Tristate Holdings Limited

(Incorporated in Bermuda with limited liability)

(Stock Code: 458)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2021

FINANCIAL SUMMARY OF 2021 INTERIM RESULTS

- Revenue of HK$1,230 million
- Loss attributable to equity shareholders of HK$34 million
- Loss per share of HK$0.12

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 2021 together with comparative figures for 2020.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2021 – unaudited

		Six months ended 30 June	
		2021	2020
	Note	***HK$'000***	*HK$'000*
Revenue	4	**1,230,004**	892,306
Cost of sales		**(723,230)**	(622,220)
Gross profit		**506,774**	270,086
Other net income	5	**1,626**	3,392
Selling and distribution expenses		**(279,525)**	(178,822)
General and administrative expenses		**(231,241)**	(211,270)
Loss from operations	6	**(2,366)**	(116,614)
Finance income	7	**797**	839
Finance costs	7	**(15,873)**	(17,095)
Loss before taxation		**(17,442)**	(132,870)
Income tax charge	8	**(13,593)**	(2,704)
Loss for the period		**(31,035)**	(135,574)
Attributable to:			
Equity shareholders of the Company		**(33,591)**	(135,591)
Non-controlling interests		**2,556**	17
Loss for the period		**(31,035)**	(135,574)
Loss per share attributable to equity shareholders of the Company:	9		
Basic		**(HK$0.12)**	(HK$0.50)
Diluted		**(HK$0.12)**	(HK$0.50)

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2021 – unaudited

	Six months ended 30 June	
	2021	2020
	HK$'000	*HK$'000*
Loss for the period	**(31,035)**	(135,574)
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		
– Gains/(losses) arising during the period	**2,013**	(1,832)
– Transferred to and included in the following line items in the condensed consolidated interim statement of profit or loss		
– Cost of sales	**(5,900)**	2,761
– General and administrative expenses	**(1,653)**	(299)
Exchange difference on translation of financial statements of overseas subsidiaries	**(10,695)**	(16,838)
Other comprehensive income for the period	**(16,235)**	(16,208)
Total comprehensive income for the period	**(47,270)**	(151,782)
Attributable to:		
Equity shareholders of the Company	**(49,826)**	(151,799)
Non-controlling interests	**2,556**	17
Total comprehensive income for the period	**(47,270)**	(151,782)

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION

As at 30 June 2021 – unaudited

	Note	At 30 June 2021 HK$'000	At 31 December 2020 HK$'000
Non-current Assets			
Property, plant and equipment		**559,040**	626,540
Intangible assets		**418,475**	439,809
Other long-term assets		**22,282**	22,554
Deferred tax assets		**22,210**	8,272
Defined benefit plan assets		**13,849**	13,943
Forward foreign exchange contracts		**1,198**	1,229
Interest in an associate		**–**	–
		1,037,054	1,112,347
Current Assets			
Inventories	11	**545,735**	397,324
Accounts receivable and bills receivable	12	**310,467**	282,037
Forward foreign exchange contracts		**8,691**	12,714
Prepayments and other receivables		**74,424**	74,854
Current tax recoverable		**3,105**	3,151
Cash and bank balances		**227,628**	358,613
		1,170,050	1,128,693
Current Liabilities			
Accounts payable and bills payable	13	**252,452**	218,259
Accruals and other payables and contract liabilities		**340,093**	308,868
Lease liabilities		**76,460**	86,101
Forward foreign exchange contracts		**1,486**	–
Current tax liabilities		**40,174**	30,100
Bank borrowings		**46,429**	54,292
		757,094	697,620
Net Current Assets		**412,956**	431,073
Total Assets Less Current Liabilities		**1,450,010**	1,543,420
Non-Current Liabilities			
Retirement benefits and other post retirement obligations		**30,925**	32,843
Licence fees payable		**271,015**	286,618
Lease liabilities		**124,036**	153,585
Deferred tax liabilities		**28,434**	27,777
Bank borrowings		**4,216**	4,395
		458,626	505,218
Net Assets		**991,384**	1,038,202
Capital and Reserves			
Share capital		**27,161**	27,161
Reserves		**959,455**	1,008,829
Total equity attributable to equity shareholders of the Company		**986,616**	1,035,990
Non-controlling interests		**4,768**	2,212
Total Equity		**991,384**	1,038,202

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 2020 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2021 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 2020 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 2020 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 2020 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 29 March 2021.

2. Changes in Accounting Policies

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

- Amendment to HKFRS 16, *Covid-19-Related Rent Concessions beyond 30 June 2021*

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. Impacts of the adoption of the amended HKFRSs are discussed below:

2. **Changes in Accounting Policies (Continued)**

Amendment to HKFRS 16, Covid-19-Related Rent Concessions beyond 30 June 2021 (2021 amendment)

The Group previously applied the practical expedient in HKFRS 16 such that as lessee it was not required to assess whether rent concessions occurring as a direct consequence of the COVID-19 pandemic were lease modifications, if the eligibility conditions are met. One of these conditions requires the reduction in lease payments affect only payments originally due on or before a specified time limit. The 2021 amendment extends this time limit from 30 June 2021 to 30 June 2022.

The Group has early adopted the 2021 amendment in this financial year. With the extended time limit, certain rent concessions that were previously ineligible for the practical expedient because of the original time limit, become eligible. Accordingly, these rent concessions, which were previously accounted for as lease modifications, are now accounted for as negative variable lease payments, and are 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 2021.

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**	
	2021	2020	**2021**	2020	**2021**	2020	**2021**	2020
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Reportable segment revenue	**613,925**	611,296	**647,700**	295,228	**–**	–	**1,261,625**	906,524
Less: Inter-segment revenue	**(31,621)**	(14,218)	**–**	–	**–**	–	**(31,621)**	(14,218)
Revenue	**582,304**	597,078	**647,700**	295,228	**–**	–	**1,230,004**	892,306
Reportable segment EBITDA *(Note (i))*	**27,323**	15,539	**76,882**	(31,854)	**2,434**	559	**106,639**	(15,756)
Finance income	**–**	–	**284**	483	**513**	356	**797**	839
Finance costs								
– Interest on bank borrowings	**–**	–	**(18)**	–	**(968)**	(1,570)	**(986)**	(1,570)
– Interest on licence fees payable	**–**	–	**(10,396)**	(10,616)	**–**	–	**(10,396)**	(10,616)
– Interest on lease liabilities	**(1,349)**	(1,496)	**(2,996)**	(3,224)	**(146)**	(186)	**(4,491)**	(4,906)
– Others	**–**	–	**–**	(3)	**–**	–	**–**	(3)
Depreciation charge								
– Owned property, plant and equipment	**(11,741)**	(13,318)	**(24,363)**	(18,747)	**(5,963)**	(6,075)	**(42,067)**	(38,140)
– Right-of-use assets	**(3,932)**	(3,587)	**(43,552)**	(37,404)	**(3,662)**	(5,901)	**(51,146)**	(46,892)
Amortisation of intangible assets								
– Licence rights	**–**	–	**(15,792)**	(15,792)	**–**	–	**(15,792)**	(15,792)
– Other intangible assets	**–**	–	**–**	(34)	**–**	–	**–**	(34)
Reportable segment profit/(loss) before taxation	**10,301**	(2,862)	**(19,951)**	(117,191)	**(7,792)**	(12,817)	**(17,442)**	(132,870)
Income tax (charge)/credit	**(1,664)**	442	**(12,973)**	(1,365)	**1,044**	(1,781)	**(13,593)**	(2,704)
Reportable segment profit/(loss) for the period	**8,637**	(2,420)	**(32,924)**	(118,556)	**(6,748)**	(14,598)	**(31,035)**	(135,574)

4. Segment Information (Continued)

	Garment manufacturing		Brands business		Unallocated *(Note (iii))*		Total	
	At 30 June 2021	At 31 December 2020	**At 30 June 2021**	At 31 December 2020	**At 30 June 2021**	At 31 December 2020	**At 30 June 2021**	At 31 December 2020
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Reportable segment assets	**775,540**	680,484	**1,080,969**	1,080,444	**350,595**	480,112	**2,207,104**	2,241,040
Reportable segment liabilities	**366,486**	341,433	**786,198**	799,339	**63,036**	62,066	**1,215,720**	1,202,838

	Six months ended 30 June							
	Garment manufacturing		Brands business		Unallocated		Total	
	2021	2020	**2021**	2020	**2021**	2020	**2021**	2020
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Reversal of/(provision for) impairment of receivables, net	**314**	(1,636)	**(925)**	(1,504)	**–**	–	**(611)**	(3,140)
Reversal of/(write-down of) inventories to net realisable value, net	**556**	(13,768)	**(3,019)**	(9,265)	**–**	–	**(2,463)**	(23,033)
Net gain/(loss) on disposals of property, plant and equipment	**198**	55	**(1,750)**	(896)	**–**	–	**(1,552)**	(841)
Additions to property, plant and equipment including right-of-use assets	**11,263**	2,248	**38,238**	68,292	**15,222**	1,091	**64,723**	71,631

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) Upon adoption of HKFRS 16 from 2019, the Group as a lessee is required to recognise interest expenses accrued on the outstanding balance of the lease liability and the depreciation on the right-of-use asset, instead of recognising rental expenses incurred under operating leases on 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.

(iii) 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 Kingdom (the "UK"), Canada and Italy, while the Group's right-of-use assets, production facilities, trademark, licence rights and other assets are located predominantly in the PRC, Switzerland and Thailand. 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													
	UK		PRC		Canada		Italy		Singapore		Other countries		Total	
	2021	2020	**2021**	2020	**2021**	2020	**2021**	2020	**2021**	2020	**2021**	2020	**2021**	2020
	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	**289,695**	212,672	**369,233**	186,989	**93,766**	106,449	**165,401**	94,274	**64,781**	93,342	**247,128**	198,580	**1,230,004**	892,306

Included in revenue derived from the PRC was HK$59,352,000 (2020: HK$70,563,000) related to revenue generated in Hong Kong.

For the six months ended 30 June 2021, revenues from one customer (2020: two customers) in the garment manufacturing segment each accounted for more than 10% of the Group's total revenue and they represented approximately 14% (2020: 16% and 11%) of the total revenue.

	PRC *(Note (ii))*		Luxembourg *(Note (iii))*		Switzerland *(Note (iii))*		Thailand		Other countries		Total	
	At 30 June 2021	At 31 December 2020	**At 30 June 2021**	At 31 December 2020	**At 30 June 2021**	At 31 December 2020	**At 30 June 2021**	At 31 December 2020	**At 30 June 2021**	At 31 December 2020	**At 30 June 2021**	At 31 December 2020
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Non-current assets *(Note (i))*	**620,392**	662,271	**–**	187,130	**198,809**	17,359	**69,795**	76,854	**110,801**	145,289	**999,797**	1,088,903

Notes:

(i) Non-current assets exclude forward foreign exchange contracts, deferred tax assets and defined benefit plan assets.

(ii) Included in non-current assets located in the PRC was HK$252,367,000 (2020: HK$261,981,000) related to assets located in Hong Kong.

(iii) During the six months period ended 30 June 2021, the Group's "C.P. Company" trademark holding subsidiary company was migrated from Luxembourg to Switzerland for more efficient corporate structure and management.

5. Other Net Income

	Six months ended 30 June	
	2021	2020
	HK$'000	*HK$'000*
Government subsidy *(Note)*	**516**	3,227
Net loss on disposal of property, plant and equipment	**(1,552)**	(841)
Net gain on derecognition of right-of-use assets and lease liabilities	**1,289**	–
Sundry income	**1,373**	1,006
	1,626	3,392

Note:

During the six months ended 30 June 2021, certain subsidiary companies of the Group received government subsidies of HK$516,000 (2020: HK$3,227,000), majority of which were COVID-19 related subsidies from the local governments.

6. Loss from Operations

Loss from operations is arrived at after charging:

	Six months ended 30 June	
	2021	2020
	HK$'000	*HK$'000*
Amortisation of intangible assets	**15,792**	15,826
Depreciation charge		
– Owned property, plant and equipment	**42,067**	38,140
– Right-of-use assets	**51,146**	46,892
Expenses related to short-term leases and variable lease payments	**14,347**	14,013
Provision for impairment of receivables, net	**611**	3,140
Provision for write-down of inventories to net realisable value, net	**2,463**	23,033
Employment benefit expenses	**334,760**	313,697

7. Finance Income/Finance Costs

	Six months ended 30 June	
	2021	2020
	HK$'000	*HK$'000*
Finance income		
Interest income from bank deposits	**547**	356
Imputed interest on long-term rental deposit	**250**	483
	797	839
Finance costs		
Interest on bank borrowings	**986**	1,570
Interest on licence fees payable	**10,396**	10,616
Interest on lease liabilities	**4,491**	4,906
Others	**–**	3
	15,873	17,095

8. Income Tax Charge

	Six months ended 30 June	
	2021	2020
	HK$'000	*HK$'000*
Current income tax *(Note)*		
Hong Kong profits tax	**(1,520)**	(49)
Non-Hong Kong tax	**(25,109)**	(1,555)
Over/(under) provision for prior year	**4**	(41)
Deferred income tax	**13,032**	(1,059)
	(13,593)	(2,704)

Note:

The provision for Hong Kong Profits Tax is calculated by applying the estimated annual effective tax rate of 16.5% (2020: 16.5%) to the six months ended 30 June 2021.

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$33,591,000 (2020: HK$135,591,000) by the weighted average number of 271,607,253 (2020: 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 2021 and 30 June 2020, 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 2021 and 30 June 2020.

10. Interim Dividend

The Board has resolved not to declare an interim dividend for the six months ended 30 June 2021 (2020: Nil).

11. Inventories

	At 30 June 2021 ***HK$'000***	At 31 December 2020 *HK$'000*
Raw materials	**134,595**	51,174
Work-in-progress	**165,640**	114,706
Finished goods	**222,149**	216,065
Goods in transit	**23,351**	15,379
	545,735	397,324

Increase in raw materials and work-in-progress reflect seasonal requirement for second half year shipment of garment manufacturing segment.

12. Accounts Receivable and Bills Receivable

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

	At 30 June 2021 HK$'000	At 31 December 2020 HK$'000
Less than 3 months	**278,104**	242,656
3 months to 6 months	**32,950**	39,381
Over 6 months	**5,688**	7,555
	316,742	289,592
Less: Provision for impairment	**(6,275)**	(7,555)
	310,467	282,037

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.

13. Accounts Payable and Bills Payable

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

	At 30 June 2021 HK$'000	At 31 December 2020 HK$'000
Less than 3 months	**227,708**	196,810
3 months to 6 months	**13,199**	14,105
Over 6 months	**11,545**	7,344
	252,452	218,259

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

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

14. Capital Commitments

	At 30 June 2021 HK$'000	At 31 December 2020 HK$'000
Contracted but not provided for in respect of leasehold improvement	**2,843**	1,915

The Group was also committed at 30 June 2021 to enter into several leases that are not yet commenced, the lease payments under which amounted to HK$11,717,000 per annum (31 December 2020: HK$586,000 per annum).

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 2021.

Overview

For the six months ended 30 June 2021, the Group recorded a loss attributable to equity shareholders of HK$34 million as compared with the loss of HK$136 million for the corresponding period of last year. In the last year, the Group's business and financial performance were affected by the outbreak of COVID-19 pandemic ("COVID-19"). The better performance and substantial decrease in loss in the 2021 first half year is mainly attributable to the followings:

a) Improved performance and reduction of losses for our brands business. Among our brands:

    (i) Our own brand C.P. Company continued to record revenue growth and the brand had shipped more Fall/Winter wholesale orders in the first half of 2021, while most of the Fall/Winter 2020 shipment were deferred to the second half of the last year. The brand reported net profit in this first half year, comparing to a loss in the same period of last year; and

    (ii) Our licensed brand Nautica has achieved better operating performance in the first half of 2021 as compared with the same period of the previous year.

b) Our garment manufacturing business returned to half-year profit in 2021 as it benefited from less inventory provision made, better material utilisation and lower administrative expenses from various cost reduction measures implemented by the Group since last year in responding to the pandemic.

Own Brands

While COVID-19 related restrictions brought challenges to the fashion industry in Europe, C.P. Company had a relatively small impact and continued its year-on-year revenue growth in the first half of 2021. The brand also reported net profit in the first half of 2021 as compared with a loss in the last year. Demand of its product and sell through of key wholesale accounts continued to be strong and the brand has shipped more Fall/Winter wholesale orders in this first half year. Wholesale business in Italy and the UK remained the largest contributors of C.P. Company's revenue. The growth of e-commerce also surpassed expectations and has strong growth opportunities. To complement the wholesale business in Europe, the brand has five directly managed retail stores and outlets in the famous streets of Milan, Switzerland and Amsterdam.

A main focus of 2021 is to celebrate C.P. Company's 50th anniversary, which brings an unprecedented visibility for the brand with extensive media coverage throughout the year. The celebration involves intensive program of authentic collaborations, monthly launch of special products, community initiatives and respectful homages to five decades of garment innovations. Worked with renowned curator and photographer, C.P. Company has launched its first monograph "*C.P. COMPANY 971-021. An informal history of Italian sportswear*", to celebrate its archive and history. By inviting 50 fans across different generations and photographed wearing iconic C.P. Company garments, this epic book tells the history of C.P. Company and their passion for the brand. The volume also contains glossary featuring over 300 garments from the brand's archive, highlights manufacturing techniques and stories behind their development and the contemporary relevance.

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

Licensed Brands

In the first half of 2021, we have mixed performance from our long-term licensed brands in China. For Nautica, we saw healthy sales and sales margin increases in China across all channels (full price, outlets and e-commerce). The brand has been performing well even compared to pre-pandemic levels. The management team has executed its retail pricing strategy and controlled garment costs and retail discount. A flagship concept introduced in March 2021 has been successful and will be rolled out to additional markets. CRM initiatives continue to be a key part of our efforts and investments, with over 80% of offline sales in the first half of 2021 coming from registered members. The improved performance has significantly reduced the brand's net losses in the first half of 2021 compared with last year. As of 30 June 2021, Nautica had 71 directly managed retail stores and another 74 stores operated by partners (30 June 2020: 126 stores in total).

Spyder was officially launched in China in November 2019. Being a new brand in its early development stage, COVID-19 hit Spyder hard in first quarter 2020 and compelled us to slow down its expansion. While sales (both overall and comps) have increased in the first half of 2021, traction at retail and the performance of the Spring/Summer 2021 collection fell short of expectations. This has led us to once again put expansion plans on hold, revamp the Spring/Summer 2022 collection as well as make some organisational changes. We are looking forward to a better Fall/Winter 2021 which will lead us into the Winter Olympics in Beijing where the brand will receive significant coverage as the exclusive technical apparel sponsor to the United States National Ski Team. As of 30 June 2021, Spyder had 48 stores across China (30 June 2020: 36 stores).

Garment Manufacturing

In the period under review, the ongoing pandemic continued to impact major economies and our garment manufacturing business. The spread of coronavirus variants, lockdowns, prevention rules and restrictions are still causing disruptions to both our customers' business as well as our production facilities. Amid these challenges, our garment manufacturing business has reported a fairly steady revenue in this first half year when comparing with the previous year. It is also encouraging that the business has returned to half year profit, mainly attributed to less inventory provision made, better material utilisation and cost saving measures implemented since the last year in responding to the pandemic.

Our China and Thailand factories are serving our "premium business" for fashion and complicated outerwear products. In the period under review, our China factories saw business returned from some key customers together with increased China domestic demands.

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 by the pandemic in 2020 and orders reduction has continued. We have taken measures to scale down its workforce since the second half of 2020. In February 2021, the Myanmar military seized control of the country. This together with the pandemic have led us to downsize the factory's capacity. We have managed to fill the capacity with returning business from customers and our own/licensed brands' production. Due to local measures to battle COVID-19, our Vietnam factory has recently been under a lockdown from mid of July till mid of September this year. We are working closely with our customers and suppliers and will reallocate certain fourth quarter orders to our other factories.

Financial Highlights

	Note	**First half 2021**	First half 2020
Operating results (HK$ million)			
Revenue		**1,230**	892
Gross profit		**507**	270
EBITDA		**107**	(16)
Depreciation on right-of-use asset	2	**(51)**	(47)
Interest on lease liabilities	2	**(4)**	(5)
Amortisation of licence right	1	**(16)**	(16)
Interest on licence fees payable	1	**(10)**	(11)
Depreciation on owned property, plant and equipment		**(42)**	(38)
Loss attributable to equity shareholders		**(34)**	(136)
Segment results (HK$ million)			
Garment manufacturing EBITDA		**27**	16
Depreciation on right-of-use asset	2	**(4)**	(4)
Interest on lease liabilities	2	**(1)**	(1)
Depreciation on owned property, plant and equipment		**(12)**	(13)
Garment manufacturing results after tax		**9**	(2)
Brands business EBITDA		**77**	(32)
Depreciation on right-of-use asset	2	**(44)**	(37)
Interest on lease liabilities	2	**(3)**	(3)
Amortisation of licence right	1	**(16)**	(16)
Interest on licence fees payable	1	**(10)**	(11)
Depreciation on owned property, plant and equipment		**(24)**	(19)
Brands business results after tax		**(33)**	(119)
Cash flow (HK$ million)			
Cash (used in)/generated from operations		**(33)**	14
Payment for the purchase of owned property, plant and equipment		**(17)**	(17)
Financing activities for lease payments	2	**(56)**	(39)

	At 30 June 2021	At 31 December 2020
Financial position (HK$ million)		
Cash and bank balances	**228**	359
Bank borrowings	**51**	59
Total equity	**991**	1,038

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 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 2021 was HK$1,230 million (2020: HK$892 million), representing an increase of 38% as compared with 2020.

Revenue from brands business was HK$648 million in the first half of 2021, as compared to HK$295 million in 2020. C.P. Company continued to report revenue growth as compared to the same period last year. The brand had shipped more Fall/Winter wholesale orders in the first half of 2021, while most of the Fall/Winter 2020 shipment were deferred to the second half of the last year. Our licensed business in China, in particular Nautica, also recorded healthy revenue increase in first half of 2021 as compared with the COVID-19 disrupted year of 2020.

Revenue from the garment manufacturing business was HK$582 million, as compared with HK$597 million in 2020. Revenue from premium business, which accounted for 72% (2020: 71%) of the segment revenue, down marginally by 2% as compared with the last year. Revenue from better business also decreased by 3%. The fairly steady revenue recorded in this first half year is in line with expectation as COVID-19 continued to impact our customers during this period.

Geographically, major markets of the Group are the UK, the People's Republic of China, Italy and Canada, which accounted for 24% (2020: 24%), 30% (2020: 21%), 13% (2020: 11%) and 8% (2020: 12%) of the Group's total revenue respectively. The change was mainly due to the increase in revenue of our brands business.

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$507 million (2020: HK$270 million), representing a gross profit margin of 41.2% (2020: 30.3%). The increase in gross profit was mainly attributable to the increased turnover. Gross profit margin of garment manufacturing business has improved comparing to last year mainly driven by less inventory provision made and better material utilisation. Gross profit margin of brands business also rose over 2020 reflecting better supply chain management and reduced purchase costs. The Group's overall gross profit margin increased in 2021 also 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 retail shop expenses, advertising and promotion and commissions paid to retail partners and sales agents. Selling and distribution expenses increased as compared to 2020 mainly due to increase in Nautica and Spyder shop expenses and commissions paid to retail partners as more retail stores opened comparing with same period in 2020.

General and Administrative Expenses

General and administrative expenses increased as compared with 2020 mainly due to administrative costs of brands business rose in line with business growth, and partially offset by savings in garment manufacturing business as benefited from cost reduction measures implemented since the last year.

Segment Results

The substantial decrease in segment loss of brands business in the first half of 2021 was attributed to C.P. Company posted net profit during the period and Nautica has achieved better operating performance with reduced losses.

Garment manufacturing business has returned to half-year profit in 2021 as compared to a marginal loss in the last year.

Financial Resources and Liquidity

As at 30 June 2021, cash and bank balances amounted to HK$228 million (31 December 2020: HK$359 million) which mainly represented United States dollars ("US dollars"), Renminbi and Euro bank deposits and balances. For the cash flow, the Group used more cash in the first half of 2021 as compared with the first half of 2020. It was mainly due to our garment manufacturing business had more cash received in first half of 2020 by reducing accounts receivables from a higher level at the beginning of the last year.

The Group maintained sufficient banking facilities to support its business. At 30 June 2021, the Group had short-term bank borrowings of HK$47 million and a long term Swiss Franc COVID-19 bridging loan of HK$4 million borrowed by our subsidiary in Switzerland (31 December 2020: total bank loan of HK$59 million). Short-term bank borrowings were mainly denominated in US dollars and bearing interest at fixed rates. As at 30 June 2021, bank deposits of HK$11 million (31 December 2020: HK$44 million) were pledged to secure bank facilities granted to the Group. Gearing ratio of the Group is calculated as net borrowings divided by total capital. Net borrowings are calculated as total bank borrowings less cash and bank balances, while total capital comprised total equity plus net borrowings. The Group did not have net borrowings as at 30 June 2021 and 31 December 2020, and accordingly, no information on gearing ratio as at that dates is provided.

Shareholders' equity at 30 June 2021 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 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 2021, 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 commitments as disclosed in Note 14 in this announcement, there was no other material capital commitments or contingent liabilities as at 30 June 2021.

Human Resources

The Group had about 6,630 employees as at 30 June 2021 (31 December 2020: 7,320 employees). 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 and reported year-on-year double-digit revenue growth since acquisition. Amid COVID-19 challenges, the brand has contributed net profit in the first half of 2021. The impressive performance reinforces our confidence in the brand's ability to post revenue and profitability growth for the full year of 2021 and the years to come. The brand will expand collections to drive revenue and upgrade our positioning in existing markets. We will continue to focus on existing key and growing wholesale markets (Italy, the UK, Benelux, South Korea, France, and Germany), and will expand into other countries in Europe, the Middle East, South American and Asian markets. The brand will continue to grow existing e-commerce channels and invest in localised digital channels in Asian countries. We also plan to open more direct retail stores at suitable time and locations. The 50th anniversary celebration will continue and also bring the most signature collaborations in the second half till end of the year.

Building on our strong design and supply chain teams and Nautica's aspirational image and long history in China, we have a clear path for the brand in terms of distribution channel mix, key retail metrics and business model. We have identified a clear product structure and our pricing and discount strategies across channels has supported healthy margins and topline growth. We will continue to invest into expanding and serving our loyal consumers. In the second half of 2021, we will focus on further growth in our business in outlets and e-commerce and extend the success of the flagship concept. As we execute our business plan together with our retail partners, we will keep an eye on the development and potential impact of Delta variant outbreaks.

Spyder's positioning is very much on trend in the huge and growing premium sports apparel market in China. Spyder's Fall/Winter collections have performed well since its introduction into the China market. We feel confident that our Fall/Winter 2021 collection will continue this trend of strong sell-through. We will focus on opening key outlet stores and strengthen our e-commerce channel management. Both channels will be supported by dedicated collections and strategic pricing. We will also mobilise our CRM efforts and investments on member recruitment, activation, and retention. In order to conserve cash, our footprint will only be modestly expanded in the second half year – with an eye towards more aggressive expansion in the second half of 2022.

Same as the last year, revenue of our garment manufacturing business in the second half this year will be better than the first half. The ongoing uncertainties surrounding the disruptive force of coronavirus variants and post-pandemic demand recovery remain challenging to our garment manufacturing business in the foreseeable future. We will continue our measures to control factory operating costs and right-size capacity in order to maintain flexibility when market recovers. Our diversified production base, unique production system together with flexible supply chain enable us to work closely with our premium brands customers to respond to their recovering needs.

The Group is dedicated to investing in the long term success of our brands business and at the same time strengthening our garment manufacturing business. We are cautiously optimistic about further improvement in the Group's 2021 second half and full year financial performance. The Company will closely monitor the development of the pandemic and its impact to our business. We believe the Group has sound and solid foundation to overcome the ongoing challenge of the pandemic. We are confident that we are able to weather through the challenges and achieve business growth and long-term sustainability of the Group.

CORPORATE GOVERNANCE CODE

During the six months ended 30 June 2021, 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 2020.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the six months ended 30 June 2021, 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 2021 (2020: 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 2021 in conjunction with the management of the Group.

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

Hong Kong, 30 August 2021

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.