impacts as follows:

– Decline in revenue and the performance for our garment manufacturing business due to postponement and reduction of orders in the first half of 2020 by our customers in major countries following the lockdown of their business operations caused by the pandemic; and

– Increase in losses for our brands business due to COVID-19 related store closures and battered consumer sentiment which have impacted our licensed brands (Nautica and Spyder) in China as well as shipment deferred for our own brand C.P. Company in Europe.

Own Brands

In Europe, temporary store closures and declines in tourism due to COVID-19 brought unprecedented challenges to the fashion industry. C.P. Company had relatively less impact as almost all its Spring/Summer 2020 products were shipped before major European countries lockdown during the first half of 2020. COVID-19 has caused shipment deferral of the brand's Fall/Winter 2020 products into the second half year and this has led to revenue drop as compared with the last year. In the first half of 2020, wholesale business in the UK and Italy remained the largest contributors of the C.P. Company revenue. To complement the wholesale business, following our Milan flagship store and Italy outlet opened in 2019, our Amsterdam store was opened in July this year. While we expect C.P. Company continue to have a year-on-year revenue growth for the full year 2020, we have adjusted our Fall/Winter 2020 purchases and reduced advertising costs in responding to the pandemic.

The pandemic changes shopping behavior and further fosters the growth of e-commerce, omnichannel retail environment and digital oriented marketing. C.P. Company has migrated to its new e-commerce platform and there are strong growth opportunities. We have also started digitalisation of our wholesale channel that will allow us to have deeper understanding of our customers, enable us to devise successful sales strategy and enhance long term relationship with customers. In addition to marketing digitally, our marketing campaign "#EyesOnTheCity" continued to develop lifestyle communication featuring the brand's ambassadors around the world and their own unique vision on the city and the urban environment.

Our unique French concept premium ladies wear Cissonne continued to gradually expand through direct retailing in China major cities. The brand has now six stores located in Shanghai Kerry Centre, Shanghai Grand Gateway 66, The Malls at Oriental Plaza, Beijing China World Trade Center, Nanjing Deji Plaza and Shanghai Zhenning Road respectively.

Licensed Brands

COVID-19 has impacted the performance of our licensed brands in China, especially during the respective early redevelopment and development stages for the Nautica and Spyder businesses. Our stores in China were temporarily closed in late January and all of February 2020. With stores resumed operation and footfall recovering gradually, the overall retail market in the first half of 2020 remained weak. While comparable store sales were lower than 2019 due to COVID-19, the two licensed brands recorded revenue increase comparing with the first half 2019 as more Nautica Point of Sales ("POS") were opened and Spyder recorded a full half year revenue following its launch in second half 2019. Despite revenue increases, the two brands reported increases in net losses for the first six months of 2020 due to more shop expenses and commissions to retail partners.

For Nautica, the Group has taken measures to negotiate rental concessions, rearrange purchase orders, delay new store openings and material investments while strengthening cost control. There were positive trends during post lockdown periods for the brand. As of 30 June 2020, Nautica had 73 direct retail stores run by the Group and another 53 POS operated by partners (30 June 2019: 51 POS in total). Spyder was officially launched in China in November 2019. Throughout our first selling season Fall/Winter 2019, we saw good momentum and retail sales were encouraging especially for a new brand. COVID-19 has hit Spyder hard and set back our development pace. In response to the challenges, we have reduced new store openings and inventory purchases and cut administrative expenses. We are keeping the momentum going as much as possible with select, strategic new store openings, an active social media presence, member recruitment and innovative design efforts for our various product categories. As of 30 June 2020, Spyder had 36 POS across China.

Garment Manufacturing

The global COVID-19 outbreak has significantly hit major economies and the business of our garment manufacturing customers with temporary lockdown of their operations. Customers had reduced or cancelled orders in view of weak consumer confidence and uncertain retail environment. This has led to a decline in revenue of our garment manufacturing business by 40% in the first half of 2020 as compared to last year. We have ongoing communications with our customers and suppliers and closely monitor the situation. Certain customers have asked for lengthening payment terms. To safeguard our financial position, we have negotiated with suppliers to extend payment terms and sell receivables under customer's supplier financing programs.

Our China and Thailand factories are serving our "premium business" for fashion and complicated outerwear products. The China factories have resumed operation from late February 2020 after weeks of shut down. Amid the pandemic, management implemented measures to ensure the health and safety of our people and at the same time actively took initiatives to lower capacity and factory operating costs. The Group also received subsidies and stimulus from local governments to increase market confidence and drive economy including social security concessions from the China government.

Our Philippines, Vietnam and Myanmar factories allow us to stay competitive in cost to support our "better business" for better tailoring products. Our Philippines factory was most hit among our factories due to longer lock down and order reduction from customers. The factory has arranged mandatory leave and reduced capacity to control costs. Our other Southeast Asian factories have been relatively resilient.

Financial Highlight

	Note	**First half 2020**	First half 2019
Operating results (HK$ million)			
Revenue		**892**	1,304
Gross profit		**270**	365
EBITDA		**(16)**	62
Depreciation on right-of-use asset	2	**(47)**	(27)
Interest on lease liabilities	2	**(4)**	(4)
Amortisation of licence right	1	**(16)**	(16)
Interest on licence fees payable	1	**(11)**	(11)
Depreciation on owned property, plant and equipment		**(38)**	(28)
Loss attributable to equity shareholders		**(136)**	(35)
Segment results (HK$ million)			
Garment manufacturing EBITDA		**16**	63
Depreciation on right-of-use asset	2	**(4)**	(3)
Interest on lease liabilities	2	**(1)**	(2)
Depreciation on owned property, plant and equipment		**(13)**	(15)
Garment manufacturing results after tax		**(2)**	38
Brands business EBITDA		**(32)**	(22)
Depreciation on right-of-use asset	2	**(37)**	(19)
Interest on lease liabilities	2	**(3)**	(2)
Amortisation of licence right	1	**(16)**	(16)
Interest on licence fees payable	1	**(11)**	(11)
Depreciation on owned property, plant and equipment		**(19)**	(6)
Brands business results after tax		**(119)**	(81)
Cash flow (HK$ million)			
Cash generated from/(used in) operations		**14**	(150)
Cash (used in)/generated from investing activities		**(24)**	9
Financing activities for lease payments	2	**(39)**	(25)

	At 30 June 2020	At 31 December 2019
Financial position (HK$ million)		
Cash and bank balances	**224**	285
Bank borrowings	**60**	65
Total equity	**985**	1,137

Notes:

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

2. Upon adoption of HKFRS 16 from 1 January 2019, the Group as a lessee is required to recognise interest expense accrued on the outstanding balance of the lease liability and the depreciation on the right-of-use asset, instead of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. In the cash flow statement, the Group as a lessee is required to classified rentals paid under the capitalised leases as financing cash outflows.

Financial Review

Revenue

Total revenue of the Group for the first half of 2020 was HK$892 million (2019: HK$1,304 million), representing a decrease of 32% as compared with 2019.

Revenue from brands business was HK$295 million in the first half of 2020, as compared with HK$311 million in 2019. C.P. Company revenue decreased by 12% as compared with same period last year mainly due to Fall/Winter 2020 wholesale shipment deferred to the second half year. Such drop was partially offset by the increase in revenue of our licensed business in China. Despite comparable store sales were lower than 2019 due to COVID-19, the two licensed brands recorded revenue increase as more Nautica stores were opened and Spyder recorded a full half year revenue following its launch in second half 2019.

Revenue from the garment manufacturing segment was HK$597 million, as compared with HK$993 million in 2019. Revenue from premium business, which accounted for 71% (2019: 66%) of the segment revenue, decreased by 35% as compared with last year. Revenue from better business also decreased by 46%. Revenue drop was due to postponement and reduction of orders by our customers following the lockdown of their business operations caused by COVID-19.

Geographically, major markets of the Group are the UK, the US and Canada, and the People's Republic of China, which accounted for 24% (2019: 27%), 21% (2019: 32%) and 21% (2019: 16%) of the Group's total revenue respectively. The change was mainly due to the decrease in revenue of our garment manufacturing business.

Despite COVID-19 impact, the Group's business continues to be skewed towards the second half year mainly due to the seasonality effect in terms of higher quantity and unit selling price for Fall/Winter and holiday seasons shipment for both our garment manufacturing (in particular premium outerwear products) and brands business. The Group expects that the pattern of a larger proportion of sales record in the second half year will continue.

Gross Profit

During the period, the Group's overall gross profit recorded at HK$270 million (2019: HK$365 million), representing a gross profit margin of 30.3% (2019: 28.0%). The decrease in gross profit was mainly attributable to decreased turnover from garment manufacturing business. Gross profit margin of the garment manufacturing business decreased comparing with the previous year mainly due to revenue drop and more inventory provision made during the period. The Group's overall gross profit margin increased in 2020 due to the rise in revenue proportion of brands business which has an overall higher margin.

Selling and Distribution Expenses

Selling and distribution expenses comprise mainly advertising and promotion, agency commission, shop and sample expenses. Selling and distribution expenses increased as compared to 2019 mainly due to increase in Nautica and Spyder shop expenses and commissions paid to retail partners as more retail stores opened comparing with the corresponding period in 2019. This was partially offset by the reduced selling expenses of our garment manufacturing business.

General and Administrative Expenses

General and administrative expenses decreased as compared with 2019 mainly due to reductions in travelling and employee retirement costs; exchange gains and cost control implemented by the Group.

Segment Results

Increase in segment loss of brands business in the first half of 2020 mainly due COVID-19's impact to our licensed brands in China, especially in the early redevelopment and development stages for the Nautica and Spyder businesses, and the deferred Fall/Winter 2020 shipment for C.P. Company.

Garment manufacturing business recorded marginal loss mainly due to COVID-19 related revenue drop from customers during the period.

Financial Resources and Liquidity

As at 30 June 2020, cash and bank balances amounted to HK$224 million (31 December 2019: HK$285 million) which mainly represented United States dollars ("US dollars") and Renminbi bank deposits and balances. In the first half of 2020, the Group used less cash as compared with first half of 2019 as there was a comparatively less working capital requirement during this reporting period.

The Group maintained sufficient banking facilities to support its business. At 30 June 2020, the Group had short-term bank borrowings of HK$56 million and a 5 years zero interest Swiss Franc COVID-19 bridging loan of HK$4 million borrowed by our subsidiary in Switzerland (31 December 2019: short-term loan of HK$65 million). Short-term bank borrowings were mainly denominated in Renminbi and US dollars and bearing interest at fixed rates. As at 30 June 2020, bank deposits of HK$42 million (31 December 2019: HK$34 million) were pledged to secure bank guarantee facilities granted to the Group. Gearing ratio of the Group is calculated as net borrowings divided by total capital. Net borrowings are calculated as total bank borrowings less cash and bank balances, while total capital comprised total equity plus net borrowings. The Group did not have net borrowings as at 30 June 2020 and 31 December 2019, and accordingly, no information on gearing ratio as at that dates is provided.

Shareholders' equity at 30 June 2020 decreased mainly due to loss attributable to equity shareholders for the current period, and the negative exchange difference on translating the financial statements of overseas subsidiaries, mainly from the depreciation of Renminbi and Thai Baht during the period.

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 six months ended 30 June 2020, the Group had forward foreign exchange contracts to hedge against the foreign exchange exposures arising from US dollars denominated processing income for factories in China and Pound Sterling sales receipts of a European subsidiary.

Contingent Liabilities and Capital Commitments

Apart from the capital commitment as disclosed in Note 13 in this announcement, there was no other material capital commitments or contingent liabilities as at 30 June 2020.

Human Resources

The Group had about 8,790 employees as at 30 June 2020 (31 December 2019: 9,650). Fair and competitive remuneration packages and benefits are offered to employees. Those employees with outstanding performance are also awarded with discretionary bonuses and share options.

Outlook

Our own global brand C.P. Company has a sound business foundation. The brand has year-on-year double-digit growth in revenue and the momentum for the brand is very positive since acquisition. The brand is well placed to return to strong upward momentum when the COVID-19 situation normalises. We expect C.P. Company continue to have a year-on-year revenue growth in the financial year 2020. The brand will expand collections to drive revenue while keeping a premium position. We will continue to focus on existing key and growing wholesale markets (Italy, the UK, South Korea, France, Germany and Benelux), and will further expand into other countries in Europe as well as the North and South American and Asian markets. The brand plans to open more direct retail stores at suitable locations. 2021 marks the 50th anniversary of C.P. Company and we will celebrate with a series of activities in different cities.

Our licensed brands business in China is hopeful to see retail sales improvement by the fourth quarter of 2020. For Nautica, we continue to see positive trends during post lockdown periods. We have established a clear path for the brand in terms of distribution channel mix and scale within each channel, key retail metrics and business model. We see enthusiastic investment from our retail partners and positive recognition from key landlords as we have delivered against various initiatives, such as dual gender Black Sail concept; design, quality, and fit across differentiated product lines; in-store environment and services; pricing and discount control across channels, etc. We continue to invest in the brand's e-commerce and omnichannel business via its official mobile site and expanding presence on China's major online platforms such as TMall and JD.

Spyder's introduction to China has been well-received. Amid COVID-19 challenges, we have been keeping the momentum going with strategic store openings and innovative design for various product categories. The huge China sports apparel market is expected to be a growing segment through the crisis. The fourth quarter of 2020 and the Chinese New Year period of 2021 will be critical to gauge the traction regained. We will maintain flexibility by keeping our working capital lean and ramp up when traction at retail is secured. We expect the fourth quarter 2020 retail sales will pick up as new key stores will have been opened, and a growing member database and strong product pipeline work to support the business.

Same as the last year, revenue of our garment manufacturing business in the second half this year will be better than the first half, but the full year revenue in 2020 will be lower than that of last year. We will continue to take initiatives to lower capacity and factory operating costs in order to maintain flexibility when market recovers. It is encouraging that among the major economies that significantly suffered by COVID-19 and led to demand shrinkage to our garment manufacturing business, both EU and China and especially China are recovering from the pandemic. Our diversified production base, unique production system together with flexible and adaptive supply chain enable us to work closely with our premium brands customers to respond to the recovering market needs.

The Group's 2020 second half and full year financial performance will continue to be affected by the COVID-19 pandemic. We will use our best effort to contain its impact to our operation and financial performance. We believe our garment manufacturing business and C.P. Company brand business have sound and solid foundation to see through the challenge. With the Group's net cash position (cash and bank balances less bank borrowings) of over HK$160 million as of 30 June 2020 and available bank credit facilities, we are confident that we are able to weather through the pandemic crisis and will return our business to growth and sustainability when major economies recover.

CORPORATE GOVERNANCE CODE

During the six months ended 30 June 2020, the Company has complied with all the code provisions set out in the Corporate Governance Code contained in Appendix 14 of the Listing Rules, except for the deviation from code provisions A.2.1 and A.5 as explained below:

– Code provision A.2.1 stipulates that the roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same individual.

– Code provision A.5 stipulates that every listed company should establish a nomination committee.

Considered reasons for the deviation from code provisions A.2.1 and A.5 were set out in the Corporate Governance Report of the Company's Annual Report for the year ended 31 December 2019.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the six months ended 30 June 2020, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's shares.

INTERIM DIVIDEND

The Board has resolved not to declare an interim dividend for the six months ended 30 June 2020 (2019: Nil).

AUDIT COMMITTEE'S REVIEW OF FINANCIAL STATEMENTS

The Audit Committee has reviewed the unaudited Condensed Consolidated Interim Financial Statements and the Interim Report of the Group for the six months ended 30 June 2020 in conjunction with the management of the Group.

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

Hong Kong, 31 August 2020

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