Tristate Holdings Limited

(Incorporated in Bermuda with limited liability)

(Stock Code: 458)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2023

FINANCIAL SUMMARY OF 2023 INTERIM RESULTS

- Revenue of HK$2,055 million
- Profit attributable to equity shareholders of HK$74 million
- Earnings per share of HK$0.27
- Interim dividend of HK$0.06 per share

INTERIM RESULTS

The board of directors (the "**Board**") of Tristate Holdings Limited (the "**Company**") is pleased to present the unaudited consolidated interim results of the Company and its subsidiaries (together, the "**Group**") for the six months ended 30 June 2023 together with comparative figures for 2022.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2023 – unaudited

		Six months ended 30 June	
	Note	**2023** ***HK$'000***	2022 *HK$'000*
Revenue	4	**2,055,381**	1,625,005
Cost of sales		**(1,178,062)**	(992,440)
Gross profit		**877,319**	632,565
Other net income	5	**3,203**	12,206
Selling and distribution expenses		**(447,330)**	(316,809)
General and administrative expenses		**(286,578)**	(281,732)
Profit from operations	6	**146,614**	46,230
Finance income	7	**988**	664
Finance costs	7	**(32,617)**	(26,971)
Profit before taxation		**114,985**	19,923
Income tax charge	8	**(36,880)**	(34,572)
Profit/(loss) for the period		**78,105**	(14,649)
Attributable to:			
Equity shareholders of the Company		**74,176**	(19,294)
Non-controlling interests		**3,929**	4,645
Profit/(loss) for the period		**78,105**	(14,649)
Earnings/(loss) per share attributable to equity shareholders of the Company:	9		
Basic		**HK$0.27**	(HK$0.07)
Diluted		**HK$0.27**	(HK$0.07)

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2023 – unaudited

	Six months ended 30 June	
	2023	2022
	HK$'000	*HK$'000*
Profit/(loss) for the period	**78,105**	(14,649)
Other comprehensive income, net of nil tax unless specified:		
Items that may be reclassified subsequently to profit or loss		
Fair value changes on cash flow hedges		
– Losses arising during the period	**(11,437)**	(4,652)
– Transferred to and included in the following line items in the condensed consolidated interim statement of profit or loss		
– Cost of sales	**1,319**	(575)
– General and administrative expenses	**464**	1,070
Realisation of exchange reserve upon liquidation and disposal of subsidiaries	**(1,286)**	592
Exchange difference on translation of financial statements of subsidiaries outside Hong Kong	**4,788**	(44,909)
Other comprehensive income for the period	**(6,152)**	(48,474)
Total comprehensive income for the period	**71,953**	(63,123)
Attributable to:		
Equity shareholders of the Company	**68,024**	(67,768)
Non-controlling interests	**3,929**	4,645
Total comprehensive income for the period	**71,953**	(63,123)

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION

As at 30 June 2023 – unaudited

	Note	At 30 June 2023 HK$'000	At 31 December 2022 HK$'000
Non-current Assets			
Property, plant and equipment		**555,834**	552,245
Intangible assets		**703,719**	719,705
Other long-term assets		**22,451**	18,425
Deferred tax assets		**17,878**	17,570
Defined benefit plan assets		**10,378**	10,447
Forward foreign exchange contracts		**42**	2,992
Interest in an associate		**–**	–
		1,310,302	1,321,384
Current Assets			
Inventories	11	**783,162**	854,170
Accounts receivable and bills receivable	12	**622,727**	492,049
Forward foreign exchange contracts		**–**	2,974
Prepayments and other receivables		**69,945**	104,108
Current tax recoverable		**280**	162
Cash and bank balances		**240,110**	301,362
		1,716,224	1,754,825
Current Liabilities			
Accounts payable and bills payable	13	**357,539**	437,321
Accruals and other payables and contract liabilities		**462,058**	487,099
Lease liabilities		**93,729**	96,668
Forward foreign exchange contracts		**7,496**	3,886
Current tax liabilities		**102,102**	93,141
Bank borrowings		**75,468**	107,008
		1,098,392	1,225,123
Net Current Assets		**617,832**	529,702
Total Assets Less Current Liabilities		**1,928,134**	1,851,086
Non-Current Liabilities			
Retirement benefits and other post-retirement obligations		**20,754**	21,034
Licence fees payable		**615,492**	624,780
Lease liabilities		**139,355**	126,620
Forward foreign exchange contracts		**120**	–
Deferred tax liabilities		**40,529**	39,174
		816,250	811,608
Net Assets		**1,111,884**	1,039,478
Capital and Reserves			
Share capital		**27,161**	27,161
Reserves		**1,061,467**	992,990
Total equity attributable to equity shareholders of the Company		**1,088,628**	1,020,151
Non-controlling interests		**23,256**	19,327
Total Equity		**1,111,884**	1,039,478

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**").

These interim financial statements have been prepared in accordance with the same accounting policies adopted in the 2022 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2023 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 the financial position and performance of the Group since the 2022 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 2022 that was 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 2022 are available from the Company's head office and principal place of business in Hong Kong. The auditor has expressed an unqualified opinion on those financial statements in its report dated 27 March 2023.

2. Changes in Accounting Policies

(a) New and amended HKFRSs

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

- Amendments to HKAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors: Definition of accounting estimates*
- Amendments to HKAS 12, *Income Taxes: Deferred tax related to assets and liabilities arising from a single transaction*
- Amendments to HKAS 12, *Income Taxes: International tax reform – Pillar Two model rules*

None of these developments have an effect on how the Group's results and financial position for the current or prior periods have been prepared or presented in these interim financial statements. 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)

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

In June 2022, the Government of the Hong Kong SAR (the "**Government**") gazetted the Employment and Retirement Schemes Legislation (Offsetting Arrangement) (Amendment) Ordinance 2022, which will eventually abolish the use of the employers' mandatory provident fund ("**MPF**") mandatory contributions to offset severance payment ("**SP**") and long service payment ("**LSP**"). The Government subsequently announced that the abolition of the MPF offsetting arrangement will take effect on 1 May 2025 and that the Government is also expected to introduce a subsidy scheme to assist employers after the abolition.

In July 2023, the HKICPA issued a guidance "Accounting implications of the abolition of the MPF-LSP offsetting mechanism in Hong Kong" outlining acceptable approaches to account for the LSP liability in accordance with HKAS 19 – *Employee Benefits*. In this interim financial report and in prior periods, the Group has accounted for the expected offset arising from the offsetting mechanism as a reduction of the LSP payable. The Group has decided to adopt the accounting policies to conform with the guidance. The management has commenced the processes on implementing the change and impact assessment. The impact of the change is not reasonably estimable at the time this interim financial report is authorized for issue. Based on preliminary assessment, the management does not consider that the adoption of the guidance will have a significant impact on the Group's financial statements. The Group expects to adopt this guidance with retrospective application in its annual financial statements for the year ending 31 December 2023.

3. Estimates

The preparation of the interim financial statements in conformity with HKAS 34 requires the 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. Segmental 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 the 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. The measurement basis is changed from profit or loss after taxation to profit or loss before taxation from the current reporting period.

4. Segmental Information (Continued)

Segment assets include all tangible assets, 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	
	2023	2022	**2023**	2022	**2023**	2022	**2023**	2022
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Reportable segment revenue	**966,921**	834,323	**1,128,652**	835,525	**–**	–	**2,095,573**	1,669,848
Less: Inter-segment revenue	**(40,192)**	(44,843)	**–**	–	**–**	–	**(40,192)**	(44,843)
Revenue	**926,729**	789,480	**1,128,652**	835,525	**–**	–	**2,055,381**	1,625,005
Reportable segment EBITDA *(Note (i))*	**138,882**	81,095	**133,225**	59,231	**4,725**	9,428	**276,832**	149,754
Finance income	**–**	–	**256**	16	**732**	648	**988**	664
Finance costs								
– Interest on bank borrowings	**–**	–	**(47)**	(51)	**(2,609)**	(2,761)	**(2,656)**	(2,812)
– Interest on licence fees payable	**–**	–	**(25,313)**	(21,037)	**–**	–	**(25,313)**	(21,037)
– Interest on lease liabilities	**(753)**	(809)	**(3,706)**	(2,217)	**(189)**	(96)	**(4,648)**	(3,122)
Depreciation charge								
– Owned property, plant and equipment	**(9,228)**	(9,460)	**(28,348)**	(19,984)	**(3,744)**	(5,392)	**(41,320)**	(34,836)
– Right-of-use assets	**(4,353)**	(4,375)	**(52,146)**	(35,623)	**(4,200)**	(3,567)	**(60,699)**	(43,565)
Amortisation of intangible assets	**–**	–	**(28,199)**	(25,123)	**–**	–	**(28,199)**	(25,123)
Reportable segment profit/(loss) before taxation	**124,548**	66,451	**(4,278)**	(44,788)	**(5,285)**	(1,740)	**114,985**	19,923
Income tax charge							**(36,880)**	(34,572)
Profit/(loss) for the period							**78,105**	(14,649)

4. Segmental Information (Continued)

	Garment manufacturing		Brands business		Unallocated *(Note (iii))*		Total	
	At 30 June 2023	At 31 December 2022	**At 30 June 2023**	At 31 December 2022	**At 30 June 2023**	At 31 December 2022	**At 30 June 2023**	At 31 December 2022
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Reportable segment assets	**941,909**	783,072	**1,723,723**	1,869,783	**360,894**	423,354	**3,026,526**	3,076,209
Reportable segment liabilities	**386,205**	475,605	**1,386,375**	1,451,279	**142,062**	109,847	**1,914,642**	2,036,731

	Six months ended 30 June							
	Garment manufacturing		Brands business		Unallocated		Total	
	2023	2022	**2023**	2022	**2023**	2022	**2023**	2022
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Reversal of/(provision for) impairment of receivables, net	**9**	15	**68**	(2,903)	**–**	–	**77**	(2,888)
Write-down of inventories to net realisable value, net	**(5,621)**	(6,503)	**(11,001)**	(19,519)	**–**	–	**(16,622)**	(26,022)
Additions to property, plant and equipment including right-of-use assets	**8,572**	11,522	**96,801**	38,637	**523**	1,704	**105,896**	51,863
Additions to intangible assets	**–**	–	**8,338**	397,349	**–**	–	**8,338**	397,349

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 the management for monitoring business performance. It may not be comparable to similar measures presented by other companies.

(ii) Under HKFRS 16, the Group as a lessee is required to recognise interest expenses accrued on the outstanding balance of the lease liability and the depreciation on the right-of-use asset, instead of recognising rental expenses incurred under operating leases on straight-line basis over the lease term. In the cash flow statement, the Group as a lessee is required to classify rentals paid under the capitalised leases as financing cash outflows.

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

4. **Segmental 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, Italy and Singapore, while the Group's right-of-use assets, production facilities, trademark, licence rights and other assets are located predominantly in the PRC, Switzerland and Thailand. An analysis of the Group's revenue by location of customers and an analysis of the Group's non-current assets by locations of physical assets or the asset holding companies are as follows:

	Six months ended 30 June													
	PRC		**UK**		**Canada**		**Italy**		**Singapore**		**Other countries**		**Total**	
	2023	2022	**2023**	2022	**2023**	2022	**2023**	2022	**2023**	2022	**2023**	2022	**2023**	2022
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Revenue	**638,816**	425,104	**439,697**	342,246	**206,303**	223,252	**301,942**	200,326	**100,205**	117,456	**368,418**	316,621	**2,055,381**	1,625,005

Included in revenue derived from the PRC was HK$40,645,000 (2022: HK$85,347,000) related to revenue generated in Hong Kong.

For the six months ended 30 June 2023, revenues from one customer (2022: one customer) in the garment manufacturing segment accounted for more than 10% of the Group's total revenue and represented approximately 13% (2022: 13%) of the total revenue.

	PRC		**Switzerland**		**Thailand**		**Other countries**		**Total**	
	At 30 June 2023	At 31 December 2022	**At 30 June 2023**	At 31 December 2022	**At 30 June 2023**	At 31 December 2022	**At 30 June 2023**	At 31 December 2022	**At 30 June 2023**	At 31 December 2022
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Non-current assets *(Note)*	**903,005**	938,889	**209,109**	175,362	**62,827**	63,181	**107,063**	112,943	**1,282,004**	1,290,375

Note:

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

5. **Other Net Income**

	Six months ended 30 June	
	2023	2022
	HK$'000	*HK$'000*
Government subsidy	**657**	3,034
Net loss on disposal of property, plant and equipment	**(1,409)**	(1,008)
Net gain recognised upon liquidation and disposal of subsidiaries	**1,286**	4,554
Net gain on derecognition of right-of-use assets and lease liabilities	**997**	3,117
Sundry income	**1,672**	2,509
	3,203	12,206

6. Profit from Operations

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

	Six months ended 30 June	
	2023	2022
	HK$'000	*HK$'000*
Amortisation of intangible assets	**28,199**	25,123
Depreciation charge		
– Owned property, plant and equipment	**41,320**	34,836
– Right-of-use assets	**60,699**	43,565
Expenses related to short-term leases and variable lease payments	**21,026**	17,429
(Reversal of)/provision for impairment of receivables, net	**(77)**	2,888
Provision for write-down of inventories to net realisable value, net	**16,622**	26,022
Staff cost and employment benefit expenses	**359,317**	327,118

7. Finance Income and Finance Costs

	Six months ended 30 June	
	2023	2022
	HK$'000	*HK$'000*
Finance income		
Interest income from bank deposits	**728**	239
Imputed interest on long-term rental deposits	**260**	425
	988	664
Finance costs		
Interest on bank borrowings	**2,656**	2,812
Interest on licence fees payable	**25,313**	21,037
Interest on lease liabilities	**4,648**	3,122
	32,617	26,971

8. Income Tax Charge

	Six months ended 30 June	
	2023	2022
	HK$'000	*HK$'000*
Current income tax *(Note)*		
Hong Kong profits tax	**17,551**	5,914
Non-Hong Kong tax	**19,794**	24,266
(Over)/under provision for prior year	**(1,933)**	418
Deferred income tax	**1,468**	3,974
	36,880	34,572

Note:

The provision for Hong Kong Profits Tax is calculated by applying the estimated annual effective tax rate of 16.5% (2022: 16.5%) to the six months ended 30 June 2023.

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

9. Earnings/(Loss) per Share

Basic earnings/(loss) per share is calculated by dividing the consolidated profit/(loss) attributable to equity shareholders of the Company of HK$74,176,000 (2022: loss of HK$19,294,000) by the weighted average number of 271,607,253 (2022: 271,607,253) ordinary shares in issue for the half year.

Diluted earnings/(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 2023 and 30 June 2022, the conversion of all potential ordinary shares outstanding would have an anti-dilutive effect on the earnings/(loss) per share. Hence, there was no dilutive effect on the calculation of the diluted earnings/(loss) per share for the six months ended 30 June 2023 and 30 June 2022.

10. Interim Dividend

	Six months ended 30 June	
	2023	2022
	HK$'000	*HK$'000*
Interim dividend of HK$0.06 (2022: Nil) per share	**16,296**	–

On 28 August 2023, the Board declared an interim dividend of HK$0.06 per share. The interim dividend is not reflected as a dividend payable in these condensed consolidated interim financial statements but will be reflected as an appropriation of the retained earnings for the year ending 31 December 2023.

11. Inventories

	At 30 June 2023	At 31 December 2022
	HK$'000	*HK$'000*
Raw materials	**112,674**	101,700
Work-in-progress	**167,939**	140,016
Finished goods	**483,201**	587,302
Goods in transit	**19,348**	25,152
	783,162	854,170

Increase in raw materials and work-in-progress reflect seasonal requirement for second half year shipment of garment manufacturing segment. Finished goods decreased as the Group has been reducing inventories of brands business after the COVID-19 pandemic.

12. Accounts Receivable and Bills Receivable

	At 30 June 2023	At 31 December 2022
	HK$'000	*HK$'000*
Accounts receivable at amortised cost, net of loss allowance	**419,026**	380,970
Accounts receivable to be sold at fair value through other comprehensive income (recycling)	**203,701**	111,079
	622,727	492,049

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

	At 30 June 2023	At 31 December 2022
	HK$'000	*HK$'000*
Less than 3 months	**566,745**	417,768
3 months to 6 months	**56,846**	72,266
Over 6 months	**2,826**	5,929
	626,417	495,963
Less: Loss allowance	**(3,690)**	(3,914)
	622,727	492,049

12. Accounts Receivable and Bills Receivable (Continued)

The majority of accounts receivable are with customers having an appropriate credit history and are on open account. The Group grants its customers credit terms mainly ranging from 45 days to 90 days (31 December 2022: 45 days to 90 days). All of the accounts receivable and bills receivable are expected to be recovered within one year.

The carrying amounts of the accounts receivable and bills receivable approximate their fair values. The maximum exposure to credit risk is the fair value of the above receivables. The Group does not hold any collateral as security.

As part of the Group's cash flow management, the Group has the practice of selling some of the accounts receivable to financial institutions under customers' vendor financing program before the accounts receivable are due for payment. The Group derecognises the accounts receivable sold on the basis that the Group has transferred substantially all risks and rewards to the relevant counterparties.

As at 30 June 2023 and 31 December 2022, the fair value changes on accounts receivable at fair value through other comprehensive income (recycling) were insignificant and accordingly, no fair value changes were recognised in equity as fair value to other comprehensive income reserve.

13. Accounts Payable and Bills Payable

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

	At 30 June 2023 ***HK$'000***	At 31 December 2022 *HK$'000*
Less than 3 months	**295,790**	377,136
3 months to 6 months	**43,149**	44,129
Over 6 months	**18,600**	16,056
	357,539	437,321

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. Commitments

At 30 June 2023, the Group was committed to enter into new leases within 5 years that is not yet commenced, the lease payments under which amounted to HK$4,034,000 per annum (At 31 December 2022: HK$793,000).

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 2023.

Overview

For the six months ended 30 June 2023, the Group recorded a profit attributable to equity shareholders of HK$74 million as compared to the loss of HK$19 million for the comparable period ended 30 June 2022. The substantial turnaround in the Group's financial performance in the first half of 2023 was mainly attributable to the increase in revenue and profit from our garment manufacturing business, and reduction in losses of our brands business largely due to improved performance of the Group's licensed brand, Nautica.

Own Brands

C.P. Company continued to post strong revenue and profitability in the first half of 2023 benefited from sustained strong demand for its products. Wholesale business in Europe, in particular the UK, Italy and France, remained the largest contributors of C.P. Company revenue. Sales to other European countries and South Korea have also seen encouraging growth. E-commerce also recorded noticeable growth with further growth opportunities. The continued successful implementation of brand, product and sales initiatives have led to robust consumer demand. To complement the wholesale business in Europe, the brand has six directly managed retail stores and outlets in the upmarket streets of London, Milan, Riccione, Mendrisio, Noventa di Piave and Amsterdam.

Our unique French concept premium ladies wear Cissonne continued to gradually expand through direct retailing in China major cities. The brand has now nine stores located in Beijing China World Mall, Beijing Galeries Lafayette, Shanghai Grand Gateway 66, Shanghai Jing An Kerry Centre, Qingdao MIXC, Qingdao Hisense Plaza, Hangzhou MIXC, Wuhan International Plaza and Shanghai Zhenning Road respectively.

Licensed Brands

After lifting of the COVID-19 prevention and control measures in December 2022 and the recovery of economic and social activities in China, all our licensed brands in China recorded revenue jump in the first half of 2023 as compared to same period last year. Revenue of Nautica grew 72% over the last year. White Sail which targets a younger consumer group and features over-sized, preppy streetwear styling was well received by consumers and had strong sell-through. We have added full-price image stores, e-commerce channels and wholesale transactions for this collection. The brand reported a substantial reduction in operating loss attributed to the top line increase. As of 30 June 2023, Nautica had 70 directly managed retail stores and another 93 stores operated by partners (30 June 2022: 158 stores in total).

Spyder was officially launched in China in November 2019. As a newly launched brand, Spyder was hit by the COVID-19 outbreak in China in early 2020 and the elongated lockdowns in 2022. Spyder reported an increase in revenue in the first half of 2023 after the pandemic. The brand also narrowed its net losses compared with the last year, mainly resulted from increased revenue and write-back of inventory provisions. As of 30 June 2023, Spyder had 54 stores across China (30 June 2022: 48 stores).

In the first half of 2023, the Group recorded a full half year revenue for Reebok as compared to revenue contributed from 1 May in 2022. At the outset, the Reebok China and Hong Kong business is primarily direct-to-consumer through mono-brand stores and e-commerce. We have expanded e-commerce platforms and added retail stores for Reebok in this first half year. Net losses of the brand in the first half of 2023 increased over the comparable period last year as the brand is still at its investment stage in this year. As of 30 June 2023, Reebok had 23 stores across China.

Garment Manufacturing

In the period under review, our garment manufacturing business has posted growth in both revenue and net profit as compared to same period last year. Revenue for the first half of 2023 has increased 17% over the last year, though still a bit below pre-COVID-19 level. 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 increased orders from certain key customers. Our Vietnam and Myanmar factories allow us to stay competitive in cost to support our "better business" for better tailoring products. The strong profit increase of this segment was mainly attributable to rise in revenue from certain premium business customers, and improved gross margin arising from change of customer mix, lowered freight-in costs after the pandemic, factory cost control and the weakening of Renminbi.

Financial Highlights

	Note	**First half 2023**	First half 2022
Operating results (HK$ million)			
Revenue		**2,055**	1,625
Gross profit		**877**	633
EBITDA		**277**	150
Depreciation on right-of-use assets	2	**(61)**	(44)
Interest on lease liabilities	2	**(5)**	(3)
Amortisation of licence rights	1	**(28)**	(25)
Interest on licence fees payable	1	**(25)**	(21)
Depreciation on owned property, plant and equipment		**(41)**	(35)
Income tax charge		**(37)**	(35)
Profit/(loss) attributable to equity shareholders		**74**	(19)
Segment results (HK$ million)			
Garment manufacturing EBITDA		**139**	81
Depreciation on right-of-use assets	2	**(4)**	(4)
Interest on lease liabilities	2	**(1)**	(1)
Depreciation on owned property, plant and equipment		**(9)**	(9)
Garment manufacturing results before tax		**125**	66
Brands business EBITDA		**133**	59
Depreciation on right-of-use assets	2	**(52)**	(36)
Interest on lease liabilities	2	**(4)**	(2)
Amortisation of licence rights	1	**(28)**	(25)
Interest on licence fees payable	1	**(25)**	(21)
Depreciation on owned property, plant and equipment		**(28)**	(20)
Brands business results before tax		**(4)**	(45)
Cash flow (HK$ million)			
Cash generated from/(used in) operations		**110**	(90)
Income tax paid		**(28)**	(31)
Payment for the purchase of property, plant and equipment		**(48)**	(23)
Rental payments under capitalised leases	2	**(62)**	(45)

		At 30 June 2023	At 31 December 2022
Financial position (HK$ million)			
Cash and bank balances		**240**	301
Bank borrowings		**75**	107
Intangible assets	1	**704**	720
Licence fees payable			
Non-current portion	1	**615**	625
Current portion included in accruals and other payables	1	**97**	83
Total equity		**1,112**	1,039

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, Spyder and Reebok.

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

Financial Review

Revenue

Total revenue of the Group for the first half of 2023 was HK$2,055 million (2022: HK$1,625 million), representing an increase of 26% as compared to 2022.

Revenue from brands business was HK$1,129 million in the first half of 2023 as compared to HK$836 million in 2022. C.P. Company continued to report revenue growth against same period last year. After the lifting of all pandemic prevention and control measures in China in late 2022, all our licensed brands in China recorded revenue jump as compared to last year. Revenue of both Nautica and Spyder were up over 70% against same period last year, while Reebok recorded a full half year revenue in 2023 as compared to revenue contributed from May in 2022.

Revenue from the garment manufacturing business amounted to HK$927 million versus HK$789 million in 2022. Revenue from premium business, which accounted for 73% (2022: 77%) of the segment revenue, increased 11% as compared to last year. Revenue from better business also rose 31%. During the period under review, we saw orders increase from certain premium and better business customers.

Geographically, major markets of the Group are PRC, the UK, Italy and Canada, which accounted for 31% (2022: 26%), 21% (2022: 21%), 15% (2022: 12%) and 10% (2022: 14%) of the Group's total revenue respectively. The change was mainly due to the increase in revenue of our licensed brands in China.

The Group's business tends to be skewed towards the second half year mainly due to the seasonality effect in terms of more shipments for Fall/Winter and holiday seasons for both our garment manufacturing and brands business. The Group expects that the pattern of a larger proportion of sales record in the second half year will continue with such order pattern from customers.

Gross Profit

During the period, the Group's overall gross profit recorded at HK$877 million (2022: HK$633 million), representing a gross profit margin of 42.7% (2022: 38.9%). The increase in gross profit was mainly attributable to the increased turnover. Gross profit margin of garment manufacturing business increased by mid-single digit as compared to a year earlier due to change of customer mix, lowered freight-in costs after the pandemic, factory cost control and the weakening of Renminbi. The overall gross profit margin of brands business remained stable. The Group's overall gross profit margin increased in 2023 was due to the rise in revenue proportion of brands business and the increase in gross margin of garment manufacturing business.

Selling and Distribution Expenses

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

General and Administrative Expenses

General and administrative expenses increased 2% as compared to 2022. This is mainly due to increased administrative costs in line with business growth and an increase in foreign exchange losses during the first half of 2023.

Segment Results

The substantial increase in segment profit of the garment manufacturing business was mainly driven by the increase in revenue and improved gross margin.

For brands business, C.P. Company continued to report steady and strong profit during the period. The operating losses of Nautica and Spyder were narrowed because of the rise in revenue. The noticeable improvements in Nautica are encouraging. Reebok reported an increase in loss as the brand is still at its investment stage. Altogether our brands business reported a reduction in losses during this reporting period.

Financial Resources and Liquidity

At 30 June 2023, cash and bank balances amounted to HK$240 million (31 December 2022: HK$301 million) which mainly represented United States dollars ("**US dollars**"), Renminbi and Euro bank deposits and balances.

The Group maintained sufficient banking facilities to support its business. At 30 June 2023, the Group had short-term bank borrowings of HK$75 million (31 December 2022: HK$107 million). Short-term bank borrowings were denominated in Hong Kong dollars and Renminbi (31 December 2022: US dollars, Euro and Renminbi) and bearing interest at fixed rates. At 30 June 2023, bank deposits of HK$11 million (31 December 2022: HK$11 million) were pledged to secure bank facilities granted to the Group. Gearing ratio of the Group is calculated as net borrowings divided by total capital. Net borrowings are calculated as total bank borrowings less cash and bank balances, while total capital comprises total equity plus net borrowings. The Group did not have net borrowings at 30 June 2023 and 31 December 2022 respectively, and accordingly, no information on gearing ratio at those dates is provided.

For the cash flow, the Group generated positive cash flow from operations in the first half of 2023 due to better operating performance. In the first half of 2022, the Group used more cash mainly for the purchase of Reebok initial inventory.

Shareholders' equity at 30 June 2023 increased mainly due to profit attributable to equity shareholders for the current 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 2023, the Group had forward foreign exchange contracts to hedge against the foreign exchange exposures arising from Renminbi manufacturing costs and Pound Sterling sales receipts of a European subsidiary.

Contingent Liabilities and Capital Commitments

Apart from the commitments disclosed in Note 14 to the condensed consolidated interim financial statements as set out in this announcement, there were no other material capital commitments or contingent liabilities at 30 June 2023.

Human Resources

The Group had about 6,640 employees at 30 June 2023 (31 December 2022: 6,360). Fair and competitive remuneration packages and benefits are offered to employees. Those employees with outstanding performance are also awarded discretionary bonuses and share options.

Outlook

Our own global brand C.P. Company has a sound business foundation. The brand's steadfast performance reinforces our confidence in its ability to post strong revenue and profitability for the full year of 2023 and the years to come. The brand will expand product range to drive revenue and upgrade its market positioning. We will continue to focus on existing key wholesale markets (UK, Italy, France, Benelux, South Korea and Germany) and monitor sell-through of those markets. The brand will expand into other countries in Europe, Middle East, South America and Asian markets by partnering with key wholesale account. 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 in key European markets and enhance in-store experience and services for our customers.

Leveraging on our strong design and supply chain teams, combined with Nautica's aspirational position, we have a clear path for the brand in terms of distribution channel mix, key retail metrics, and business model. We have identified a clear product concept and merchandise mix, pricing strategies and strategic promotion plans across channels. Building on the momentum in White Sail, we plan to enhance the brand image and launch more collaborations with streetwear brands. We will also expand wholesale transactions for this collection. As the outlet and e-commerce channels continue to be profit drivers, we plan to increase our presence together with select retail partners in top outlet centers. In the e-commerce channel, we will grow existing and new online platforms. We will also continue to invest into our CRM systems with the goal of enhancing membership services and promoting engagement with our customers.

Spyder's positioning is on-trend with the backdrop of a growing snow sports market and the huge premium sports apparel segment in China. We will focus investment into quality outlet stores and e-commerce channels. We will continue to control operating expenses of the brand.

Reebok has a celebrated heritage and has inspired, connected and created great products for athletes and consumers across the world for decades. The brand is deeply rooted in professional sports, sneaker culture, and performance apparel. The Group will leverage Reebok's heritage and deploy strategy to fuse street and fitness styles that provide consumers with Reebok in the fast-growing sports, activewear, and outerwear segments. The team will elevate brand heat and icons, drive e-commerce, develop new store concepts and strengthen our Reebok community. We will focus on e-commerce, expanding premium retail stores and increasing wholesale transactions. We are committed to driving innovation and growth of the brand.

Our garment manufacturing business has delivered strong performance in the first half of 2023. Looking ahead, we expect the business will continue to post strong profitability in the second half year. On the other hand, macro-economic uncertainties, strong competition and rising factory costs remain challenging to the business. To stay resilient, we will continue to streamline our operations and control costs in order to remain competitive and flexible. We are expanding the capacity and enhancing capability of our factory in Vietnam to cope with demand from customers. Our diversified production base, unique production system together with flexible supply chain will enable us to work closely with our premium brands customers and respond to their needs.

The Group is dedicated to strengthening and investing in the long-term success of our business. Even faced with certain macro-economic challenges, we expect our own brand C.P. Company and garment manufacturing business will continue to post profits and generate strong cash flow to support the Group's businesses. Nautica is on track and heading for a further improved financial performance. We will strive to improve the performance of Spyder and are committed to investing into and making Reebok successful. Following the encouraging first half year results, we expect the Group to post a further improved 2023 full year financial performance, and at the same time being mindful of the macro-economic environment. The Group has adequate cash and available bank credit facilities to finance working capital and operational requirements. We are confident that we will achieve long-term profitable growth for the Group.

CORPORATE GOVERNANCE

Throughout the six months ended 30 June 2023, the Company has complied with all the code provisions of the Corporate Governance Code (the "**CG Code**") as set out in Appendix 14 to the Listing Rules, except for the deviations from code provisions C.2.1 and F.2.2.

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

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

Further information of the Company's corporate governance practices has been set out in the corporate governance report of the Company's annual report for 2022.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the six months ended 30 June 2023, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

INTERIM DIVIDEND

The Board has declared an interim dividend of HK$0.06 per share (2022: Nil), totalling approximately HK$16,296,000, for the six months ended 30 June 2023 which is expected to be paid on Friday, 29 September 2023 to those Shareholders whose names appear on the register of members of the Company on Thursday, 14 September 2023.

CLOSURE OF REGISTER OF MEMBERS

For the purpose of ascertaining Shareholders' entitlement to the above interim dividend, the register of members of the Company will be closed from Tuesday, 12 September 2023 to Thursday, 14 September 2023, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the interim dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch registrar and transfer office, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, for registration not later than 4:30 p.m. on Monday, 11 September 2023.

AUDIT COMMITTEE'S REVIEW OF FINANCIAL STATEMENTS

The condensed consolidated interim financial statements and the interim report of the Company for the six months ended 30 June 2023 have been reviewed by the Audit Committee in conjunction with the management of the Group.

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

Hong Kong, 28 August 2023

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