

TRISTATE

Tristate Holdings Limited

(Incorporated in Bermuda with limited liability)

Interim Report  
2020

Stock code: 458



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## Corporate Information

### Board of Directors

#### Executive Director:

WANG Kin Chung, Peter,  
*Chairman and Chief Executive Officer*

#### Non-Executive Directors:

WANG KOO Yik Chun, *Honorary Chairlady*  
MAK WANG Wing Yee, Winnie  
WANG Shui Chung, Patrick

#### Independent Non-Executive Directors:

LO Kai Yiu, Anthony  
James Christopher KRALIK  
Peter TAN

### Audit Committee

LO Kai Yiu, Anthony,  
*Chairman of the Audit Committee*  
MAK WANG Wing Yee, Winnie  
James Christopher KRALIK

### Remuneration Committee

James Christopher KRALIK,  
*Chairman of the Remuneration Committee*  
MAK WANG Wing Yee, Winnie  
LO Kai Yiu, Anthony  
Peter TAN

### Share Option Committee

WANG Kin Chung, Peter,  
*Chairman of the Share Option Committee*  
MAK WANG Wing Yee, Winnie

### Chief Financial Officer

CHAN Man Ying, Vivian

### Company Secretary

TO Hon Fai

### Auditor

KPMG  
*Public Interest Entity Auditor registered in  
accordance with the Financial Reporting Council Ordinance*

### Legal Advisors

On Hong Kong Law : Reed Smith Richards Butler  
On Bermuda Law : Appleby

### Principal Bankers

Standard Chartered Bank (Hong Kong) Limited  
The Hongkong and Shanghai Banking Corporation Limited  
Citibank, N.A.  
The Bank of East Asia, Limited

### Registered Office

Victoria Place, 5th Floor  
31 Victoria Street  
Hamilton HM 10  
Bermuda

### Head Office and Principal Place of Business in Hong Kong

5th Floor, 66–72 Lei Muk Road  
Kwai Chung, New Territories  
Hong Kong  
Tel : (852) 2279-3888  
Fax : (852) 2480-4676  
Website : <http://www.tristateww.com>

### Corporate Communications

The Company Secretary  
Tristate Holdings Limited  
5th Floor, 66–72 Lei Muk Road  
Kwai Chung, New Territories  
Hong Kong  
Tel : (852) 2279-3888  
Fax : (852) 2423-5576  
Email : [cosec@tristateww.com](mailto:cosec@tristateww.com)

### Listing Information

The shares of the Company have been listed on the Main Board of The Stock Exchange of Hong Kong Limited since 1988.  
Stock short name : Tristate Hold  
Stock code : 458  
Board lot : 1,000 shares

### Principal Registrar and Transfer Office

MUFG Fund Services (Bermuda) Limited  
4th Floor North  
Cedar House  
41 Cedar Avenue  
Hamilton HM 12  
Bermuda

### Branch Registrar and Transfer Office

Computershare Hong Kong Investor Services Limited  
Shops 1712–1716, 17th Floor  
Hopewell Centre  
183 Queen's Road East  
Wan Chai  
Hong Kong

## Consolidated Interim Financial Statements

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

### Condensed Consolidated Interim Statement of Profit or Loss

For the six months ended 30 June 2020 – unaudited

	Note	Six months ended 30 June	
		2020 HK\$'000	2019 HK\$'000
Revenue	5 & 6	<b>892,306</b>	1,304,391
Cost of sales		<b>(622,220)</b>	(939,625)
Gross profit		<b>270,086</b>	364,766
Other income and other gains	7	<b>4,233</b>	14,150
Selling and distribution expenses		<b>(178,822)</b>	(143,168)
General and administrative expenses		<b>(212,111)</b>	(244,005)
Loss from operations	8	<b>(116,614)</b>	(8,257)
Finance income	9	<b>356</b>	1,319
Finance costs	9	<b>(16,612)</b>	(16,527)
Loss before taxation		<b>(132,870)</b>	(23,465)
Income tax charge	10	<b>(2,704)</b>	(10,706)
Loss for the period		<b>(135,574)</b>	(34,171)
Attributable to:			
Equity shareholders of the Company		<b>(135,591)</b>	(35,028)
Non-controlling interests		<b>17</b>	857
Loss for the period		<b>(135,574)</b>	(34,171)
Loss per share attributable to equity shareholders of the Company:	11		
Basic		<b>(HK\$0.50)</b>	(HK\$0.13)
Diluted		<b>(HK\$0.50)</b>	(HK\$0.13)

### Condensed Consolidated Interim Statement of Comprehensive Income

For the six months ended 30 June 2020 – unaudited

	Six months ended 30 June	
	2020 HK\$'000	2019 HK\$'000
Loss for the period	<b>(135,574)</b>	(34,171)
Other comprehensive income, net of nil tax unless specified:		
<i>Items that may be reclassified subsequently to profit or loss</i>		
Fair value changes on cash flow hedges		
– (Losses)/gains arising during the period	<b>(1,832)</b>	1,078
– Transferred to and included in the following line items in the condensed consolidated interim statement of profit or loss		
– Cost of sales	<b>2,761</b>	1,853
– General and administrative expenses	<b>(299)</b>	324
Exchange difference on translation of financial statements of overseas subsidiaries	<b>(16,838)</b>	7,369
Other comprehensive income for the period	<b>(16,208)</b>	10,624
Total comprehensive income for the period	<b>(151,782)</b>	(23,547)
Attributable to:		
Equity shareholders of the Company	<b>(151,799)</b>	(24,404)
Non-controlling interests	<b>17</b>	857
Total comprehensive income for the period	<b>(151,782)</b>	(23,547)

The notes on pages 7 to 14 form part of the interim financial statements.

# Consolidated Interim Financial Statements

## Condensed Consolidated Interim Statement of Financial Position

As at 30 June 2020 – unaudited

		At 30 June 2020 HK\$'000	At 31 December 2019 HK\$'000		At 30 June 2020 HK\$'000	At 31 December 2019 HK\$'000
	Note			Note		
<b>Non-Current Assets</b>						
Property, plant and equipment	13	621,371	652,354			
Intangible assets	14	439,661	455,674			
Other long-term assets		23,657	27,223			
Deferred tax assets		3,450	3,490			
Defined benefit plan assets		8,695	8,704			
Forward foreign exchange contracts		53	3			
Interest in an associate		–	–			
		<b>1,096,887</b>	1,147,448			
<b>Current Assets</b>						
Inventories	15	509,933	413,974			
Accounts receivable and bills receivable	16	240,167	352,705			
Forward foreign exchange contracts		1,210	516			
Prepayments and other receivables		68,988	76,546			
Current tax recoverable		135	107			
Cash and bank balances	17	223,501	285,363			
		<b>1,043,934</b>	1,129,211			
<b>Current Liabilities</b>						
Accounts payable and bills payable	18	215,707	179,110			
Accruals and other payables and contract liabilities	19	273,127	269,277			
Lease liabilities		86,641	70,286			
Forward foreign exchange contracts		8,018	7,344			
Current tax liabilities		21,987	34,347			
Bank borrowings	20	56,196	64,540			
		<b>661,676</b>	624,904			
<b>Net Current Assets</b>		<b>382,258</b>	504,307			
<b>Total Assets Less Current Liabilities</b>		<b>1,479,145</b>	1,651,755			
<b>Non-Current Liabilities</b>						
Retirement benefits and other post retirement obligations		39,887	43,677			
Licence fees payable		289,453	301,704			
Lease liabilities		134,832	144,597			
Deferred tax liabilities		24,509	23,512			
Forward foreign exchange contracts		1,101	1,661			
Bank borrowings	20	4,073	–			
		<b>493,855</b>	515,151			
<b>Net Assets</b>		<b>985,290</b>	1,136,604			
<b>Capital and Reserves</b>						
Share capital	21	27,161	27,161			
Reserves		958,546	1,109,877			
Total Equity Attributable to Equity Shareholders of the Company		<b>985,707</b>	1,137,038			
Non-controlling Interests		(417)	(434)			
<b>Total Equity</b>		<b>985,290</b>	1,136,604			

The notes on pages 7 to 14 form part of the interim financial statements.

## Consolidated Interim Financial Statements

### Condensed Consolidated Interim Statement of Changes in Equity

For the six months ended 30 June 2020 – unaudited

	Attributable to equity shareholders of the Company			Non- controlling interests HK\$'000	Total equity HK\$'000
	Share capital HK\$'000	Reserves HK\$'000	Total HK\$'000		
	Balance at 1 January 2020	27,161	1,109,877		
Total comprehensive income for the period	–	(151,799)	(151,799)	17	(151,782)
Share option scheme – value of employee services	–	468	468	–	468
Balance at 30 June 2020	27,161	958,546	985,707	(417)	985,290

	Attributable to equity shareholders of the Company			Non- controlling interests HK\$'000	Total equity HK\$'000
	Share capital HK\$'000	Reserves HK\$'000	Total HK\$'000		
	Balance at 1 January 2019	27,161	1,152,509		
Total comprehensive income for the period	–	(24,404)	(24,404)	857	(23,547)
Share option scheme – value of employee services	–	467	467	–	467
Balance at 30 June 2019	27,161	1,128,572	1,155,733	(1,469)	1,154,264

The notes on pages 7 to 14 form part of the interim financial statements.

# Consolidated Interim Financial Statements

## Condensed Consolidated Interim Cash Flow Statement

For the six months ended 30 June 2020 – unaudited

	Six months ended 30 June		Note	Six months ended 30 June	
	2020 HK\$'000	2019 HK\$'000		2020 HK\$'000	2019 HK\$'000
Operating activities					
Loss before taxation	<b>(132,870)</b>	(23,465)			
Adjustments for:					
Net gain on disposal of a subsidiary	–	(10,914)			
Write-down/(reversal of write-down) of inventories to net realisable value, net	<b>23,033</b>	(5,041)			
Provision for impairment of receivables, net	<b>3,140</b>	1,577			
Other operating activities	<b>103,748</b>	86,873			
Changes in working capital:					
Increase in inventories	<b>(118,992)</b>	(190,987)			
Decrease/(increase) in accounts receivable and bills receivable	<b>109,398</b>	(53,144)			
Decrease/(increase) in prepayments and other receivables	<b>11,608</b>	(22,792)			
Increase in accounts payable and bills payable	<b>36,597</b>	58,513			
(Decrease)/increase in accruals and other payables and contract liabilities	<b>(17,463)</b>	858			
(Decrease)/increase in retirement benefits and other post retirement obligations	<b>(3,777)</b>	8,383			
Cash generated from/ (used in) operations	<b>14,422</b>	(150,139)			
Income tax paid	<b>(13,700)</b>	(2,120)			
Net cash generated from/ (used in) operating activities	<b>722</b>	(152,259)			
Investing activities					
Interest received	<b>356</b>	1,319			
Payment for the purchase of property, plant and equipment	<b>(17,114)</b>	(26,390)			
Proceeds from disposals of property, plant and equipment	<b>165</b>	105			
Net proceeds from disposal of a subsidiary	–	5,655			
Decrease in bank structured deposits	–	27,888			
Increase in pledged bank deposits	<b>(7,556)</b>	–			
Net cash (used in)/generated from investing activities	<b>(24,149)</b>	8,577			
Financing activities					
Capital element of lease rentals paid	<b>(33,670)</b>	(21,335)			
Interest element of lease rentals paid	<b>(4,906)</b>	(3,875)			
Interest paid	<b>(1,573)</b>	(1,981)			
Proceeds from new bank borrowings	<b>91,501</b>	257,226			
Repayment of bank borrowings	<b>(95,772)</b>	(217,841)			
Net cash (used in)/generated from financing activities	<b>(44,420)</b>	12,194			
Decrease in cash and cash equivalents	<b>(67,847)</b>	(131,488)			
Cash and cash equivalents at beginning of the period	17	<b>250,944</b>			262,686
Effect on foreign exchange rate changes		<b>(1,571)</b>			319
Cash and cash equivalents at end of the period	17	<b>181,526</b>			131,517

The notes on pages 7 to 14 form part of the interim financial statements.



# Consolidated Interim Financial Statements

## Notes to the Consolidated Interim Financial Statements

For the six months ended 30 June 2020

### 1. General Information

Tristate Holdings Limited (the "Company") is a limited liability company incorporated in Bermuda. The address of its registered office is Victoria Place, 5th Floor, 31 Victoria Street, Hamilton HM 10, Bermuda. The address of its head office and principal place of business in Hong Kong is 5th Floor, 66–72 Lei Muk Road, Kwai Chung, New Territories, Hong Kong.

The principal activities of the Company and its subsidiaries (together the "Group") are (i) garment manufacturing, and (ii) brands business.

The Company's shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited since 1988.

The unaudited consolidated interim financial statements are presented in Hong Kong dollars ("HK\$"), unless otherwise stated. The unaudited consolidated interim financial statements for the six months ended 30 June 2020 were approved for issue by the Board on 31 August 2020.

These consolidated interim financial statements have not been audited or reviewed by external auditors.

### 2. Basis of Preparation and Accounting Policies

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

The interim financial statements have been prepared in accordance with the same accounting policies adopted in the 2019 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2020 annual financial statements. Details of any changes in accounting policies are set out in Note 3.

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

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

### 3. Changes in Accounting Policies

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

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

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

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

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

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

The Group has elected to early adopt the amendment and applies the practical expedient to all qualifying COVID-19-related rent concessions granted to the Group during the interim reporting period. Consequently, rent concessions received have been accounted for as negative variable lease payments recognised in profit or loss in the period in which the event or condition that triggers those payments occurred (see Note 13(a)). There is no impact on the opening balance of equity at 1 January 2020.

### 4. 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.

# Consolidated Interim Financial Statements

## Notes to the Consolidated Interim Financial Statements

For the six months ended 30 June 2020

### 5. 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.

Segment assets include all tangible, intangible assets and current assets employed by the segments. Segment liabilities include all current liabilities and non-current liabilities managed directly by the segments. Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments. Inter-segment sales are priced with reference to prices charged to external parties for similar orders. The segment information is as follows:

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

# Consolidated Interim Financial Statements

## Notes to the Consolidated Interim Financial Statements

For the six months ended 30 June 2020

### 5. Segment Information (Continued)

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

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

Notes:

- (i) EBITDA is defined as earnings before finance income, finance costs, income tax (charge)/credit, depreciation and amortisation. EBITDA is a non-HKFRS measure used by management for monitoring business performance. It may not be comparable to similar measures presented by other companies.
- (ii) Unallocated assets and liabilities mainly include centrally-managed cash and bank balances, bank borrowings, property, plant and equipment and lease liabilities for corporate purposes.

The Group's revenue is mainly derived from customers located in the People's Republic of China (the "PRC"), the United States of America (the "US"), the United Kingdom (the "UK") and Canada, while the Group's production facilities, trademark and other assets are located predominantly in the PRC, Luxembourg and Thailand. The PRC includes the Mainland China, Hong Kong and Macau. An analysis of the Group's revenue by location of customers and an analysis of the Group's non-current assets by locations of physical assets or the asset holding companies are as follows:

	Six months ended 30 June													
	US		UK		PRC		Canada		Singapore		Other countries		Total	
	2020 HK\$'000	2019 HK\$'000	2020 HK\$'000	2019 HK\$'000	2020 HK\$'000	2019 HK\$'000	2020 HK\$'000	2019 HK\$'000	2020 HK\$'000	2019 HK\$'000	2020 HK\$'000	2019 HK\$'000	2020 HK\$'000	2019 HK\$'000
Revenue	80,076	242,495	212,672	347,343	186,989	203,110	106,449	180,713	93,342	53,148	212,778	277,582	892,306	1,304,391

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

# Consolidated Interim Financial Statements

## Notes to the Consolidated Interim Financial Statements

For the six months ended 30 June 2020

### 5. Segment Information (Continued)

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

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

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

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

### 6. Seasonality of Operations

The Group's business experiences higher sales revenue in the second half of the year as compared with the first half due to seasonality effect of Fall/Winter and holiday seasons shipment for both of its garment manufacturing products and brands business products.

### 7. Other Income and Other Gains

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

Notes:

- The Group received HK\$3,227,000 (2019: HK\$763,000) government subsidies from the Mainland China and Hong Kong government during the current period, of which HK\$1,862,000 representing funding support for the current period from the Employment Support Scheme under the Anti-epidemic Fund, set up by the Hong Kong Government.
- During the six months ended 30 June 2019, the Group disposed of a wholly-owned subsidiary incorporated in the Philippines, with a net gain of HK\$10,914,000. Out of the total consideration of HK\$16,725,000, a retention money of HK\$1,520,000 will be received by the Group in 2024 while the rest of the consideration has been received in 2019. The subsidiary was the owner of a parcel of land and certain factory buildings in the Philippines, and had been inactive in early years.

### 8. Loss from Operations

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

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

# Consolidated Interim Financial Statements

## Notes to the Consolidated Interim Financial Statements

For the six months ended 30 June 2020

### 9. Finance Income/Finance Costs

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

### 10. Income Tax Charge

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

Note:

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

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

### 11. Loss Per Share

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

Diluted loss per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares granted under the Company's share option scheme.

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

### 12. Interim Dividend

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

### 13. Property, Plant and Equipment

#### (a) Right-of-use assets

During the six months ended 30 June 2020, the Group entered into a number of lease agreements primarily for use of offices and retail stores, and therefore recognised the additions to right-of-use assets of HK\$54,517,000.

The leases of retail stores contain variable lease payment terms that are based on sales generated from the retail stores and minimum lease payment terms that are fixed. These payment terms are common in retail stores in Hong Kong and the Mainland China where majority of the Group's stores operate.

During the six months ended 30 June 2020, the Group received rent concessions in the form of a discount on fixed payments during the period of severe social distancing and travel restriction measures introduced to contain the spread of COVID-19. The amount of fixed and variable lease payments for the interim reporting period is summarised below:

	Six months ended 30 June 2020			
	Fixed payments HK\$'000	Variable payments HK\$'000	COVID-19 rent concessions HK\$'000	Total payments HK\$'000
Retail stores – Hong Kong	2,826	-	(322)	2,504
Retail stores – Mainland China	33,334	4,524	(3,554)	34,304
Retail stores – Europe	3,906	-	-	3,906
Retail stores – Japan	682	1,751	-	2,433
Office, factories and residences	10,123	-	(681)	9,442

	Six months ended 30 June 2019			
	Fixed payments HK\$'000	Variable payments HK\$'000	COVID-19 rent concessions HK\$'000	Total payments HK\$'000
Retail stores – Hong Kong	3,699	-	-	3,699
Retail stores – Mainland China	15,501	2,384	-	17,885
Retail stores – Europe	3,227	-	-	3,227
Retail stores – Japan	2,055	3,680	-	5,735
Offices, factories and residences	9,700	-	-	9,700

As disclosed in Note 3, the Group has early adopted the Amendment to HKFRS 16, *Leases, Covid-19-Related Rent Concessions*, and has applied the practical expedient introduced by the amendment to all eligible rent concessions received by the Group during the period.

# Consolidated Interim Financial Statements

## Notes to the Consolidated Interim Financial Statements

For the six months ended 30 June 2020

### 13. Property, Plant and Equipment (Continued)

#### (b) Acquisitions and disposals of owned assets

During the six months ended 30 June 2020, the Group acquired items of plant and equipment with a cost of HK\$17,114,000 (six months ended 30 June 2019: HK\$26,390,000). Items of plant and equipment with a net book value of HK\$1,006,000 were disposed of during the six months ended 30 June 2020 (six months ended 30 June 2019: HK\$159,000), resulting in a loss on disposal of HK\$841,000 (six months ended 30 June 2019: a loss on disposal of HK\$54,000).

### 14. Intangible Assets

	At 30 June 2020 HK\$'000	At 31 December 2019 HK\$'000
<i>Licence rights (Note (i))</i>		
Opening net book amount	284,263	315,848
Amortisation	(15,792)	(31,585)
Closing net book amount	268,471	284,263
<i>Trademark (Note (ii))</i>		
Opening net book amount	171,344	175,919
Exchange differences	(187)	(4,575)
Closing net book amount	171,157	171,344
<i>Others</i>		
Opening net book amount	67	138
Amortisation	(34)	(67)
Exchange differences	-	(4)
Closing net book amount	33	67
Total intangible assets	439,661	455,674

Notes:

#### (i) Licence rights

Licence rights of brands represent capitalisation of the minimum contractual obligation payable to brand licensors at the time of inception. They are recognised based on discount rates approximately 6.3% to 6.9% per annum at the dates of inception.

#### (ii) Trademark

It represents "C.P. Company" trademark which is regarded as having an indefinite useful life and there is no foreseeable limit to the period over which it is expected to generate cash flows for the Group as it is expected that the value will not be reduced through usage.

### 15. Inventories

	At 30 June 2020 HK\$'000	At 31 December 2019 HK\$'000
Raw materials	98,965	79,980
Work-in-progress	171,448	130,651
Finished goods	218,747	187,503
Goods in transit	20,773	15,840
	509,933	413,974

### 16. Accounts Receivable and Bills Receivable

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

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

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

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

### 17. Cash and Bank Balances

	At 30 June 2020 HK\$'000	At 31 December 2019 HK\$'000
Short-term bank deposits	328	560
Cash at bank and on hand	181,198	250,384
Cash and cash equivalents in the consolidated cash flow statement	181,526	250,944
Pledged bank deposits (Note)	41,975	34,419
Cash and bank balances in the consolidated statement of financial position	223,501	285,363

Note: At 30 June 2020, bank deposits of HK\$41,975,000 (31 December 2019: HK\$34,419,000) was pledged to secure bank guarantee facilities granted to the Group.

# Consolidated Interim Financial Statements

## Notes to the Consolidated Interim Financial Statements

For the six months ended 30 June 2020

### 18. Accounts Payable and Bills Payable

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

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

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

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

### 19. Accruals and Other Payables and Contract Liabilities

#### (a) Accruals and other payables

Accruals and other payables mainly consist of accrued employee costs and other operating expenses.

#### (b) Contract liabilities

When the Group receives advances before the delivery of goods, this will give rise to contract liabilities upon advances receipt, until the revenue recognised on the sale of goods. The payment arrangement is negotiated on a case by case basis with customers. At 30 June 2020, all of the contract liabilities of HK\$741,000 (31 December 2019: HK\$1,188,000) are expected to be settled within one year.

### 20. Bank Borrowings

At 30 June 2020, the bank borrowings were repayable as follows:

	At 30 June 2020 HK\$'000	At 31 December 2019 HK\$'000
Within 1 year or on demand	56,196	64,540
After 2 years but within 5 years	4,073	–
	<b>60,269</b>	64,540

At 30 June 2020, the bank borrowings were denominated in foreign currencies as follows:

	At 30 June 2020 HK\$'000	At 31 December 2019 HK\$'000
United States dollars	9,385	30,442
Swiss franc	4,073	–
Renminbi	43,811	34,098
Hong Kong dollars	3,000	–
	<b>60,269</b>	64,540

The bank borrowings were unsecured and except for the long-term Swiss franc bank borrowings, all other bank loans were covered by corporate guarantees from the Company. The carrying amounts of bank borrowings approximate their fair values.

### 21. Share Capital

	At 30 June 2020 HK\$'000	At 31 December 2019 HK\$'000
Authorised: 500,000,000 (2019: 500,000,000) shares of HK\$0.10 each	<b>50,000</b>	50,000

Issued and fully paid ordinary share capital:

	2020		2019	
	Number of shares	HK\$'000	Number of shares	HK\$'000
As at 1 January and 30 June/ 31 December	<b>271,607,253</b>	<b>27,161</b>	271,607,253	27,161

### 22. Capital Commitments

	At 30 June 2020 HK\$'000	At 31 December 2019 HK\$'000
Authorised but not contracted for	<b>4,578</b>	15,324

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

# Consolidated Interim Financial Statements

## Notes to the Consolidated Interim Financial Statements

For the six months ended 30 June 2020

### 23. Related Party Transactions

#### (a) Transactions with related parties

The following is a summary of significant related party transactions which were carried out in the normal course of the Group's business:

	Six months ended 30 June	
	2020 HK\$'000	2019 HK\$'000
<b>A related company</b>		
Rental payment	<b>3,720</b>	3,510

Note:

In February 2019, the Group entered into a two-year lease with TDB Company Limited ("TDB") in respect of certain properties from TDB for factory, storage and ancillary office. The amount of rent payable by the Group under the lease is HK\$620,000 per month commencing from 1 April 2019 after the previous lease ended on 31 March 2019. The subject lease was determined with reference to comparable rental transactions and offerings as available in the relevant market with similar age, size, use and attributes. At the date of the lease agreement, the Group recognised a right-of-use asset and a lease liability of HK\$16,894,000 in relation to this lease.

The entire issued share capital of TDB, a related company, is held by a discretionary trust of which two directors of the Company are eligible beneficiaries. Rental was paid to TDB for the leasing of factory, storage and ancillary office and was determined by reference to the tenancy agreement entered.

#### (b) Transactions with key management

##### (i) Key management compensation

	Six months ended 30 June	
	2020 HK\$'000	2019 HK\$'000
Salaries, allowances and bonuses	<b>10,682</b>	9,445
Defined contribution plans	<b>195</b>	277
Share-based compensation expense – share options granted	<b>338</b>	325
	<b>11,215</b>	10,047

##### (ii) Advance to an employee

In June 2012, a subsidiary of the Group made a cash advance of HK\$12,000,000 to a key management employee of the Group. Pursuant to the agreement and the amendment agreements dated in June 2013 and 2014, the cash advance is unsecured and bears interest at the Group's cost of borrowing. Cash advance of HK\$3,500,000 plus related interest has been fully repaid in 2016. The remaining cash advance of HK\$8,500,000 ("long-term portion") was to be waived by the subsidiary in equal amount semi-annually over ten years commencing from the third year while the individual remains as an employee of the Group. Any unwaived principal plus related accrued interest will be repayable upon cessation of employment of the employee. The long-term portion regarded as prepaid staff benefit is included in other long-term assets and is amortised over twelve years from the date of the advance.

### 24. Fair Value of Financial Instruments

#### Fair value estimation

The fair value of derivative financial instruments (forward foreign exchange contracts) is determined using forward exchange market rates at the end of each reporting period. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

Financial instruments are measured in the statement of financial position at fair value. HKFRS 13, *Fair value measurement* requires disclosure of fair value measurements according to the following fair value measurement hierarchy:

- Level 1 valuations: Fair value measured using only Level 1 inputs, i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.
- Level 2 valuations: Fair value measured using Level 2 inputs, i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.
- Level 3 valuations: Fair value measured using significant unobservable inputs.

There was no transfer of financial assets between fair value hierarchy classifications for the period/year ended 30 June 2020 and 31 December 2019. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

Forward foreign exchange contracts are measured at fair value and classified as Level 2 valuations at 30 June 2020 and 31 December 2019. Level 2 hedging derivatives comprise forward foreign exchange contracts. These forward foreign exchange contracts have been fair valued using forward exchange rates that are quoted in an active market. The effects of discounting are generally insignificant for Level 2 derivatives. There was no change in valuation techniques during the period.

The carrying amount of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 30 June 2020 and 31 December 2019.



# Management Discussion and Analysis

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

## Overview

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

- Decline in revenue and the performance for our garment manufacturing business due to postponement and reduction of orders in the first half of 2020 by our customers in major countries following the lockdown of their business operations caused by the pandemic; and
- Increase in losses for our brands business due to COVID-19 related store closures and battered consumer sentiment which have impacted our licensed brands (Nautica and Spyder) in China as well as shipment deferred for our own brand C.P. Company in Europe.

## Own Brands

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

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

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

## Licensed Brands

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

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

## Garment Manufacturing

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

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

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

# Management Discussion and Analysis

## Financial Highlights

Note	First half 2020	First half 2019
<b>Operating results (HK\$ million)</b>		
Revenue	<b>892</b>	1,304
Gross profit	<b>270</b>	365
EBITDA	<b>(16)</b>	62
Depreciation on right-of-use asset	2 <b>(47)</b>	(27)
Interest on lease liabilities	2 <b>(4)</b>	(4)
Amortisation of licence right Interest on licence fees payable	1 <b>(16)</b>	(16)
Depreciation on owned property, plant and equipment	1 <b>(11)</b>	(11)
Loss attributable to equity shareholders	<b>(136)</b>	(35)
<b>Segment results (HK\$ million)</b>		
Garment manufacturing EBITDA	<b>16</b>	63
Depreciation on right-of-use asset	2 <b>(4)</b>	(3)
Interest on lease liabilities	2 <b>(1)</b>	(2)
Depreciation on owned property, plant and equipment	<b>(13)</b>	(15)
Garment manufacturing results after tax	<b>(2)</b>	38
Brands business EBITDA	<b>(32)</b>	(22)
Depreciation on right-of-use asset	2 <b>(37)</b>	(19)
Interest on lease liabilities	2 <b>(3)</b>	(2)
Amortisation of licence right Interest on licence fees payable	1 <b>(16)</b>	(16)
Depreciation on owned property, plant and equipment	1 <b>(11)</b>	(11)
Brands business results after tax	<b>(19)</b>	(6)
	<b>(119)</b>	(81)
<b>Cash flow (HK\$ million)</b>		
Cash generated from/ (used in) operations	<b>14</b>	(150)
Cash (used in)/generated from investing activities	<b>(24)</b>	9
Financing activities for lease payments	2 <b>(39)</b>	(25)
	<b>At</b>	At
	<b>30 June</b>	31 December
	<b>2020</b>	2019
<b>Financial position (HK\$ million)</b>		
Cash and bank balances	<b>224</b>	285
Bank borrowings	<b>60</b>	65
Total equity	<b>985</b>	1,137

### Notes:

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

## Financial Review

### Revenue

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

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

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

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

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

# Management Discussion and Analysis

## Gross Profit

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

## Selling and Distribution Expenses

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

## General and Administrative Expenses

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

## Segment Results

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

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

## Financial Resources and Liquidity

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

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

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

Most of the Group's receipts and payments are denominated in US dollars, Hong Kong dollars, Renminbi, Pound Sterling and Euro. The Group manages the related foreign exchange risk exposure by entering into forward foreign exchange contracts. During the six months ended 30 June 2020, the Group had forward foreign exchange contracts to hedge against the foreign exchange exposures arising from US dollars denominated processing income for factories in China and Pound Sterling sales receipts of a European subsidiary.

## Contingent Liabilities and Capital Commitments

Apart from the capital commitment as disclosed in Note 22 to the condensed consolidated financial statements, there was no other material capital commitments or contingent liabilities as at 30 June 2020.

## Human Resources

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

## Outlook

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

## Management Discussion and Analysis

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

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

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

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

## Shareholders' Information and Corporate Governance

### Disclosure of Interests

#### Directors' interests in securities

As at 30 June 2020, the interests and short positions of the directors (the "Board" or the "Directors") and the chief executive of Tristate Holdings Limited (the "Company") in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were (i) recorded in the register kept by the Company pursuant to Section 352 of the SFO; or (ii) notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") under Appendix 10 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), were as follows:

#### Interests in shares of the Company

Name of Director	Long/short position	Number of shares held			Approximate percentage of issued share capital
		Through spouse or minor child	Through controlled corporation	Total	
Mr. WANG Kin Chung, Peter	Long position	3,212,000 (Note 1)	182,577,000 (Note 2)	185,789,000	68.40%

#### Interests in shares of Hua Thai Manufacturing Public Company Limited ("Hua Thai")

Name of Director	Long/short position	Class	Number of shares held		Approximate percentage of issued share capital
			Through spouse or minor child	Total	
Ms. WANG KOO Yik Chun	Long position	Ordinary share	2,500 (Note 3)	2,500	0.03%

Notes:

- 3,212,000 shares were beneficially owned by Ms. Daisy TING, the spouse of Mr. WANG Kin Chung, Peter.
- 182,577,000 shares were beneficially owned by Silver Tree Holdings Inc., a company 100% controlled by New Perfect Global Limited, which in turn was a company wholly owned by Mr. WANG Kin Chung, Peter.
- 2,500 shares in Hua Thai were held by the late Mr. WANG Seng Liang, the spouse of Ms. WANG KOO Yik Chun.

Save as disclosed above, as at 30 June 2020, none of the Directors or the chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were (i) recorded in the register kept by the Company pursuant to Section 352 of the SFO; or (ii) notified to the Company and the Stock Exchange pursuant to the Model Code.

#### Substantial shareholders

As at 30 June 2020, the following persons (other than the Directors or the chief executive of the Company) had interests or short positions in the shares and underlying shares of the Company as recorded in the register kept by the Company pursuant to Section 336 of the SFO:

Name of shareholder	Long/short position	Number of shares held			Approximate percentage of issued share capital	
		Directly beneficially owned	Through spouse or minor child	Through controlled corporation		
Ms. Daisy TING	Long position	3,212,000	182,577,000 (Note)	–	185,789,000	68.40%
New Perfect Global Limited	Long position	–	–	182,577,000 (Note)	182,577,000	67.22%
Silver Tree Holdings Inc.	Long position	182,577,000 (Note)	–	–	182,577,000	67.22%

Note:

These interests relate to the same block of shares of the Company, which were beneficially owned by Silver Tree Holdings Inc., a company 100% controlled by New Perfect Global Limited, which in turn was a company wholly owned by Mr. WANG Kin Chung, Peter. Since Ms. Daisy TING is the spouse of Mr. WANG Kin Chung, Peter, she is deemed to be interested in the shares controlled by Mr. WANG Kin Chung, Peter under Part XV of the SFO.

Save as disclosed above, as at 30 June 2020, no other person (other than a Director or the chief executive of the Company) had an interest or short position in the shares or underlying shares of the Company which were recorded in the register kept by the Company pursuant to Section 336 of the SFO.

## Shareholders' Information and Corporate Governance

### Share Options

A new share option scheme (the "2016 Share Option Scheme") was approved and adopted by the shareholders of the Company at the annual general meeting of the Company held on 6 June 2016 (the "2016 AGM") for granting of share options to eligible persons to subscribe for shares of the Company.

In relation to the share option scheme adopted by the Company on 2 April 2007 (the "2007 Share Option Scheme"), the termination of which was approved at the 2016 AGM. Upon termination, no further share options can be offered under the 2007 Share Option Scheme but all outstanding share options granted thereunder shall continue to be valid and exercisable in accordance with the terms of the 2007 Share Option Scheme.

Movements in the share options under the share option schemes of the Company during the six months ended 30 June 2020 were as follows:

#### A. The 2007 Share Option Scheme

Date of grant	Participant	Number of share options			Exercise price per share	Exercisable period
		At 1 January 2020	Lapsed during the period	At 30 June 2020		
8 June 2015	Employees (in aggregate)	135,000	(135,000)	–	HK\$2.97	8 June 2015 – 7 June 2020
		135,000	(135,000)	–	HK\$2.97	8 June 2016 – 7 June 2020
		135,000	(135,000)	–	HK\$2.97	8 June 2017 – 7 June 2020
		135,000	(135,000)	–	HK\$2.97	8 June 2018 – 7 June 2020
9 May 2016	Employees (in aggregate)	141,000	–	<b>141,000</b>	HK\$2.28	9 May 2016 – 8 May 2021
		141,000	–	<b>141,000</b>	HK\$2.28	9 May 2017 – 8 May 2021
		141,000	–	<b>141,000</b>	HK\$2.28	9 May 2018 – 8 May 2021
		141,000	–	<b>141,000</b>	HK\$2.28	9 May 2019 – 8 May 2021
	Total	1,104,000	(540,000)	<b>564,000</b>		

Notes:

- The above options vest in four equal tranches over a period of three years from the relevant date of grant.
- No options were granted, exercised or cancelled during the period.

## Shareholders' Information and Corporate Governance

### Share Options (Continued)

#### B. The 2016 Share Option Scheme

Date of grant	Participant	Number of share options			Exercise price per share	Exercisable period
		At 1 January 2020	Granted during the period	At 30 June 2020		
5 June 2017	Employees (in aggregate)	239,000	–	<b>239,000</b>	HK\$1.68	5 June 2017 – 4 June 2022
		239,000	–	<b>239,000</b>	HK\$1.68	5 June 2018 – 4 June 2022
		239,000	–	<b>239,000</b>	HK\$1.68	5 June 2019 – 4 June 2022
		239,000	–	<b>239,000</b>	HK\$1.68	5 June 2020 – 4 June 2022
25 June 2018	Employees (in aggregate)	264,000	–	<b>264,000</b>	HK\$1.75	25 June 2018 – 24 June 2023
		264,000	–	<b>264,000</b>	HK\$1.75	25 June 2019 – 24 June 2023
		264,000	–	<b>264,000</b>	HK\$1.75	25 June 2020 – 24 June 2023
		264,000	–	<b>264,000</b>	HK\$1.75	25 June 2021 – 24 June 2023
3 June 2019	Employees (in aggregate)	359,000	–	<b>359,000</b>	HK\$1.58	3 June 2019 – 2 June 2024
		359,000	–	<b>359,000</b>	HK\$1.58	3 June 2020 – 2 June 2024
		359,000	–	<b>359,000</b>	HK\$1.58	3 June 2021 – 2 June 2024
		359,000	–	<b>359,000</b>	HK\$1.58	3 June 2022 – 2 June 2024
8 June 2020 (Notes 2 & 3)	Employees (in aggregate)	–	367,000	<b>367,000</b>	HK\$1.40	8 June 2020 – 7 June 2025
		–	367,000	<b>367,000</b>	HK\$1.40	8 June 2021 – 7 June 2025
		–	367,000	<b>367,000</b>	HK\$1.40	8 June 2022 – 7 June 2025
		–	367,000	<b>367,000</b>	HK\$1.40	8 June 2023 – 7 June 2025
	Total	3,448,000	1,468,000	<b>4,916,000</b>		

#### Notes:

- The above options vest in four equal tranches over a period of three years from the relevant date of grant.
- The Company received a consideration of HK\$1.00 from each of the grantees for the options granted during the period.
- The closing price of the shares of the Company on 5 June 2020, being the business day immediately before the date on which the options were granted, as quoted on the Stock Exchange, was HK\$1.40.
- No options were exercised, cancelled or lapsed during the period.
- The fair value of the options granted during the period determined using the Trinomial valuation model was HK\$0.53 per option. The significant inputs into the model are as follows:

Share price at the grant date	HK\$1.40
Exercise price	HK\$1.40
Dividend yield	0%
Volatility	46.320%
Annual risk-free interest rate	0.384%

The volatility at the grant date, which measured the standard deviation of expected share price returns, is based on statistics of 1,260 days historical volatilities of comparable companies within the industry.

The aggregate fair value of the options granted during the period amounted to HK\$784,000 is to be recognised as employment benefit expense over the vesting periods together with a corresponding increase in equity. Such fair value is subject to a number of assumptions and with regard to the limitation of the Trinomial valuation model.

## Shareholders' Information and Corporate Governance

### Corporate Governance Code

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

- Code provision A.2.1 stipulates that the roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same individual.
- Code provision A.5 stipulates that every listed company should establish a nomination committee.

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

### Purchase, Sale or Redemption of Shares

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

### Model Code

The Company has adopted the Model Code as the code of conduct regarding securities transactions by Directors. All Directors have confirmed, following specific enquiry by the Company, that they have complied with the required standard set out in the Model Code throughout the six months ended 30 June 2020.

### Change in Directors' Biographical Details

There is no change in Directors' biographical details since the date of the 2019 Annual Report of the Company which is required to be disclosed pursuant to rule 13.51B(1) of the Listing Rules.

### Interim Dividend

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

### Audit Committee's Review of Financial Statements

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

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

Hong Kong, 31 August 2020