GLOBAL BRANDS GROUP

Global Brands Group Holding Limited

(Incorporated in Bermuda with limited liability)
(Stock Code: 787)

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This announcement is made by Global Brands Group Holding Limited (the "**Company**", together with its subsidiaries, the "**Group**") pursuant to Rule 13.09(2)(a) of the Rules (the "**Listing Rules**") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") and the Inside Information Provisions (as defined under the Listing Rules) under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "**SFO**").

CERTAIN UNAUDITED OPERATING RESULTS FOR THE YEAR ENDED 31 MARCH 2021

Since the announcement dated 30 June 2021 from the board of directors (the "**Board**") of the Company, which disclosed, among other matters, the delay in publication of preliminary results in respect of the audited annual results of the Group for the year ended 31 March 2021, the Board has continued to engage with the Group's auditors to prepare such results.

In the meantime, the Company wishes to provide shareholders and the market with certain unaudited operating results based on the unaudited consolidated management accounts for the year ended 31 March 2021 and information currently available to the Board.

The ongoing COVID-19 pandemic and geopolitical uncertainties, as well as structural shifts in the retail industry, continue to impact the Group's business, particularly for its North America wholesale operations, and inhibit initiatives to address its deteriorating financial position.

(US$ million)	**Year end 31 March** **2021 (Unaudited)**	2020 (Audited)	**Change** (US$ million)	(%)
Revenue	**725**	1,082	(357)	-33.0
Total Margin	**243**	396	(153)	-38.7
As % of Revenue	***33.5%***	*36.6%*		
Operating Cost	**465**	492	(26)	-5.3
Operating Loss Before Other Gains / (Losses), and impairment of goodwill	**(222)**	(96)	(126)	-131.3

The Group's business consists of three segments, operating under distinct legal entities:

(a) the product wholesale business under North America operated by GBG USA Inc. (a wholly owned subsidiary of the Company) ("**GBG USA**");

(b) the product wholesale business under Europe; and

(c) the brand management business globally.

A breakdown of these three segments for the financial year ended 31 March 2021 is as follows:

North America

(US$ million)	**Year end 31 March** **2021 (Unaudited)**	2020 (Audited)(Note)	**Change** (US$ million)	(%)
Revenue	**402**	611	(209)	-34.3
Total Margin	**140**	220	(80)	-36.3
% of Revenue	***34.8%***	*35.9%*		
Operating Cost	**344**	279	66	23.5
Operating Loss Before Other Gains / (Losses), and Impairment of Goodwill	**(204)**	(59)	(145)	-245.8

Note: Certain comparative information has been reclassified to be consistent with current year presentation.

Europe

(US$ million)	**Year end 31 March** **2021 (Unaudited)**	2020 (Audited)(Note)	**Change** (US$ million)	(%)
Revenue	**259**	387	(128)	-33.0
Total Margin	**41**	101	(60)	-59.6
% of Revenue	***15.7%***	*26.0%*		
Operating Cost	**77**	149	(72)	-48.5
Operating Loss Before Other Gains / (Losses), and Impairment of Goodwill	**(36)**	(48)	12	25.0

Note: Certain comparative information has been reclassified to be consistent with current year presentation.

Brand Management

(US$ million)	Year end 31 March 2021 (Unaudited)	2020 (Audited)(Note)	Change (US$ million)	(%)
Revenue	**64**	84	(20)	-24.1
Total Margin	**62**	76	(14)	-18.0
% of Revenue	***97.4%***	*90.3%*		
Operating Cost	**45**	64	(20)	-30.5
Operating Profit Before Other Gains, and Impairment of Goodwill	**18**	12	6	50.0

Note: Certain comparative information has been reclassified to be consistent with current year presentation.

The North America business was seriously challenged in the financial year with an expanding operating loss of US$204 million (unaudited). This amount represents 91.9% of the Group's operating loss for the financial year ended 31 March 2021.

Meanwhile, the Europe business narrowed its operating loss from the prior year by decreasing operating costs by 48.5%.

The global brand management business, which operates on a different business model, remains stable, profitable and cash generative, and registered an increase in profitability.

The North America and Europe wholesale businesses skew heavily toward the Fall and Holiday seasons. With the rapid spread of COVID-19 subduing consumer demand during those periods, particularly in the United States, the financial position of the North America business was especially hard hit. By the end of the period, the North America business' significant operating loss contributed to an acute lack of liquidity for this business.

Following the Fall and Holiday seasons, the Spring period from March to June is typically a light shipping season and therefore generates less cash to support the business. This cash-constrained period, coupled with market speculation of liquidity pressures affecting the North America wholesale business, resulted in a tightening of credit terms from vendors. Their demands for accelerated payments came just as the North America business needed to fund shipments of goods for the upcoming peak Fall and Holiday seasons.

This led to the Company's announcement dated 17 June 2021 (the "**17 June Announcement**") relating to the increasingly difficult trading position of the Group and its request for a change in the use of the proceeds received from the sale of the Group's business under the "Spyder" brand in Korea (the "**Net Proceeds**") from repayment of existing bank debt, to a request to the lenders of the Group's syndicated loan facility (the "**Lenders**") to use the Net Proceeds to fund the operations of the Group.

Additionally, the Board disclosed in the 17 June Announcement its intention to consider various debt restructuring options, including potential transactions or corporate actions involving the sale, disposal and/or restructuring of various assets or businesses of the Group.

UPDATE ON USE OF PROCEEDS RECEIVED FROM THE SALE OF SPYDER IN KOREA

As disclosed in the 17 June Announcement, the Company explored retaining all, or part of, the Net Proceeds within the Group to fund the Group's operations (instead of applying the full amount of the Net Proceeds to pay down the Group's bank debt), and commenced discussions with the Lenders to amend its repayment obligations under the New Loan Agreement (as defined in the 17 June Announcement) and to retain all or part of the Net Proceeds within the Group.

The Company was not able to reach any agreement with the Lenders to retain all or part of the Net Proceeds within the Group, and accordingly the Group was not able to use any part of the Net Proceeds for its operations, including the North America business.

The Company is continuing its discussion with the Lenders in relation to the amendment of its repayment obligations under the New Loan Agreement.

UPDATE ON GLOBAL RESTRUCTURING EFFORTS

Headwinds have continued to severely inhibit the Group's initiatives to improve its weakened financial position and turn around its loss-making North America operations.

As the Group continues to explore measures to increase liquidity, including through the sale or divestment of its assets, the Lenders have asked the Group to expedite such measures to pay down its outstanding bank debt.

The Board remains focused on improving the financial position of the Group, and believes that the disposal of assets (including inventory) is among essential actions needed as part of this process, with the aim of ensuring that the Group overall remains as a going concern.

BUSINESS SEGMENT UPDATE

The Board would like to provide an update on the latest development of the Group's business segments:

1. North America

<u>Deterioration of the Financial and Liquidity Position of the North America business</u>

As previously reported, the North America wholesale product business has been gravely affected by the combined and unprecedented impacts of technological disruptions, geopolitical shifts, escalating trade tensions, and the COVID-19 pandemic. Due to the continued deterioration of the financial and liquidity position of this business, as well as the inability to use any part of the Net Proceeds for its own operations, the business is continuing with aggressive restructuring and divestment programs to streamline and consolidate operations, and is managing workforce reduction.

The Board will continue to assess the continuing cash flow solvency of GBG USA, and will consider all appropriate measures, including any asset disposal and liability management measures and proceedings permissible under relevant laws.

<u>Termination of Master License Agreement</u>

Pursuant to a master license agreement (the "**Master License Agreement**") between GBG USA and ABG Intermediate Holdings 2, LLC ("**ABG**"), ABG granted GBG USA a license to design, develop, market, distribute and sell certain licensed products, in North America and Europe, including under the "Spyder" brand and the "Frye" brand.

Due to GBG USA's liquidity position, it was unable to meet certain payment obligations under the Master License Agreement and on 30 June 2021, ABG terminated the Master License Agreement with immediate effect.

As a result of such termination, GBG USA was not permitted to sell off any of the remaining inventory or assets under the "Spyder" brand and the "Frye" brand.

On 9 July 2021 (New York time), the board of directors of GBG USA (the "**GBG USA Board**") informed the Board that as part of its liquidity measures and in light of the termination of the Master License Agreement, on 9 July 2021 (New York time), that GBG Spyder USA LLC (a wholly-owned subsidiary of GBG USA) ("**GBG Spyder**") and GBG USA (together, the "**Sellers**") had entered into an agreement (the "**Agreement**") with Liberated-Spyder LLC (the "**Purchaser**") for, and simultaneously completed the sale (the "**Sale**") of assets, properties and rights under the "Spyder" brand in North America and Europe, substantially all of which is inventory (the "**Spyder Inventory**"), for a consideration of US$8 million (approximately HK$62.4 million) (the "**Consideration**"), in order to realise the maximum value of the Spyder Inventory before substantial further depreciation takes place.

Based on the unaudited management accounts of the Group as at 30 June 2021, the book value attributable to the Spyder Inventory was approximately US$11.7 million while the book value attributable to the remaining materials being sold under the Sale, was approximately US$0.1 million.

In accordance with the Agreement, US$6 million (approximately HK$46.8 million) of the Consideration was received at closing of the Sale on 9 July 2021 (New York time) ("**Closing**") and the remaining US$2 million (approximately HK$15.6 million) of the Consideration was deposited with an escrow agent for all inventory in transit as of Closing. The Sellers shall deliver all such in-transit inventory as of Closing to the Purchaser by no later than 7 September 2021, and upon such delivery, the Purchaser and GBG USA shall jointly instruct the escrow agent to release to the Sellers the portion of the escrow amount equal to the aggregate value of such delivered in-transit inventory.

Determination of the Consideration

The Consideration was determined after arm's length negotiations between the Sellers and the Purchaser having regard to, among other factors, (a) extensive deliberation by the independent directors of the GBG USA Board and its legal adviser that the terms of the Sale are fair and reasonable in the circumstances; (b) the determination that the Sale was the best outcome for GBG USA and its stakeholders; (c) the Purchaser was nominated by the licensor, whose consent is required to effect the Sale; and (d) the Lenders, who have a security interest in the subject matter of the Sale, consented to the transaction as it is structured.

Financial Effects of the Sale

As a result of the Sale, the Company expects to recognise a loss between approximately US$2 million (approximately HK$15.6 million) and approximately US$4 million (approximately HK$31.2 million).

The basis for calculating the expected loss from the Sale is the Consideration less the carrying value of the subject matter of the Sale, which was approximately US$11.8 million (approximately HK$92.0 million) as at 30 June 2021 (as derived from the unaudited management accounts of the Group).

Use of Proceeds from the Sale

The Company intends to use the net proceeds from the Sale to provide immediate liquidity to meet the short-term liabilities and critical funding needs of GBG USA and its subsidiaries.

Reasons for, and Benefits of, the Sale

The GBG USA Board has reiterated that (1) its independent decision to proceed with the Sale in an expedient and time critical manner is necessary to (i) maximise value for GBG USA and the Group's stakeholders and (ii) discharge its fiduciary duties to its shareholder and all the creditors under the laws of Delaware, and is therefore in their best interests; and (2) the cash proceeds from the Sale would be necessary in ensuring that GBG USA and its subsidiaries have sufficient funds to satisfy their most immediate and critical liquidity needs.

In view of the exceptional circumstances under which the Sale had to be concluded as described above, the Board acknowledged that the commercial terms of the Sale are fair and reasonable.

Information About the Subject of the Sale

The "Spyder" brand in North America and Europe was licensed by ABG to GBG USA, which was terminated by ABG on 30 June 2021.

The consolidated profit/(loss) before tax and after tax of the operations under the "Spyder" brand, as derived from the unaudited management accounts of the Group, is as follows:

	Year ended 31 March		**Nine months ended**
	2019	**2020**	**31 December 2020**
(HK$ million)	**(Unaudited)**	**(Unaudited)**	**(Unaudited)**
Profit / (loss) before tax	(95)	(128)	(35)
Profit / (loss) after tax	(92)	(127)	(33)

Information about the Purchaser

The Purchaser is a limited liability company incorporated under the laws of Delaware, principally engaged in selling lifestyle sports apparel and, based on information available to the Board, is an operating entity under Liberated Brands (the dedicated operating platform for surf, skate and snow brand Volcom) and an affiliate of ABG.

To the best of the knowledge, information and belief of the Board, having made all reasonable enquiries, the Purchaser and its ultimate beneficial owners are third parties independent of the Company and its connected persons.

Information about the Company and the Sellers

The Company and its subsidiaries are principally engaged in the design, development, marketing and sale of branded kids, men's and women's apparel, footwear, fashion accessories and related lifestyle products, primarily for sale to retailers in North America and Europe. The Company and its subsidiaries are also engaged in the brand management business offering expertise in expanding its clients' brand assets to new product categories, new geographies and retail collaborations, as well as assisting in distribution of licensed products on a global basis.

GBG USA is a company incorporated under the laws of Delaware and an indirect wholly-owned subsidiary of the Company. It is primarily engaged in operating the wholesale and direct-to-consumer footwear and apparel business of the Group in North America.

GBG Spyder is a limited liability company incorporated under the laws of Delaware and an indirect wholly-owned subsidiary of the Company. It is primarily engaged in the "Spyder" brand operations in North America and Europe.

Implications Under the Listing Rules

The Company and the Board consider that the Sale (of which approximately 98.75% of the value is estimated to represent a sale of the Spyder Inventory) is a transaction of a revenue nature in the ordinary and usual course of business of the Group for the purposes of the Listing Rules, and a submission to the effect that the Sale should not be subject to the notifiable transaction requirements under Chapter 14 of the Listing Rules has been made to the Stock Exchange. The basis of the submission is that the subject matter of the Sale primarily involves the disposal of inventory, which is an existing principal activity of the Group, and that, the sales of Spyder Inventory are of the same nature with the Group's normal trading activities, and accordingly such sales will be recorded as revenue from sales of goods in the financial statements of the Group in accordance with the Group's accounting policies which comply with generally acceptable accounting standards, and the Company intends to record the Sale as a revenue transaction for tax purposes.

The Company will continue its consultation with the Stock Exchange and will provide any additional information as the Stock Exchange may request in compliance with the Company's obligations under the Listing Rules.

2. Europe

The Group's Europe wholesale business operates under legal entities entirely separate and independent from the wholesale business in North America. It primarily supplies apparel, footwear and accessories to retailers and consumers across Europe under licenses separately entered into by the Europe entities of the Group. There is little overlap with the supplier base of the North America business.

Restructuring measures taken by Europe to rationalise unprofitable brands and reduce low margin sales have helped to improve performance and reduce its cost base. At the same time, the business faces some challenges due mainly to the negative impact of the ongoing COVID-19 pandemic in Europe.

Active measures are being taken to improve working capital, including through expedited inventory clearance and short term loans that are under negotiation.

3. Brand Management

The Group's global brand management business operates on a different business model and is distinctly separate from the wholesale businesses in North America and Europe and remains robust and profitable.

Following the success of major new partnerships, the Group continues to expand its partners' brands into new product categories and/or across geographies, develop in-store and digital collaborations, and assist in the distribution of licensed products. The brand management business' overall financial condition is strong, and its performance is on track.

In early July 2021, the Group received an unsolicited offer from one of its joint venture partners to acquire its equity interest in that joint venture. The Company always considers any business proposition that may enhance shareholder value, but discussion on the unsolicited offer has not begun. The Company will keep its shareholders informed in accordance with the Listing Rules as and when there is any material development.

By Order of the Board
Global Brands Group Holding Limited
William FUNG Kwok Lun
Chairman

Hong Kong, 19 July 2021

As at the date of the announcement, the Board comprises one Non-executive Director, namely William Fung Kwok Lun (Chairman); one Executive Director, namely Richard Nixon Darling (Chief Executive Officer) and four Independent Non-executive Directors, namely Paul Edward Selway-Swift, Stephen Harry Long, Audrey Wang Lo and Ann Marie Scichili.