

TRISTATE

Tristate Holdings Limited

(Incorporated in Bermuda with limited liability)

Interim Report
2022

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

Nomination Committee

WANG Kin Chung, Peter,
Chairman of the Nomination Committee
LO Kai Yiu, Anthony
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 Banks

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.tristatewww.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@tristatewww.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 2022 together with comparative figures for 2021.

Condensed Consolidated Interim Statement of Profit or Loss

For the six months ended 30 June 2022 – unaudited

	Note	Six months ended 30 June	
		2022 HK\$'000	2021 HK\$'000
Revenue	5 & 6	1,625,005	1,230,004
Cost of sales		(992,440)	(723,230)
Gross profit		632,565	506,774
Other net income	7	12,206	1,626
Selling and distribution expenses		(316,809)	(279,525)
General and administrative expenses		(281,732)	(231,241)
Profit/(loss) from operations	8	46,230	(2,366)
Finance income	9	664	797
Finance costs	9	(26,971)	(15,873)
Profit/(loss) before taxation		19,923	(17,442)
Income tax charge	10	(34,572)	(13,593)
Loss for the period		(14,649)	(31,035)
Attributable to:			
Equity shareholders of the Company		(19,294)	(33,591)
Non-controlling interests		4,645	2,556
Loss for the period		(14,649)	(31,035)
Loss per share attributable to equity shareholders of the Company:	11		
Basic		(HK\$0.07)	(HK\$0.12)
Diluted		(HK\$0.07)	(HK\$0.12)

Condensed Consolidated Interim Statement of Comprehensive Income

For the six months ended 30 June 2022 – unaudited

	Six months ended 30 June	
	2022 HK\$'000	2021 HK\$'000
Loss for the period	(14,649)	(31,035)
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	(4,652)	2,013
– Transferred to and included in the following line items in the condensed consolidated interim statement of profit or loss		
– Cost of sales	(575)	(5,900)
– General and administrative expenses	1,070	(1,653)
Realisation of exchange reserve upon disposal of a subsidiary	592	–
Exchange difference on translation of financial statements of overseas subsidiaries	(44,909)	(10,695)
Other comprehensive income for the period	(48,474)	(16,235)
Total comprehensive income for the period	(63,123)	(47,270)
Attributable to:		
Equity shareholders of the Company	(67,768)	(49,826)
Non-controlling interests	4,645	2,556
Total comprehensive income for the period	(63,123)	(47,270)

The notes on pages 7 to 15 form part of the interim financial statements.

Consolidated Interim Financial Statements

Condensed Consolidated Interim Statement of Financial Position

As at 30 June 2022 – unaudited

		At 30 June 2022 HK\$'000	At 31 December 2021 HK\$'000		At 30 June 2022 HK\$'000	At 31 December 2021 HK\$'000
	Note			Note		
Non-Current Assets						
Property, plant and equipment	13	484,471	538,224			
Intangible assets	14	759,937	400,754			
Other long-term assets		19,443	16,998			
Deferred tax assets		14,907	16,855			
Defined benefit plan assets		9,641	10,260			
Forward foreign exchange contracts		353	768			
Interest in an associate		–	–			
		1,288,752	983,859			
Current Assets						
Inventories	15	823,566	531,189			
Accounts receivable and bills receivable	16	387,213	435,914			
Forward foreign exchange contracts		1,723	5,267			
Prepayments and other receivables		83,575	79,538			
Current tax recoverable		57	57			
Cash and bank balances	17	313,553	378,913			
		1,609,687	1,430,878			
Current Liabilities						
Accounts payable and bills payable	18	381,053	344,117			
Accruals and other payables and contract liabilities	19	430,120	359,742			
Lease liabilities		68,336	78,780			
Forward foreign exchange contracts		940	1,783			
Current tax liabilities		60,391	64,512			
Bank borrowings	20	176,957	42,027			
		1,117,797	890,961			
Net Current Assets		491,890	539,917			
Total Assets Less Current Liabilities		1,780,642	1,523,776			
Non-Current Liabilities						
Retirement benefits and other post retirement obligations		25,677	27,084			
Licence fees payable	14(i)	645,338	310,296			
Lease liabilities		99,465	117,071			
Forward foreign exchange contracts		1,041	–			
Deferred tax liabilities		35,580	33,108			
		807,101	487,559			
Net Assets		973,541	1,036,217			
Capital and Reserves						
Share capital	21	27,161	27,161			
Reserves		931,460	998,781			
Total equity attributable to equity shareholders of the Company		958,621	1,025,942			
Non-controlling Interests		14,920	10,275			
Total Equity		973,541	1,036,217			

The notes on pages 7 to 15 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 2022 – 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 2022	27,161	998,781	1,025,942	10,275	1,036,217
Total comprehensive income for the period	–	(67,768)	(67,768)	4,645	(63,123)
Share option scheme – value of employee services	–	447	447	–	447
Balance at 30 June 2022	27,161	931,460	958,621	14,920	973,541

	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 2021	27,161	1,008,829	1,035,990	2,212	1,038,202
Total comprehensive income for the period	–	(49,826)	(49,826)	2,556	(47,270)
Share option scheme – value of employee services	–	452	452	–	452
Balance at 30 June 2021	27,161	959,455	986,616	4,768	991,384

The notes on pages 7 to 15 form part of the interim financial statements.

Consolidated Interim Financial Statements

Condensed Consolidated Interim Cash Flow Statement

For the six months ended 30 June 2022 – unaudited

	Six months ended 30 June		Note	Six months ended 30 June	
	2022	2021		2022	2021
	HK\$'000	HK\$'000		HK\$'000	HK\$'000
Operating activities					
Profit/(loss) before taxation	19,923	(17,442)			
Adjustments for:					
Write-down of inventories to net realisable value, net	26,022	2,463			
Provision for impairment of accounts receivable, net	2,888	611			
Depreciation on owned property, plant and equipment	34,836	42,067			
Depreciation of right-of-use assets	43,565	51,146			
Amortisation of intangible assets	25,123	15,792			
Net gain on disposal of a subsidiary	(4,554)	–			
Finance income	(664)	(797)			
Finance cost	26,971	15,873			
Other operating activities	(4,263)	(3,849)			
Changes in working capital:					
Increase in inventories	(318,399)	(150,874)			
Decrease/(increase) in accounts receivable and bills receivable	45,813	(29,041)			
(Increase)/decrease in prepayments and other receivables	(6,327)	952			
Increase in accounts payable and bills payable	36,936	34,192			
(Decrease)/increase in accruals and other payables and contract liabilities	(18,640)	5,481			
Increase in retirement benefits and other post retirement obligations	346	689			
Cash used in operations	(90,424)	(32,737)			
Income tax paid	(31,162)	(15,046)			
Net cash used in operating activities	(121,586)	(47,783)			
Investing activities					
Interest received	239	547			
Payment for the purchase of owned property, plant and equipment	(23,342)	(17,438)			
Proceeds from disposals of property, plant and equipment	703	216			
Net proceeds from disposal of a subsidiary	4,974	–			
(Increase)/decrease in pledged bank deposits	(201)	32,751			
Net cash (used in)/generated from investing activities	(17,627)	16,076			
Financing activities					
Capital element of lease rentals paid	(42,206)	(51,494)			
Interest element of lease rentals paid	(3,122)	(4,491)			
Interest paid	(2,812)	(986)			
Proceeds from new bank borrowings	246,205	196,294			
Repayment of bank borrowings	(111,275)	(204,336)			
Net cash generated from/ (used in) financing activities	86,790	(65,013)			
Decrease in cash and cash equivalents	(52,423)	(96,720)			
Cash and cash equivalents at beginning of the period	17 367,593	314,423			
Effect on foreign exchange rate changes	(13,138)	(1,514)			
Cash and cash equivalents at end of the period	17 302,032	216,189			

The notes on pages 7 to 15 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 2022

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 2022 were approved for issue by the Board on 29 August 2022.

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 2021 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2022 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 2021 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 2021 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 2021 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 28 March 2022.

3. Changes in Accounting Policies

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 16, *Property, Plant and Equipment: Proceeds before Intended Use*
- Amendments to HKAS 37, *Provisions, Contingent Liabilities and Contingent Assets: Onerous Contracts – Cost of Fulfilling a Contract*

None of these developments have had a material 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.

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 2022

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	
	2022 HK\$'000	2021 HK\$'000	2022 HK\$'000	2021 HK\$'000	2022 HK\$'000	2021 HK\$'000	2022 HK\$'000	2021 HK\$'000
Reportable segment revenue	834,323	613,925	835,525	647,700	-	-	1,669,848	1,261,625
Less: Inter-segment revenue	(44,843)	(31,621)	-	-	-	-	(44,843)	(31,621)
Revenue	789,480	582,304	835,525	647,700	-	-	1,625,005	1,230,004
Reportable segment EBITDA (Note (i))	81,095	27,323	59,231	76,882	9,428	2,434	149,754	106,639
Finance income	-	-	16	284	648	513	664	797
Finance costs	-	-	(51)	(18)	(2,761)	(968)	(2,812)	(986)
- Interest on bank borrowings	-	-	(51)	(18)	(2,761)	(968)	(2,812)	(986)
- Interest on licence fees payable	-	-	(21,037)	(10,396)	-	-	(21,037)	(10,396)
- Interest on lease liabilities	(809)	(1,349)	(2,217)	(2,996)	(96)	(146)	(3,122)	(4,491)
Depreciation charge	-	-	-	-	-	-	-	-
- Owned property, plant and equipment	(9,460)	(11,741)	(19,984)	(24,363)	(5,392)	(5,963)	(34,836)	(42,067)
- Right-of-use assets	(4,375)	(3,932)	(35,623)	(43,552)	(3,567)	(3,662)	(43,565)	(51,146)
Amortisation of intangible assets	-	-	(25,123)	(15,792)	-	-	(25,123)	(15,792)
Reportable segment profit/(loss) before taxation	66,451	10,301	(44,788)	(19,951)	(1,740)	(7,792)	19,923	(17,442)
Income tax (charge)/credit	(12,030)	(1,664)	(20,920)	(12,973)	(1,622)	1,044	(34,572)	(13,593)
Reportable segment profit/(loss) for the period	54,421	8,637	(65,708)	(32,924)	(3,362)	(6,748)	(14,649)	(31,035)

Consolidated Interim Financial Statements

Notes to the Consolidated Interim Financial Statements

For the six months ended 30 June 2022

5. Segment Information (Continued)

	Garment manufacturing		Brands business		Unallocated (Note (iii))		Total	
	At	At	At	At	At	At	At	At
	30 June 2022 HK\$'000	31 December 2021 HK\$'000	30 June 2022 HK\$'000	31 December 2021 HK\$'000	30 June 2022 HK\$'000	31 December 2021 HK\$'000	30 June 2022 HK\$'000	31 December 2021 HK\$'000
Reportable segment assets	796,007	711,356	1,660,605	1,185,228	441,827	518,153	2,898,439	2,414,737
Reportable segment liabilities	424,380	405,189	1,258,936	922,391	241,582	50,940	1,924,898	1,378,520

	Six months ended 30 June							
	Garment manufacturing		Brands business		Unallocated		Total	
	2022 HK\$'000	2021 HK\$'000	2022 HK\$'000	2021 HK\$'000	2022 HK\$'000	2021 HK\$'000	2022 HK\$'000	2021 HK\$'000
Reversal of/(provision for) impairment of accounts receivable, net	15	314	(2,903)	(925)	-	-	(2,888)	(611)
(Write-down)/reversal of write-down of inventories to net realisable value, net	(6,503)	556	(19,519)	(3,019)	-	-	(26,022)	(2,463)
Additions to property, plant and equipment including right-of-use assets	11,522	11,263	38,637	38,238	1,704	15,222	51,863	64,723

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) 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 assets, 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.

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

	Six months ended 30 June													
	PRC		UK		Canada		Italy		Singapore		Other countries		Total	
	2022 HK\$'000	2021 HK\$'000	2022 HK\$'000	2021 HK\$'000	2022 HK\$'000	2021 HK\$'000	2022 HK\$'000	2021 HK\$'000	2022 HK\$'000	2021 HK\$'000	2022 HK\$'000	2021 HK\$'000	2022 HK\$'000	2021 HK\$'000
Revenue	425,104	369,233	342,246	289,695	223,252	93,766	200,326	165,401	117,456	64,781	316,621	247,128	1,625,005	1,230,004

Included in revenue derived from the PRC was HK\$85,347,000 (2021: HK\$59,352,000) 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 2022

5. Segment Information (Continued)

For the six months ended 30 June 2022, revenues from one customer (2021: one customer) in the garment manufacturing segment accounted for more than 10% of the Group's total revenue and represented approximately 13% (2021: 14%) of the total revenue.

	PRC (Note (ii))		Switzerland		Thailand		Other countries		Total	
	At	At	At	At	At	At	At	At	At	At
	30 June	31 December	30 June	31 December	30 June	31 December	30 June	31 December	30 June	31 December
	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Non-current assets (Note (i))	909,148	596,797	173,616	189,237	63,158	66,487	117,929	103,455	1,263,851	955,976

Notes:

- (i) Non-current assets exclude forward foreign exchange contracts, deferred tax assets and defined benefit plan assets.
- (ii) Included in non-current assets located in the PRC was HK\$598,257,000 (31 December 2021: HK\$243,332,000) related to assets located in Hong Kong.

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 Net Income

	Six months ended 30 June	
	2022 HK\$'000	2021 HK\$'000
Government subsidy (Note (i))	3,034	516
Net loss on disposal of property, plant and equipment	(1,008)	(1,552)
Net gain on disposal of a subsidiary (Note (ii))	4,554	–
Net gain on derecognition of right-of-use assets and lease liabilities	3,117	1,289
Sundry income	2,509	1,373
	12,206	1,626

Notes:

- (i) During the six months ended 30 June 2022, certain subsidiary companies of the Group received government subsidies of HK\$3,034,000 (2021: HK\$516,000), majority of which were COVID-19 related subsidies from the local governments.
- (ii) During the six months ended 30 June 2022, the Group disposed of a wholly-owned subsidiary incorporated in the Philippines at a consideration of HK\$6,630,000, with a net gain of HK\$4,554,000 after net-off with transaction costs. Out of the total consideration of HK\$6,630,000, a retention money of HK\$663,000 will be received by the Group in 2027 while the rest of the consideration has been received. The subsidiary was the owner of certain factory buildings in the Philippines.

8. Profit/(Loss) from Operations

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

	Six months ended 30 June	
	2022 HK\$'000	2021 HK\$'000
Amortisation of intangible assets	25,123	15,792
Depreciation charge		
– Owned property, plant and equipment	34,836	42,067
– Right-of-use assets	43,565	51,146
Expenses related to short-term leases and variable lease payments	17,429	14,347
COVID-19 related rent concessions received	(1,759)	(646)
Provision for impairment of accounts receivable, net	2,888	611
Provision for write-down of inventories to net realisable value, net	26,022	2,463
Staff cost and employment benefit expenses	327,118	334,760

Consolidated Interim Financial Statements

Notes to the Consolidated Interim Financial Statements

For the six months ended 30 June 2022

9. Finance Income and Finance Costs

	Six months ended 30 June	
	2022 HK\$'000	2021 HK\$'000
Finance income		
Interest income from bank deposits	239	547
Imputed interest on long-term rental deposits	425	250
	664	797
Finance costs		
Interest on bank borrowings	2,812	986
Interest on licence fees payable	21,037	10,396
Interest on lease liabilities	3,122	4,491
	26,971	15,873

10. Income Tax Charge

	Six months ended 30 June	
	2022 HK\$'000	2021 HK\$'000
Current income tax (Note)		
Hong Kong profits tax	5,914	1,520
Non-Hong Kong tax	24,266	25,109
Under/(over) provision for prior year	418	(4)
Deferred income tax	3,974	(13,032)
	34,572	13,593

Note:

The provision for Hong Kong Profits Tax is calculated by applying the estimated annual effective tax rate of 16.5% (2021: 16.5%) to the six months ended 30 June 2022.

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\$19,294,000 (2021: HK\$33,591,000) by the weighted average number of 271,607,253 (2021: 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 2022 and 30 June 2021, 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 2022 and 30 June 2021.

12. Interim Dividend

The Board has resolved not to declare an interim dividend for the six months ended 30 June 2022 (2021: Nil).

13. Property, Plant and Equipment

(a) Right-of-use assets

During the six months ended 30 June 2022, 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\$28,521,000 (six months ended 30 June 2021: HK\$47,286,000).

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

During the six months ended 30 June 2022 and 2021, 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 retail stores for the interim reporting period is summarised below:

	Six months ended 30 June 2022			
	Fixed payments HK\$'000	Variable payments HK\$'000	COVID-19-related rent concessions HK\$'000	Total payments HK\$'000
Retail stores – Hong Kong	2,870	10	(438)	2,442
Retail stores – Mainland				
China	29,326	4,311	(699)	32,938
Retail stores – Europe	3,693	-	-	3,693
Retail stores – Japan	-	1,264	-	1,264

	Six months ended 30 June 2021			
	Fixed payments HK\$'000	Variable payments HK\$'000	COVID-19-related rent concessions HK\$'000	Total payments HK\$'000
Retail stores – Hong Kong	4,100	54	(646)	3,508
Retail stores – Mainland				
China	39,390	1,273	-	40,663
Retail stores – Europe	2,804	49	-	2,853
Retail stores – Japan	-	1,416	-	1,416

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Notes to the Consolidated Interim Financial Statements

For the six months ended 30 June 2022

13. Property, Plant and Equipment (Continued)

(b) Acquisitions and disposals of owned assets

During the six months ended 30 June 2022, the Group acquired items of plant and equipment with a cost of HK\$23,342,000 (six months ended 30 June 2021: HK\$17,438,000). Items of plant and equipment with a net book value of HK\$1,711,000 were disposed of during the six months ended 30 June 2022 (six months ended 30 June 2021: HK\$1,768,000), resulting in a loss on disposal of HK\$1,008,000 (six months ended 30 June 2021: a loss on disposal of HK\$1,552,000).

14. Intangible Assets

	At 30 June 2022 HK\$'000	At 31 December 2021 HK\$'000
Licence rights (Note (i))		
Opening net book amount	226,600	252,678
Additions	397,349	–
Modification, net	–	35,012
Amortisation	(25,123)	(31,585)
Impairment losses	–	(29,505)
Closing net book amount	598,826	226,600
Trademark (Note (ii))		
Opening net book amount	174,154	187,131
Exchange differences	(13,043)	(12,977)
Closing net book amount	161,111	174,154
Total intangible assets	759,937	400,754

Notes:

(i) Licence rights

Licence rights of brands represent capitalisation of the minimum contractual obligation payable to brand licensors at the time of inception. The addition of licence rights during the period is attributable to the capitalisation of the minimum contractual obligation payable to the licensor at the inception of the Reebok licence agreement of HK\$397,349,000. Licence fees payable also recorded a corresponding increase during the period.

(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 2022 HK\$'000	At 31 December 2021 HK\$'000
Raw materials	127,187	64,070
Work-in-progress	196,997	112,241
Finished goods	468,663	333,778
Goods in transit	30,719	21,100
	823,566	531,189

Increase in raw materials and work-in-progress reflect seasonal requirement for second half year shipment of garment manufacturing segment. Increase in finished goods mainly included purchase of inventories for the distribution of Reebok branded products.

16. Accounts Receivable and Bills Receivable

	At 30 June 2022 HK\$'000	At 31 December 2021 HK\$'000
Accounts receivable at amortised cost, net of loss allowance	319,110	365,489
Accounts receivable to be sold at fair value through other comprehensive income (recycling)	68,103	70,425
	387,213	435,914

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

	At 30 June 2022 HK\$'000	At 31 December 2021 HK\$'000
Less than 3 months	343,583	394,273
3 months to 6 months	44,348	42,135
Over 6 months	5,735	3,761
	393,666	440,169
Less: Loss allowance	(6,453)	(4,255)
	387,213	435,914

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For the six months ended 30 June 2022

16. 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 to 90 days (31 December 2021: 60 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 2022 and 31 December 2021, the fair value changes on accounts receivable at fair value through other comprehensive income (recycling) are insignificant and accordingly, no fair value changes are recognised in equity as fair value through other comprehensive income reserve.

17. Cash and Bank Balances

	At 30 June 2022 HK\$'000	At 31 December 2021 HK\$'000
Short-term bank deposits	351	368
Cash at bank and on hand	301,681	367,225
Cash and cash equivalents in the consolidated cash flow statement	302,032	367,593
Pledged bank deposits (Note)	11,521	11,320
Cash and bank balances in the consolidated statement of financial position	313,553	378,913

Note:

At 30 June 2022, bank deposits of HK\$11,521,000 (31 December 2021: HK\$11,320,000) was pledged to secure bank facilities granted to the Group.

18. Accounts Payable and Bills Payable

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

	At 30 June 2022 HK\$'000	At 31 December 2021 HK\$'000
Less than 3 months	316,032	292,385
3 months to 6 months	48,851	33,967
Over 6 months	16,170	17,765
	381,053	344,117

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, current portion of licence fees payable, deposits received and other payables for 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 2022, all of the contract liabilities of HK\$34,038,000 (31 December 2021: HK\$11,039,000) are expected to be settled within one year.

20. Bank Borrowings

At 30 June 2022, the bank borrowings were repayable within 1 year and were denominated in the following currencies:

	At 30 June 2022 HK\$'000	At 31 December 2021 HK\$'000
United States dollars	106,957	42,027
Hong Kong dollars	70,000	–
	176,957	42,027

The bank borrowings were unsecured and covered by corporate guarantees from the Company. The carrying amounts of bank borrowings approximate their fair values.

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For the six months ended 30 June 2022

21. Share Capital

	At 30 June 2022 HK\$'000	At 31 December 2021 HK\$'000
Authorised: 500,000,000 (2021: 500,000,000) shares of HK\$0.10 each	50,000	50,000

Issued and fully paid ordinary share capital:

	2022		2021	
	Number of shares	HK\$'000	Number of shares	HK\$'000
As at 1 January and 30 June/31 December	271,607,253	27,161	271,607,253	27,161

22. Capital Commitments

	At 30 June 2022 HK\$'000	At 31 December 2021 HK\$'000
Contracted but not provided for in respect of leasehold improvement	631	880

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:

	Amounts owed by the Group to related party		Related interest expenses	
	As at 30 June 2022 HK\$'000	As at 31 December 2021 HK\$'000	Six months ended 30 June	
			2022 HK\$'000	2021 HK\$'000
Lease liabilities due to a related company	4,734	7,844	69	119

	Six months ended 30 June	
	2022 HK\$'000	2021 HK\$'000
A related company		
Rental payment to TDB under new tenancy agreement	3,180	1,590
Rental payment to TDB under former tenancy agreement	–	1,860

Notes:

(i) In February 2021, the Group entered into a two-year lease ("new tenancy agreement") 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\$530,000 per month commencing from 1 April 2021 after the previous lease ("former tenancy agreement") ended on 31 March 2021. 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 new tenancy agreement, the Group recognised right-of-use assets and lease liability in relation to this lease.

(ii) The entire issued share capital of TDB, a related company, is held by a discretionary trust of which one director of the Company is an eligible beneficiary as at 30 June 2022.

(b) Transactions with key management

(i) Key management compensation

	Six months ended 30 June	
	2022 HK\$'000	2021 HK\$'000
Salaries, allowances and bonuses	10,292	9,963
Defined contribution plans	248	242
Share-based compensation expense – share options granted	326	333
	10,866	10,538

(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.

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For the six months ended 30 June 2022

24. Fair Value of Financial Instruments

(a) 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.

Forward foreign exchange contracts are measured at fair value and classified as Level 2 valuations at 30 June 2022 and 31 December 2021. 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.

Accounts receivable at FVOCI (recycling) are measured at fair value and classified at Level 2 valuations at 30 June 2022 and 31 December 2021.

Information about Level 2 fair value measurements:

	Fair value		Valuation technique and significant inputs
	At 30 June 2022 HK\$'000	At 31 December 2021 HK\$'000	
Accounts receivable at fair value through other comprehensive income (recycling)	68,103	70,425	Risk-adjusted discount rates ranged from 1.94% to 3.18% per annum (2021: 1.69% to 2.77% per annum) quoted by the banks

The fair value of the accounts receivable at FVOCI (recycling) is determined using the risk-adjusted rates per annum quoted by the banks.

There was no transfer of financial assets between fair value hierarchy classifications for the period/year ended 30 June 2022 and 31 December 2021. 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.

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 2022 and 31 December 2021.

(b) Offsetting financial assets and financial liabilities

There is no material offsetting, enforceable master netting arrangement and similar agreements during the period.

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 2022.

Overview

For the six months ended 30 June 2022, the Group recorded a loss attributable to equity shareholders of HK\$19 million as compared with the loss of HK\$34 million for the comparable period in 2021. The reduced loss in this first half year is mainly attributable to increase in revenue and profit from our garment manufacturing business, and partially offset by the losses increase from our brands business. Among our brands, our own brand C.P. Company continued to record impressive revenue and profit growth, while the performance of our licensed brands in China was impacted by the resurgence of COVID-19, the subsequent three-month lockdown in Shanghai and the transitional and investment costs for Reebok.

Own Brands

C.P. Company continued to deliver substantial year-on-year growth in revenue and profitability. The brand recorded 38% increase in revenue in the first half of 2022, driven by strong performance in wholesale channel. Wholesale business in Europe, in particular the United Kingdom ("UK"), Italy and France remained the largest contributors of C.P. Company revenue. The growth of e-commerce also surpassed expectations with further growth opportunities. To complement the wholesale business in Europe, the brand has five directly managed retail stores and outlets in the upmarket streets of Milan, Riccione, Mestrino, Mendrisio 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 The Malls at Oriental Plaza, Beijing China World Trade Center, Beijing Galeries Lafayette, Shanghai Grand Gateway 66, Shanghai Jing An Kerry Centre, Qingdao MIXC, Ningbo MIXC, Nanjing Deji Plaza and Shanghai Zhenning Road respectively.

Licensed Brands

In the first half of 2022, our long-term licensed brands were impacted by store closures and consumer movement restrictions to combat the resurgence of COVID-19 in China. Subsequently, revenue for Nautica decreased by 7% compared with same period last year. Net losses for the brand have increased due to the drop in revenue and the rise in license-rights related expenses after extending the remaining term of the Nautica licence with the licensor in late 2021. CRM initiatives continue to be a key part of our efforts and investments to drive loyalty and sales. The Group launched the "White Sail" concept in December 2021 which targets a younger consumer group and features over-sized, preppy streetwear styling. White Sail has received a very positive response from consumers and industry stakeholders alike since its first launch and has enjoyed strong sell-through. White Sail has not fully displayed its potential in first half 2022 due to the China lockdown but the second half of 2022 is promising based off of recent performance. As of 30 June 2022, Nautica had 73 directly managed retail stores and another 85 stores operated by partners (30 June 2021: 145 stores in total).

Spyder was officially launched in China in November 2019. As a newly launched brand, the COVID-19 outbreak in China in early 2020 hit Spyder hard and the brand's performance and scale in 2021 fell short of expectations. In the first half of 2022 after rounds of austere, elongated lockdowns in certain major cities in China including Shanghai, Spyder's revenue has posted mid-single-digit declines compared with same period in 2021. Spyder did achieve year-on-year growth in the e-commerce channel as well as in its northern markets such as Xian, Changchun, Harbin, Taiyuan, Qingdao, etc. Same store sales in first half of 2022 saw increases, reflecting the effectiveness of our Spring/Summer 2022 merchandise strategies. The brand reported a reduction in net losses compared with first half of last year. This was mainly a result of reducing operating costs and a lower annual minimum royalty as agreed with the licensor in late 2021. As of 30 June 2022, Spyder had 48 stores across China (30 June 2021: 48 stores).

In December 2021, the Group entered into a long-term licence agreement with Authentic Brands Group ("ABG") to become the core licensee and operator for the Reebok brand in Mainland China, Hong Kong, Macau, and Taiwan. The Group commenced operations for the Reebok business on 1 May 2022 after a two-month transitional operation by the previous operator. The Group directly operates the Mainland China, Hong Kong and Macau markets, and sublicensed the Taiwan business to a renowned local operator. At the outset, the Reebok China and Hong Kong business is primarily direct-to-consumer through e-commerce and mono-brand outlet stores. With the combination of high brand awareness and huge market segment, we see substantial growth opportunities for Reebok.

Garment Manufacturing

In the period under review, despite resurgence of COVID-19 in China and rising geopolitical tensions and global inflation, our garment manufacturing business has posted encouraging growth in both revenue and net profit compared with same period last year. Revenue for 2022 has increased 36% over the last year though still below pre-COVID-19 level. Profit increase was mainly attributed to rise in revenue from key premium business customers, control of factory costs and depreciation of currencies of Asian countries where our factories operated.

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. In the second half of last year, our Vietnam factory was disrupted by compulsory COVID-19 lockdown from mid of July to early October 2021. The factory's production and efficiency has returned to normal in the first half of 2022. During the period under review, our Myanmar factory has been enhancing its production capabilities and saw increased business from customers.

Management Discussion and Analysis

Financial Highlights

	Note	First half 2022	First half 2021
Operating results (HK\$ million)			
Revenue		1,625	1,230
Gross profit		633	507
EBITDA		150	107
Depreciation on right-of-use assets	2	(44)	(51)
Interest on lease liabilities	2	(3)	(4)
Amortisation of licence rights	1	(25)	(16)
Interest on licence fees payable	1	(21)	(10)
Depreciation on owned property, plant and equipment		(35)	(42)
Loss attributable to equity shareholders		(19)	(34)
Segment results (HK\$ million)			
Garment manufacturing EBITDA		81	27
Depreciation on right-of-use assets	2	(4)	(4)
Interest on lease liabilities	2	(1)	(1)
Depreciation on owned property, plant and equipment		(9)	(12)
Garment manufacturing results after tax		54	9
Brands business EBITDA		59	77
Depreciation on right-of-use assets	2	(36)	(44)
Interest on lease liabilities	2	(2)	(3)
Amortisation of licence rights	1	(25)	(16)
Interest on licence fees payable	1	(21)	(10)
Depreciation on owned property, plant and equipment		(20)	(24)
Brands business results after tax		(66)	(33)
Cash flow (HK\$ million)			
Cash used in operations		(90)	(33)
Payment for the purchase of property, plant and equipment		(23)	(17)
Financing activities for lease payments	2	(45)	(56)
		At	At
		30 June	31 December
		2022	2021
Financial position (HK\$ million)			
Cash and bank balances		314	379
Bank borrowings		177	42
Total equity		974	1,036

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, Spyder and Reebok.
- 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 assets, 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 classify rentals paid under the capitalised leases as financing cash outflows.

Financial Review

Revenue

Total revenue of the Group for the first half of 2022 was HK\$1,625 million (2021: HK\$1,230 million), representing an increase of 32% as compared with 2021.

Revenue from brands business was HK\$836 million in the first half of 2022 as compared to HK\$648 million in 2021. C.P. Company continued to report strong revenue growth against same period last year. Reebok started to contribute revenue from the second quarter of this year. The revenue of other licensed brands Nautica and Spyder were impacted by the lockdown restrictions in China and both recorded negative growth against same period last year.

Revenue from the garment manufacturing business was HK\$789 million compared with HK\$582 million in 2021. Revenue from premium business, which accounted for 77% (2021: 72%) of the segment revenue, increased 45% compared with last year. During the period under review, we saw increased orders from certain premium business customers. Revenue from better business also rose 8%.

Geographically, major markets of the Group are the People's Republic of China, the UK, Canada and Italy, which accounted for 26% (2021: 30%), 21% (2021: 24%), 14% (2021: 8%) and 12% (2021: 13%) of the Group's total revenue respectively. The change was mainly due to the increase in revenue of garment manufacturing business.

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

Management Discussion and Analysis

Gross Profit

During the period, the Group's overall gross profit recorded at HK\$633 million (2021: HK\$507 million), representing a gross profit margin of 38.9% (2021: 41.2%). The increase in gross profit was mainly attributable to the increased turnover. Gross profit margin of garment manufacturing business has been stable comparing to last year. Gross profit margin of brands business dropped in low-single-digit comparing to last year due to change in the mix of the brands and more inventory provision was made. The Group's overall gross profit margin decreased in 2022 was due to the rise in revenue proportion of garment manufacturing business which has a lower gross profit margin than brands business.

Selling and Distribution Expenses

Selling and distribution expenses comprise mainly retail shop expenses, advertising and promotion, commissions paid to retail partners and sales agents and brand licence rights amortisation. Selling and distribution expenses increased as compared to 2021 mainly due to increases in promotion expenses for Nautica and Reebok, commissions for C.P. Company and additional licence right amortisation for Reebok.

General and Administrative Expenses

General and administrative expenses increased as compared with 2021 mainly due to initial set up and transitional costs for Reebok and increase in foreign exchange losses during first half of 2022.

Segment Results

The substantial increase in segment profit of garment manufacturing business was mainly attributed to increased revenue from key premium business customers, control of factory costs and depreciation of currencies of Asian countries where our factories operated.

Segment loss of brands business in first half 2022 has increased over last year. Despite C.P. Company has recorded profit growth during the period, the performance of our licensed brands in China was affected by lockdown restrictions in various major cities and incurred the transitional and investment costs for Reebok.

Financial Resources and Liquidity

As at 30 June 2022, cash and bank balances amounted to HK\$314 million (31 December 2021: HK\$379 million) which mainly represented United States dollars ("US dollars"), Renminbi and Euro bank deposits and balances. For the cash flow, the Group used more cash in the first half of 2022 as compared with the first half of 2021, mainly for purchase of inventories for the Reebok business.

The Group maintained sufficient banking facilities to support its business. At 30 June 2022, the Group had short-term bank borrowings of HK\$177 million (31 December 2021: HK\$42 million). Short-term bank borrowings were mainly denominated in US dollars and Hong Kong dollars and bearing interest at short-term fixed rates. As at 30 June 2022, bank deposits of HK\$12 million (31 December 2021: 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 comprised total equity plus net borrowings. The Group did not have net borrowings as at 30 June 2022 and 31 December 2021, and accordingly, no information on gearing ratio as at that dates is provided.

Shareholders' equity at 30 June 2022 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 Euro, 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 2022, 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 consolidated interim financial statements, there was no other material capital commitments or contingent liabilities as at 30 June 2022.

Human Resources

The Group had about 6,490 employees as at 30 June 2022 (31 December 2021: 6,140). Fair and competitive remuneration packages and benefits are offered to employees. Those employees with outstanding performance are also awarded with discretionary bonuses and share options.

Outlook

Our own global brand C.P. Company has a sound business foundation and reported year-on-year double-digit revenue growth since acquisition. The impressive performance reinforces our confidence in the brand's ability to post strong revenue and profitability for the full year of 2022 and the years to come. The brand will expand product range to drive revenue and upgrade our market positioning. We will continue to focus on existing key and growing wholesale markets (UK, Italy, France, Benelux, South Korea and Germany), and will expand into other countries in Europe, the Middle East, South American and Asian markets. The brand will continue to grow existing e-commerce channels and invest in localised digital channels in Asian countries. We also plan to open more direct retail stores in key European markets and enhance in-store experience and services for our customers. In order to build a strong customer community and increase their loyalty and lifetime value, C.P. Company will further promote the culture of customer centricity.

Management Discussion and Analysis

Building on our strong design and supply chain teams combined with Nautica's aspirational image and long history in China, we have a clear path for the brand in terms of distribution channel mix, key retail metrics and business model. We have identified a clear product concept, pricing strategies and strategic promotion plans across channels. In the second half of 2022, we plan to aggressively expand the White Sail collection by opening full-price image stores as initial sell-through of this collection has been encouraging. As the outlet and e-commerce channels continue to be profit drivers, we plan to increase our presence in the outlet channel together with select retail partners in top outlet centers where Nautica has yet to penetrate. In the e-commerce channel, in addition to TMall and JD, we will further develop the brand and sales on Douyin and other influential social commerce platforms. Simultaneously, we will continue to invest into our CRM with the goal of better serving and promoting engagement with our loyal 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. With the agreed reduction of annual minimum royalty, we will grasp all growth opportunities. On the direct retail front, we will increase the number of quality outlet stores and focus investment on e-commerce channels. In addition to TMall, JD, and Douyin, the brand will also develop other social platforms. We will also mobilise our CRM efforts and investments on member recruitment, activation and retention. For partner retail, we target to open both new full-price stores and outlet stores in Northern China markets where we already have stronger sales. We will continue to control operating costs of the brand. We have revamped the Fall/Winter 2022 collection to emphasise our ski DNA and integration of athletic styles and fashion. We have confidence in the sales prospects of our Fall/Winter 2022 collection.

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. We are excited to bring Reebok products to Greater China consumers in an authentic way. The Group will partner with Reebok Design Group, the newly established global brand hub based in Boston, on footwear and apparel design, development, innovation and to drive a unified brand vision. The Group will leverage Reebok's heritage and unique DNA and deploy strategy to fuse street and fitness styles that provides 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. Focusing on e-commerce, expanding premium retail stores and stepping up omni-channel synergy in the second half of 2022 and into 2023, we are committed to driving innovation and growth of the brand.

Our garment manufacturing business has delivered encouraging profitability growth in the first half of 2022. Same as previous years, revenue of our garment manufacturing business in the second half this year will be better than the first half. Looking forward, growing macro-economic and geopolitical uncertainties 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. 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 future needs.

The Group is dedicated to strengthening and investing in the long-term success of our business. Last year, the Group has delivered a turnaround full year results to profit. We are cautiously optimistic about further improvement in the Group's 2022 second half and full year financial performance. Faced with macro uncertainties and the rise in global inflation, we expect our own brand C.P. Company and garment manufacturing business will still be able to post profitability and generate strong cash inflow to support the Group's businesses. Since stores reopened in China, Nautica has been on track for a return to same store sales growth. We will strive to improve the performance of Spyder. The Reebok licence marks a new phase of development of the Group and we are committed to making Reebok successful. The Group will closely monitor the development of pandemic resurgence in China and its impact to our 2022 full year performance. The Group will have adequate cash and available bank credit facilities to finance working capital and operational requirements. We are confident that we are on the right path to achieve long-term profitable growth for the Group.

Shareholders' Information and Corporate Governance

Disclosure of Interests

Directors' interests in securities

As at 30 June 2022, 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 2022, 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 2022, 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	Total	
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 2022, 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. The last tranches of share options granted under the 2007 Share Option Scheme had lapsed after 8 May 2021, being the last date of the exercisable period for the share options granted thereunder on 9 May 2016. Since then, there were no exercisable options under the 2007 Share Option Scheme.

Movements in the share options under the 2016 Share Option Scheme during the six months ended 30 June 2022 were as follows:

Date of grant	Participant	Number of share options				Exercise price per share	Exercisable period
		At 1 January 2022	Lapsed during the period	Granted during the period	At 30 June 2022		
5 June 2017	Employees (in aggregate)	239,000	(239,000)	–	–	HK\$1.68	5 June 2017 – 4 June 2022
		239,000	(239,000)	–	–	HK\$1.68	5 June 2018 – 4 June 2022
		239,000	(239,000)	–	–	HK\$1.68	5 June 2019 – 4 June 2022
		239,000	(239,000)	–	–	HK\$1.68	5 June 2020 – 4 June 2022
25 June 2018	Employees (in aggregate)	264,000	–	–	264,000	HK\$1.75	25 June 2018 – 24 June 2023
		264,000	–	–	264,000	HK\$1.75	25 June 2019 – 24 June 2023
		264,000	–	–	264,000	HK\$1.75	25 June 2020 – 24 June 2023
		264,000	–	–	264,000	HK\$1.75	25 June 2021 – 24 June 2023
3 June 2019	Employees (in aggregate)	359,000	–	–	359,000	HK\$1.58	3 June 2019 – 2 June 2024
		359,000	–	–	359,000	HK\$1.58	3 June 2020 – 2 June 2024
		359,000	–	–	359,000	HK\$1.58	3 June 2021 – 2 June 2024
		359,000	–	–	359,000	HK\$1.58	3 June 2022 – 2 June 2024
8 June 2020	Employees (in aggregate)	367,000	–	–	367,000	HK\$1.40	8 June 2020 – 7 June 2025
		367,000	–	–	367,000	HK\$1.40	8 June 2021 – 7 June 2025
		367,000	–	–	367,000	HK\$1.40	8 June 2022 – 7 June 2025
		367,000	–	–	367,000	HK\$1.40	8 June 2023 – 7 June 2025
7 June 2021	Employees (in aggregate)	450,000	–	–	450,000	HK\$1.00	7 June 2021 – 6 June 2026
		450,000	–	–	450,000	HK\$1.00	7 June 2022 – 6 June 2026
		450,000	–	–	450,000	HK\$1.00	7 June 2023 – 6 June 2026
		450,000	–	–	450,000	HK\$1.00	7 June 2024 – 6 June 2026
6 June 2022 (Notes 2 & 3)	Employees (in aggregate)	–	–	533,000	533,000	HK\$0.91	6 June 2022 – 5 June 2027
		–	–	533,000	533,000	HK\$0.91	6 June 2023 – 5 June 2027
		–	–	533,000	533,000	HK\$0.91	6 June 2024 – 5 June 2027
		–	–	533,000	533,000	HK\$0.91	6 June 2025 – 5 June 2027
	Total	6,716,000	(956,000)	2,132,000	7,892,000		

Shareholders' Information and Corporate Governance

Notes:

1. The above options vest in four equal tranches over a period of three years from the relevant date of grant.
2. The Company received a consideration of HK\$1.00 from each of the grantees for the options granted during the period.
3. The closing price of the shares of the Company on 2 June 2022, being the business day immediately before the date on which the options were granted, as quoted on the Stock Exchange, was HK\$0.90.
4. No options were exercised or cancelled during the period.
5. The fair value of the options granted during the period determined using the Trinomial valuation model was HK\$0.36 per option. The significant inputs into the model are as follows:

Share price at the grant date	HK\$0.90
Exercise price	HK\$0.91
Dividend yield	0%
Volatility	45.57%
Annual risk-free interest rate	2.643%

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\$760,000 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.

Corporate Governance Code

During the six months ended 30 June 2022, the Company has complied with all the code provisions of the Corporate Governance Code as set out in Appendix 14 of the Listing Rules, except for the deviation from code provision C.2.1 which stipulates that the roles of Chairman and Chief Executive Officer ("CEO") should be separate and should not be performed by the same individual. Mr. WANG Kin Chung, Peter ("Mr. Wang") is the Chairman and the CEO, which constitutes a deviation from the code provision C.2.1. The Board considers that it is in the interests of the Group that Mr. Wang holds both the offices of the Chairman and the CEO so that the Board can have the benefit of a chairman who is knowledgeable about the business of the Group and is capable to guide discussions and brief the Board in a timely manner on key issues and developments. Details of the considered reasons for the deviation were set out in the Corporate Governance Report of the Company's Annual Report for the year ended 31 December 2021.

Furthermore, a nomination committee was established by the Company with effect from 1 January 2022 to comply with code provision B.3.

Purchase, Sale or Redemption of Shares

During the six months ended 30 June 2022, 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 2022.

Change in Directors' Biographical Details

There is no change in Directors' biographical details since the date of the 2021 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 2022 (2021: Nil).

Audit Committee's Review of Financial Statements

The Audit Committee has reviewed the unaudited Consolidated Interim Financial Statements and the Interim Report of the Group for the six months ended 30 June 2022 in conjunction with the management of the Group.

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

Hong Kong, 29 August 2022