Selle Royal Group

CONSOLIDATED HALF-YEARLY FINANCIAL REPORT AS AT 31.12.2021

Selle Royal Group S.p.A.
Legal seat in Via Vittorio Emanuele n. 119 – Pozzoleone (VI)
Share Capital Euro 6.000.000,00 fully paid-up
Vicenza Companies House and tax ID no. 00231010281
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REPORT ON OPERATIONS

Dear Shareholders,

The half-year ended 31 December 2021 recorded a consolidated profit of € 13,433,034, of which € 11,569,197 pertaining to the Group.

SIGNIFICANT EVENTS DURING THE PERIOD

During the half-year in question, the factors that characterised the cycle sector in the previous 12 months continued. The rapid and robust growth in demand for bicycles and accessories at global level continued thanks to some trends that emerged before or in conjunction with the pandemic crisis: the growing ecological awareness, supported by significant public investments for the benefit of an increasingly widespread and safe use of bicycles also in urban contexts; product innovation, of which pedal assisted bicycles are, in their various applications, the most important example; the appeal of cycling, as a unique way of being in contact with the environment.

The half-year in question was also characterised, in addition to the persistence of the pandemic emergency, by two enduring global phenomena already described in the past: the increase in the cost of raw materials on the one hand and the congestion of global logistics flows, on the other hand. In addition to these, there was the trend in the cost of energy, deriving from the significant increase in LNG consumption by China, the reduced production of energy from renewable sources in Europe and geopolitical tensions.

As regards the first, the production plants of the entire Group had to face a rapid increase in the procurement costs of the main categories of materials (plastic, chemical, ferrous and, also, paper derivatives).

As for the second phenomenon, global logistic congestion shows no signs of abating. According to Bloomberg (as cited in a report published by ChemOrbis in December 2021[1]), the 45 days typically elapsing in the past between the collection of a load in Asia and the start of the journey (by land or railway) from the US port on the west coast to the final destination warehouse increased to around 105. What has increased dramatically, in particular, is the number of days required to process a container, once it reaches the destination port: while China has managed to reduce the average number of waiting days from 61 to 5 (and other Asian countries are between 11 and 19 days), the average waiting time is around 50 days in

[1] "After a tumultuous 2021, another rocky year ahead for plastic resins industry?" - ChemOrbis - December 2021

the United States (source: “C-Timing” study, by Container xChange and Fraunhofer CML, as reported in an article published on Bike Europe on 18 January 2022). This discrepancy in processing times means that around 36% of containers were blocked in ports in November 2021 (source: Jefferies Equity Research, as mentioned in the same article by Bike Europe).
This lengthening of timings poses significant challenges for the planning of stocks, especially in a sector characterised by seasonality such as the cycling. Given the approaching high season, the Group opted for an approach that favours customer service (mainly independent retailers and chains, both physical and online) in the most important months of the year, to the detriment of current capital levels at the date of this half-yearly report. Moreover, the increase in the cost of sea freight recorded in the last 12 months (from US$ 2,000-3,000 at the beginning of 2020 to US$ 20,000 at the end of 2021 for a 40' container (source: among others, Commodities Outlook, of T-Commodity) adds further inflationary pressure to the already considerable one deriving from the trend in the prices of raw materials and energy already discussed above.
In this context, favourable as regards the cycle sector and, on the whole, turbulent for the factors just highlighted, the Group maintained a gross margin substantially in line with the figures of the same period of the previous year, highlighting once again the importance of being a leader in its reference segments.

As regards the corporate structure, on 6 July 2021, Jiangyin Selle Royal Cycling Co., Ltd., a company under Chinese law, 68.29% owned by the Selle Royal group, was established through the Hong Kong holding Selle Royal Asia Limited (the remaining interest is held by the same minority shareholder of Selle Royal Vehicle (China) Co., Ltd). This company was established in order to take over the concession of land for industrial use located in the municipality of Jiangyin (province of Jiangsu, People's Republic of China), to be used for the construction of a new production plant. The land was optioned and the necessary discussions are underway with the relevant local administration in order to obtain the necessary authorisations and building permits. This new initiative became necessary due to the expropriation notification received by the subsidiary Selle Royal Vehicle (China) Co., Ltd. during the half year in question, and relating to the land on which its production plant stands. The date of execution of the expropriation measure and the amount to be paid as compensation have not yet been defined.
On 6 December 2021, the merger by incorporation of SR84 S.r.l. into Selle Royal Group S.p.A.

was successfully completed, with tax effect from 1 July 2021.

On 22 December 2021, Selle Royal Group S.p.A. signed an agreement with M J K Partecipações Ltda., equal shareholder in the Brazilian company Royal Ciclo Industria de Componentes Ltda., aimed at the purchase of an additional share of 1% of the latter's share capital. As a result of this transaction, the parent company holds 51% of the subsidiary's share capital. As illustrated in the explanatory notes to this consolidated half-yearly report, the company was already consolidated on a line-by-line basis as Selle Royal Group S.p.A. exercised de facto control over it. With regard to the liquidation of Royal Concept Co., Ltd., the process is substantially completed, as at the moment only the formal notification of its cancellation from the local register of companies is pending (the "Companies Registry"). This notification is expected by the end of the first quarter of 2022.

THE SELLE ROYAL GROUP and the CORONAVIRUS-19 PANDEMIC

As is known, the period in question was characterised by the persistence of the state of emergency linked to the Covid-19 pandemic at global level.

As regards the Selle Royal Group, the adoption of stringent prevention and control measures by each of the companies in the perimeter (including, by way of example, the deployment of forms of remote work organisation, free periodic tests for employees and the restructuring of personnel flows and work shifts in the production sites) have ensured that no outbreaks of the virus have occurred within the facilities, thus making it possible to increase the output volumes, needed to deal with the increased demand from the various markets in which the Group operates.

ECONOMIC PERFORMANCE

The income statement for the first half of 2021/22 is shown below, compared with the same period of the previous year:

	1st half of 2021/22	% of revenues	1st half of 2020/21	% of revenues	% Change
Revenues	105,513,820	100.0%	89,170,259	100.0%	18.3%
Cost of sales	58,206,052	55.2%	49,064,862	55.0%	18.6%
GROSS MARGIN	**47,307,768**	**44.8%**	**40,105,397**	**45.0%**	**18.0%**
Operating costs	24,979,232	23.7%	23,148,256	26.0%	7.9%
EBITDA	**22,328,536**	**21.2%**	**16,957,141**	**19.0%**	**31.7%**
Amortisation / depreciation and write-downs of fixed assets	3,822,742	3.6%	3,247,036	3.6%	17.7%
EBIT	**18,505,793**	**17.5%**	**13,710,105**	**15.4%**	**35.0%**
Financial income / (charges) and other financial components	(1,251,436)	-1.2%	(2,557,730)	-2.9%	-51.1%
PRE-TAX RESULT	**17,254,358**	**16.4%**	**11,152,375**	**12.5%**	**54.7%**
Taxes for the year	3,821,324	3.6%	3,705,140	4.2%	3.1%
NET PROFIT FOR THE YEAR	**13,433,034**	**12.7%**	**7,447,235**	**8.4%**	**80.4%**
Minority interests	1,863,837	1.8%	1,696,953	1.9%	9.8%
NET PROFIT FOR THE YEAR PERTAINING TO THE GROUP	**11,569,197**	**11.0%**	**5,750,282**	**6.4%**	**n.s.**

The half-year in question, which ended as at 31 December 2021, recorded sales of € 105.5 million, a marked increase compared to the turnover of the previous year (+18.3%). Moreover, during the period, the Group's margins remained essentially stable (from 45.0% to 44.8%), despite the impact deriving from the increase in the procurement costs of raw materials.

The increase in operating costs, and in particular in some industrial costs linked to production volumes, was partly driven by the growth in turnover; to these, there are general and administrative costs of a non-recurring nature. Overall, however, the Group strongly benefited from a significant operating leverage effect, which brought the EBITDA margin to 21.2% of revenues (compared to 19.0% in the year of comparison).

In absolute terms, this item reached € 22.3 million compared to € 17.0 million in the previous year.

Adjusted EBITDA, net of non-recurring items, was € 23.0 million, with a percentage impact on turnover of 21.8%, while in the year of comparison it was € 17.0 million, with a margin of 19.0%.

Depreciation and amortisation increased over the comparison figure, with the operating result increasing in proportion to EBITDA.

Financial charges are in line with the first half of the previous year. The overall figure, including exchange rate differences, was down by approximately € 1.3 million due to the lower impact of the latter compared to the previous year (€ +165 thousand compared to € -1,094 thousand).

As anticipated, the year in question closed with a sharp increase in net profit compared to the previous half-year (€ 13.4 million and € 7.4 million, respectively), with an incidence of 12.7% on turnover (11.0% considering only the profit pertaining to the Group).

FINANCIAL POSITION

The financial position of the Group as at 31 December 2021, compared with the situation emerging from the consolidated financial statements for the year ended 30 June 2021, is as follows:

	31/12/2021	30/06/2021	*Change*
Trade receivables	30,876,346	28,453,316	2,423,030
Inventories	40,197,721	26,318,545	13,879,176
Tax receivables	3,907,719	2,266,907	1,640,812
Other current assets	1,258,763	1,480,397	(221,634)
CURRENT ASSETS	***76,240,550***	***58,519,166***	***17,721,384***
Trade payables	26,406,496	22,080,469	4,326,028
Tax payables	5,606,779	6,262,892	(656,112)
Other current liabilities	11,568,949	9,690,052	1,878,897
CURRENT LIABILITIES	***43,582,224***	***38,033,412***	***5,548,812***
NET WORKING CAPITAL	**32,658,325**	**20,485,753**	**12,172,572**
Tangible assets	36,110,769	30,529,614	5,581,155
Intangible assets	20,979,284	21,142,693	(163,409)
Equity investments	2,222,317	2,060,638	161,679
Goodwill	10,440,855	10,320,071	120,784
Other non-current assets	2,096,115	2,050,345	45,769
NON-CURRENT ASSETS	***71,849,340***	***66,103,361***	***5,745,979***
Employee severance indemnity and other provisions	2,680,263	2,500,819	179,443
Deferred taxes	686,512	760,993	(74,481)
NON-CURRENT LIABILITIES	***3,366,775***	***3,261,812***	***104,962***
NET INVESTED CAPITAL	**101,140,890**	**83,327,302**	**17,813,588**
Short-term financial debt, net	(108,659)	3,770,491	(3,879,150)
Medium/long-term financial debt	46,350,985	38,353,309	7,997,676
NET FINANCIAL DEBT	**46,242,326**	**42,123,800**	**4,118,526**
Share capital and other reserves	32,694,990	17,621,302	15,073,688
Group profit for the year	11,569,197	14,917,555	(3,348,358)
GROUP SHAREHOLDERS' EQUITY	**44,264,187**	**32,538,857**	**11,725,331**
Share capital and other reserves	8,770,540	5,042,274	3,728,266
Profit for the year pertaining to minority interests	1,863,837	3,622,371	(1,758,534)
MINORITY INTERESTS	**10,634,377**	**8,664,645**	**1,969,732**

The increase in net working capital (€ +12.2 million) was basically driven by higher inventories, while the increase in other items classified under current assets was more than offset by the higher balance of current liabilities with respect to the comparison date. The trend of these figures is clearly related to the Group's growth in size; in addition, the balance of inventories was affected on the one hand by the seasonal nature of the sector and, on the other, by the complex situation of global logistics which has been ongoing for several months now. With specific reference to products originating in Asia, the marked lengthening of the time elapsing between the booking of sea freight and the delivery of goods to destination led to a significant increase in the level of stocks as at 31 December, both as regards finished products and goods in transit.

The operating investments ("capital expenditure") made by the various Group companies, for a total amount of € 9.3 million (of which € 4.7 million pertaining to the increase in the item “rights of use” recognised in accordance with the IFRS 16 accounting standard), are mainly aimed at product innovation, one of the key elements on which the Group bases its future growth, the renewal and improvement of production sites and the protection of intellectual assets consisting in particular of the 70 registered product and/or process patents and trademarks under which the Group markets its products. Net invested capital rose by € 17.8 million to € 101.1 million, mainly driven by the trend in net working capital.

Net financial debt increased by around € 4.1 million to € 46.2 million, with a significant increase in the medium/long-term portion to the detriment of the current portion, as shown in the table below:

		31/12/2021	30/06/2021	*Change*
A	Cash on hand	21,493,845	19,846,067	1,647,778
B	Cash and cash equivalents	-	-	-
C	Other current financial assets	-	-	-
D	**Liquidity (A + B + C)**	**21,493,845**	**19,846,067**	**1,647,778**
E	Current financial debt *	9,089,639	10,963,212	(1,873,573)
F	Current portion of non-current financial debt **	12,295,547	12,653,347	(357,799)
G	**Current financial debt (E + F)**	**21,385,186**	**23,616,559**	(2,231,372)
H	**Net current financial debt (G-D)**	**(108,659)**	**3,770,491**	**(3,879,150)**
I.	Non-current financial debt ***	42,427,070	32,477,712	9,949,358
J	Debt instruments	3,923,915	5,875,597	(1,951,682)
K	Trade payables and other non-current payables	-	-	-
L	**Non-current financial debt (I + J + K)**	**46,350,985**	**38,353,309**	**7,997,676**
M	**Net financial debt (H + L)**	**46,242,326**	**42,123,800**	**4,118,526**

* Excluding current portion of non-current financial debt; includes the current financial liability at fair value (equal to € 338 and classified under other current liabilities)

** Includes the current portion of bank loans and bonds as well as lease liabilities pursuant to IFRS 16

*** Includes the non-current portion of mortgages and lease liabilities pursuant to IFRS 16 and non-current financial liabilitie *at fair value* (€ 123,049)

The increase in net financial debt is however limited compared to the increase in net invested capital, thanks to the operating cash flow generated in this first half of the year, net of the change in net working capital.

DERIVATIVE FINANCIAL INSTRUMENTS

The parent company Selle Royal Group S.p.A. subscribed three derivative financial instruments, with the aim of hedging the risk of fluctuations in interest rates on as many medium/long-term loans. As at 31 December 2021, the market value of one of these is recognised under "current financial liabilities at fair value" since the underlying loan matures in May 2022. The market value of the other two, on the other hand, is recorded under non-current liabilities, as it expires in September 2027.
As these instruments were effective, the initial recognition and subsequent changes in value were recognised in a specific equity reserve ("cash flow hedge reserve"), net of the related tax effect. For further information, please refer to the Explanatory Notes to this half-yearly report.

INVESTMENTS

As already mentioned, during the first half of the year the Group incurred operating investments (capital expenditure) of approximately € 9.3 million, as shown in the following detail:

	1st half of 2021/22
Land and buildings	115,418
Right of use of leased assets	4,733,498
Plant and machinery	621,015
Industrial and commercial equipment	623,321
Other assets	316,837
Fixed assets in progress and payments on account	2,626,943
Sub-total - Investments in tangible assets	**9,037,033**
Research and development costs	-
Industrial patent rights and intellectual property rights	44,522
Concessions, licences, trademarks and similar rights	188,316
Other	-
Fixed assets in progress and payments on account	55,958
Sub-total - Investments in intangible assets	**288,796**
TOTAL OPERATING INVESTMENTS	**9,325,829**

As shown in the previous table, € 4.7 million relates to the recognition of rights of use on assets under lease, lease or similar contracts, for which the application of IFRS 16 is required.

DATA on TREASURY SHARES and any EQUITY INVESTMENTS in the PARENT COMPANY

Neither the parent company Selle Royal Group S.p.A. nor its associates and subsidiaries held shares in the parent company at the reporting date.

RISK ANALYSIS

The main financial and operational risks to which the Group is exposed are shown below:

Financial risks

Credit risk

The Group is exposed to credit risk deriving mainly from commercial relations with its customers and, in particular, due to any delays or non-fulfilment of their payment obligations according to the agreed terms and methods. On the other hand, some Group companies have taken out insurance policies with a leading international institution to mitigate this risk. At the reporting date, approximately 68% of the consolidated receivables (gross of the bad debt provision) were covered by insurance.

Risks associated with changes in interest rates

As at 31 December 2021, approximately 84% of the Group's consolidated gross financial debt, amounting to € 48.5 million, was floating rate. In relation to a portion of this debt (approximately 34% of the total), the parent company Selle Royal Group S.p.A. made use of derivative financial instruments (known as IRS, interest rate swap) to hedge the risk of fluctuations in interest rates on three medium/long-term loans. The aggregate mark-to-market of these derivatives as at 31 December 2021 was negative for € 123,387. The remaining part of the consolidated gross financial debt at floating rate, equal to approximately 50% of the total, is not hedged by interest rate risk hedging instruments. Significant changes in interest rates could result in an increase in financial charges relating to floating rate debt.

Liquidity risk

It should be noted that there are sufficient credit lines to meet the reasonably foreseeable liquidity requirements, also in view of the typical seasonality of the sector in which the Group operates.

Risks associated with exchange rate trends

Part of the Group's activities are carried out, also through subsidiaries, outside the Eurozone and the fees for some orders and transactions are agreed in currencies other than the Euro, mainly in US Dollars, Chinese Renminbi, Brazilian Real and Taiwanese Dollars. In this regard, it should be noted that any fluctuations in currencies other than the Euro could have negative effects on the Group's operating margins. In addition, fluctuations in the exchange rates used to convert the financial statements of certain foreign Group companies, originally expressed in currencies other than the Euro, could affect the economic, equity and financial situation of the Group, which prepares the consolidated financial statements in Euro.

Operational risks

Risks associated with the operations of production plants

The Group is exposed to the risk of having to interrupt or suspend its production activities due to events beyond its control, including the revocation of permits and authorisations, breakdowns, malfunctions, damage or natural disasters. This could have negative effects on the economic, equity and financial situation of the Group.

Risks associated with fluctuations in the price of raw materials and procurement difficulties, as well as the congestion of global logistics flows.

As mentioned previously, the purchase prices of some key raw materials in the Group's production processes increased significantly during the half-year. In the same way, the global logistics crisis has partly affected the normal operations of the Group companies, both as regards the procurement of components and products sold of Asian origin, and as regards shipments to customers.

Risks related to relations with manufacturers and suppliers of products and services and dependence on a limited number of suppliers for certain product categories

The Group is exposed to the risk that the relationship with the main producers and suppliers of goods and services that it uses may be interrupted, dissolved or terminated, and/or that the latter do not meet the contractually agreed quality standards and/or applicable regulations, putting at risk the Group's ability to meet the delivery of products to its customers according to the pre-established objectives. On the other hand, the strategic decision to develop solid multi-year partnerships with the most critical suppliers also meets the need to maintain adequate supervision in terms of quality control, both during the approval of new products and during the mass production of previously approved products.

Risks related to the impossibility of realising the book value of the stocks and to the increase in the obsolescence of said stocks

The Group is exposed to the risk of inventory obsolescence, against which adjustment provisions have been made, deemed reasonably adequate by the management based on the analyses carried out on stock rotation.

Risks associated with dependence on Group brands

These risks may materialise in the form of both a loss of value of the Group's brands, as perceived by the reference consumer communities, and in the difficulty of protecting and defending the intellectual property that belongs to the Group in the event of violations by third parties, including in foreign jurisdictions.

Risks associated with labour shortage and any increase in related costs

The Group is exposed to risks deriving from any increase in labour turnover rates and from difficulties in sourcing skilled and unskilled labour to an extent that satisfies the trend in demand for Group products.

Risks related to the consequences of the effects of the Covid-19 pandemic

During the years 2020 and 2021, the Group had to comply with the restrictive measures adopted by the national governments of the individual countries in which the Group companies operate to deal with the Covid-19 health emergency (“Coronavirus”), which caused a major international economic crisis, characterised by a significant contraction in demand on the main markets and in global gross domestic product. The cycle sector was marginally impacted by the pandemic, to the extent that the Issuer recorded substantially stable revenues in the year ended 30 June 2020 compared to the previous year (€ 130.1 million in the year ended 30 June 2020 compared to € 130.6 million in the year ended 30 June 2019, equal to -0.3%), and strong growth during the year ended 30 June 2021 (revenues of € 205.1 million, an increase of +58% compared to the previous year). Nevertheless, if the Covid-19 pandemic, whose evolution is still uncertain, were to persist or worsen, leading to the adoption of new restrictive measures by the competent national authorities for the sectors where the Group operates, the latter could be exposed to the risk of a slowdown or decrease in sales of its products. Any occurrence of these circumstances could have negative effects on the Group's business and economic, equity and financial situation.

SIGNIFICANT EVENTS AFTER THE END OF THE PERIOD

On 12 January 2022, the Shareholders' Meeting of Selle Royal Group S.p.A., in addition to the change of company name (it should be recalled that the company was previously named Selle Royal S.p.A.), resolved to approve a project aimed at the listing of the same on the electronic equity market Euronext Milan organised and managed by Borsa Italiana S.p.A., and in particular on the Euronext STAR Milan segment, if the conditions are met. This placement will be initiated in accordance with market conditions and subject to obtaining the required approvals from Borsa Italiana S.p.A. and CONSOB.

BUSINESS OUTLOOK

The current context is significantly affected by the uncertainty relating to the evolution of the Covid-19 pandemic in the various countries where the Group is present, by the persistent turbulence in the global markets of some strategic raw materials and by the critical global logistics issues which the sector has been experiencing for months. Excluding these considerations, it is clear that a context of sustained demand continues to characterise the cycle sector, following a trend that took hold before the outbreak of the Covid-19 pandemic and, to a certain extent, strengthened by the changes in social behaviour it brought about.

The performance in the first half of the year, despite the critical issues highlighted above, testifies to the solidity and resilience of the business model adopted by the Group. At present, the economic and financial objectives set for the current tax year are considered achievable, and in the first half of the year they are in line with the forecasts made.

RELATIONS WITH PARENT COMPANIES, AFFILIATES AND RELATED PARTIES

As regards transactions with related parties, please refer to the Explanatory Notes to this consolidated half-yearly report.

ENVIRONMENT, PERSONNEL and SECTOR REGULATIONS

The production, manufacture and sale of Group products is not currently subject to specific sector regulations. However, in consideration of the use of certain substances, environmental regulations are particularly important, especially for their treatment, emissions and waste disposal.

The Group carefully monitors the risks deriving from environmental and personnel regulations and any situations that may arise within the scope of operations are handled in compliance with the regulations.

With reference to personnel, the Selle Royal Group protects the health and safety of its workers in compliance with current regulations on health and safety in the workplace.

The average number of employees in the current year was 1,134, essentially stable compared to the 1,153 employees in the previous year. The net decrease of around 19 units is entirely attributable to the production employees of the Brazilian subsidiary Royal Ciclo Industria de Componentes Ltda. In addition to the employees hired by the Group companies, a total of an additional 465 employees were hired in the first half of the year through temporary work agencies.

Average workforce	**1st half of 2021/22**	**Financial Year 2020/21**	**Change**
Executives	25.0	25.5	(0.5)
Employees	235.9	227.2	8.7
Workers	872.2	899.5	(27.3)
Others	1.0	1.0	0.0
Total	**1,134.0**	**1,153.2**	**(19.1)**

* * *

Pozzoleone (VI), 15 February 2022

The Chairman of the Board of Directors

(Barbara Bigolin)

FINANCIAL STATEMENTS

Consolidated income statement(*)

	NOTES	1st half 2021/22	2020/21	% Change
Revenues	16	105,513,820	89,170,259	*18.3%*
Cost of sales	17	58,206,052	49,064,862	*18.6%*
GROSS MARGIN		**47,307,768**	**40,105,397**	***18.0%***
Industrial costs	18	3,066,641	2,833,926	*8.2%*
Sales and promotion costs	19	6,778,404	6,636,821	*2.1%*
Costs of the management structure	20	8,445,986	7,857,119	*7.5%*
General and administrative costs	21	7,508,004	5,581,333	*34.5%*
Other operating income and (expenses)	22	819,803	(239,057)	*n.s.*
EBITDA		**22,328,536**	**16,957,141**	***31.7%***
Amortisation / depreciation and write-downs of fixed assets		3,822,742	3,247,036	*17.7%*
EBIT		**18,505,793**	**13,710,105**	***35.0%***
Profits / (losses) from companies measured at equity		-	-	-
Gains / (losses) on acquisition/disposal of financial assets		-	-	-
Financial income / (charges)	23	(1,251,436)	(2,557,730)	*-51.1%*
PRE-TAX RESULT		**17,254,358**	**11,152,375**	***54.7%***
Taxes for the year	24	3,821,324	3,705,140	*3.1%*
NET PROFIT FOR THE YEAR		**13,433,034**	**7,447,235**	***80.4%***
Minority interests		1,863,837	1,696,953	*9.8%*
NET PROFIT FOR THE YEAR PERTAINING TO THE GROUP		**11,569,197**	**5,750,282**	***n.s.***

(*) The effects of transactions with related parties are described in the "Transactions with related parties" section.

Consolidated statement of comprehensive income

	NOTES	1st half of 2021/22	1st half of 2020/21
Net profit		**13,433,034**	**7,447,235**
Change in fair value of hedging derivatives net of the tax effect		(92,403)	1,923
Actuarial gains / (losses)		(57,446)	(85,794)
Acquisition of shares in companies already subject to control		(684,950)	-
Translation differences of foreign financial statements		990,931	(396,638)
Total comprehensive profit / (loss) after tax		**13,589,167**	**6,966,725**

Consolidated balance sheet(*)

ASSETS	NOTES	31/12/2021	30/06/2021	*Change*
Cash and cash equivalents	25, 39	21,493,845	19,846,067	1,647,778
Trade receivables	26	30,876,346	28,453,316	2,423,030
Inventories	27	40,197,721	26,318,546	13,879,176
Tax receivables	28	3,907,719	2,266,907	1,640,812
Other current assets	29	1,258,763	1,480,397	(221,634)
TOTAL CURRENT ASSETS		**97,734,394**	**78,365,233**	**19,369,161**
Intangible assets	30	20,979,284	21,142,693	(163,409)
Tangible assets	31	36,110,769	30,529,614	5,581,155
Equity investments	32	2,222,317	2,060,638	161,679
Goodwill	33	10,440,855	10,320,071	120,784
Deferred tax assets	34	916,362	871,708	44,654
Financial assets at fair value	35, 39	512,913	509,813	3,100
Other non-current assets	36	666,840	668,824	(1,984)
TOTAL NON-CURRENT ASSETS		**71,849,340**	**66,103,361**	**5,745,979**
TOTAL ASSETS		**169,583,734**	**144,468,594**	**25,115,140**

(*) The effects of transactions with related parties are described in the "Transactions with related parties" section.

		31/12/2021	30/06/2021	*Change*
LIABILITIES				
Trade payables	37	26,406,496	22,080,469	4,326,028
Tax payables	38	5,606,779	6,262,892	(656,112)
Bonds - Portion maturing within 12 months	39, 45	1,903,363	1,903,363	-
Short-term loans	39, 40	17,403,758	20,630,896	(3,227,138)
Current financial liabilities at fair value	39, 41	338	1,452	(1,115)
Current liabilities for leased assets	42	2,077,727	1,080,847	996,880
Other current liabilities	43	11,568,949	9,690,052	1,878,897
TOTAL CURRENT LIABILITIES		**64,967,410**	**61,649,971**	**3,317,439**
Provisions for employees	44	1,950,472	1,874,444	76,027
Bonds - Portion maturing beyond 12 months	39, 45	3,923,915	5,875,597	(1,951,682)
Medium / long-term loans	39, 46	34,110,785	26,731,370	7,379,416
Provisions for risks and charges	47	729,791	626,375	103,416
Payables for deferred taxes	48	686,512	760,993	(74,481)
Non-current financial liabilities at fair value	49	123,049	-	123,049
Non-current liabilities for leased assets	50	8,193,236	5,746,342	2,446,894
TOTAL NON-CURRENT LIABILITIES		**49,717,760**	**41,615,121**	**8,102,639**
TOTAL LIABILITIES		**114,685,170**	**103,265,092**	**11,420,078**
SHAREHOLDERS' EQUITY				
Share capital		6,000,000	6,000,000	-
Legal reserve		1,244,082	1,244,082	-
Translation reserve		1,798,320	807,389	990,931
Reserve for first-time adoption of IAS		10,716,446	10,716,446	-
Other reserves and undistributed profits		12,936,142	(1,146,615)	14,082,757
Group profit / (loss) for the year		11,569,197	14,917,555	(3,348,358)
GROUP SHAREHOLDERS' EQUITY	**51**	**44,264,187**	**32,538,857**	**11,725,330**
Share capital and undistributed profits pertaining to minority interests		8,770,540	5,042,274	3,728,266
Profit / (loss) for the year of minority interests		1,863,837	3,622,371	(1,758,534)
MINORITY INTERESTS	**51**	**10,634,377**	**8,664,645**	**1,969,732**
TOTAL LIABILITIES and SHAREHOLDERS' EQUITY		**169,583,734**	**144,468,594**	**25,115,139**

Statement of changes in shareholders' equity

	Balance as at 30 June 2020	Transfer of previous year result	Fair value IRS	Effect of discounting of employee severance indemnity	Dividend distribution	Other consolidation adjustments	Profit / (loss) for the year	Balance as at 30 June 2021
Share capital	6,000,000	-	-	-	-	-	-	6,000,000
Legal reserve	1,244,082	-	-	-	-	-	-	1,244,082
Translation reserve	388,420	-	-	-	-	418,969	-	807,389
Reserve for first-time adoption of IAS	10,716,446	-	-	-	-	-	-	10,716,446
Other reserves and undistributed profits	11,800,466	2,582,359	3,835	(33,276)	(15,500,000)	-	-	(1,146,616)
Group profit / (loss) for the year	2,582,359	(2,582,359)	-	-	-	-	14,917,555	14,917,555
TOTAL GROUP SHAREHOLDERS' EQUITY	32,731,773	-	3,835	(33,276)	(15,500,000)	418,969	14,917,555	32,538,856
Share capital and undistributed profits pertaining to minority interests	3,837,143	1,040,347	-	-	-	164,784	-	5,042,274
Profit / (loss) for the year of minority interests	1,040,347	(1,040,347)	-	-	-	-	3,622,371	3,622,371
TOTAL MINORITY INTERESTS	4,877,490	-	-	-	-	164,784	3,622,371	8,664,645
TOTAL SHAREHOLDERS' EQUITY	**37,609,263**	**-**	**3,835**	**(33,276)**	**(15,500,000)**	**583,753**	**18,539,926**	**41,203,501**

	Balance as at 30 June 2021	Transfer of previous year result	Fair value IRS	Effect of discounting of employee severance indemnity	Increase in Group interests	Other consolidation adjustments	Profit / (loss) for the year	Balance as at 31 December 2021
Share capital	6,000,000	-	-	-	-	-	-	6,000,000
Legal reserve	1,244,082	-	-	-	-	-	-	1,244,082
Translation reserve	807,389	-	-	-	-	990,931	-	1,798,320
Reserve for first-time adoption of IAS	10,716,446	-	-	-	-	-	-	10,716,446
Other reserves and undistributed profits	(1,146,616)	14,917,555	(92,403)	(57,446)	-	(684,950)	-	12,936,142
Group profit / (loss) for the year	14,917,555	(14,917,555)	-	-	-	-	11,569,197	11,569,197
TOTAL GROUP SHAREHOLDERS' EQUITY	32,538,856	-	(92,403)	(57,446)	-	305,981	11,569,197	44,264,187
Share capital and undistributed profits pertaining to minority interests	5,042,274	3,622,371	-	-	(65,220)	171,116	-	8,770,540
Profit / (loss) for the year of minority interests	3,622,371	(3,622,371)	-	-	-	-	1,863,837	1,863,837
TOTAL MINORITY INTERESTS	8,664,645	-	-	-	(65,220)	171,116	1,863,837	10,634,377
TOTAL SHAREHOLDERS' EQUITY	**41,203,501**	**-**	**(92,403)**	**(57,446)**	**(65,220)**	**477,097**	**13,433,033**	**54,898,564**

Consolidated cash flow statement prepared using the indirect method

STATEMENT OF CASH FLOWS FROM OPERATIONS

		31.12.2021	31.12.2020
Pre-tax result		**17,254,358**	**11,152,375**
Adjustments for			
+/-	**non-monetary elements**		
	Depreciation of tangible assets	2,548,564	2,067,375
	Amortisation of intangible assets	527,849	548,099
	Amortisation of Right Of Use	746,330	631,562
	Net financial charges	1,228,970	2,555,486
	Minor independent works	(5,131)	(4,604)
	(Gains) / losses on the sale of property, plant and equipment and financial assets	18,578	104,008
	Change in the bad debt provision	72,695	(139,663)
	Changes in deferred taxes, provisions and employee benefits	2,523,491	1,372,398
	Change in cash flow hedge reserve	(121,934)	1,923
	Change in actuarial reserves	(57,446)	(80,884)
Cash and cash equivalents generated by transactions before working capital		**24,736,324**	**18,208,074**
+/-	**change in working capital**		
+/-	Change in inventories	(16,459,883)	(7,393,828)
+/-	Change in trade receivables	(2,869,532)	(8,516,958)
+/-	Change in trade payables	4,326,028	6,401,344
+/-	Change in other current assets	(510,331)	(706,578)
+/-	Change in other current liabilities	(161,866)	137,156
Cash and cash equivalents generated by transactions		**9,060,739**	**8,129,209**
+	Interest collected	118,034	55,682
-	Interest paid	(1,072,062)	(1,069,689)
-	Taxes paid	(1,929,915)	(1,233,533)
Net cash and cash equivalents from operating activities (A)		**6,176,797**	**5,881,669**
STATEMENT OF CASH FLOWS FROM INVESTMENT ACTIVITIES			
-	Payments for acquisitions of property, plant, machinery and other tangible assets	(4,303,535)	(2,452,404)
-	Payments for acquisitions of intangible assets and capitalised costs	(288,796)	(349,600)
-	Payments for the granting of advances or loans to third parties	(1,052,175)	(280,485)
-	Payments for derivatives	(22,465)	(2,244)
Net cash and cash equivalents from / used in investing activities (B)		**(5,666,971)**	**(3,084,733)**
STATEMENT OF CASH FLOWS FROM FINANCING ACTIVITIES			
+	Collections from obtaining loans	23,634,392	20,947,349
-	Payments for rents that fall under the application of IFRS 16	(1,014,325)	(810,619)
-	(Redemption) bond loan (known as mini-bond)	(2,000,000)	(2,000,000)
-	Loan repayments	(19,482,115)	(13,700,342)
Net cash and cash equivalents from / used in financing activities (C)		**1,137,953**	**4,436,387**
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS (D) = (A + B + C)		1,647,778	7,233,323
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR (E)		19,846,067	20,888,905
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR (F) = (D + E)		21,493,845	28,122,228

EXPLANATORY NOTES TO THE CONSOLIDATED HALF-YEARLY REPORT AS AT 31 DECEMBER 2021

1. INTRODUCTION

The consolidated half-yearly report as at 31 December 2021 of Selle Royal Group S.p.A. was prepared in compliance with the IFRSs or International Financial Reporting Standards (also "IFRS") issued by the IASB (International Accounting Standards Board) and approved by the European Commission in accordance with the procedure pursuant to Article 6 of EC Regulation no. 1606/2002 of the European Parliament and Council of 19 July 2002 on the date of preparation of this report as well as the provisions of Legislative Decree 38/2005. This consolidated half-yearly financial report was also prepared in accordance with International Accounting Standard ("IAS") 34 - Interim Financial Reporting. The consolidated half-yearly report as at 31 December 2021 was prepared for inclusion in the Prospectus envisaged as part of the listing process on the Euronext Milan market organised and managed by Borsa Italiana S.p.A., whose launch was approved by the Board of Directors of Selle Royal Group S.p.A. on 12 January 2022, and is subject to voluntary audit by the independent auditors.

IFRS also means all the revised international accounting standards ("IAS") and all the interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"), previously called the Standing Interpretations Committee ("SIC"), which, at the date of approval of the consolidated financial statements for the year ended 30 June 2021, have been subject to endorsement by the European Union in accordance with the procedure envisaged by Regulation (EC) no. 1606/2002 by the European Parliament and Council of 19 July 2002.

The half-yearly report as at 31 December 2021 consists of the Income Statement, the Balance Sheet, the Statement of Changes in Shareholders' Equity, the Cash Flow Statement and the Explanatory Notes that follow.

This half-yearly report was prepared on the basis of the best knowledge of IFRSs and taking into account the best practice on the subject; any future guidelines and interpretative updates will be reflected in subsequent years, according to the methods envisaged from time to time by the reference accounting standards.

All amounts included in this report are presented in Euro, which is the currency of the main economic environment in which the Group operates, unless otherwise indicated.

The consolidated half-yearly report was prepared on a going concern basis, as the directors verified that there were no financial, operational or other indicators that could indicate critical issues regarding the Group's ability to meet its obligations in the foreseeable future and in particular in the next 12 months.

The consolidated half-yearly report was prepared using the interim reports of the Group companies as a basis.

The reference date of the consolidated half-yearly report coincides with the closing date of the first half of the financial year of the Parent Company and of the other companies included in the scope of consolidation.

2. ACCOUNTING STANDARDS, AMENDMENTS AND MANDATORY INTERPRETATIONS ADOPTED BY THE GROUP

The accounting standards adopted by the Group for the preparation of the consolidated half-yearly report as at 31 December 2021 are the same as those adopted for the preparation of the consolidated financial statements as at 30 June 2021.

3. ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS NOT YET APPLICABLE AND NOT ADOPTED IN ADVANCE BY THE GROUP

Below are the international accounting standards, interpretations, amendments to existing accounting standards and interpretations, or specific provisions contained in the standards and interpretations approved by the IASB that have not yet been endorsed for adoption in Europe at the date of this financial report or were not adopted early.

Amendments to IAS 1: Classification of Liabilities as Current or Non-current

In January 2020, the IASB published amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by the right to defer the maturity date
- That the right of deferment must exist at the end of the year
- The classification is not affected by the probability with which the entity will exercise its right of deferment
- Only if an embedded derivative in a convertible liability is itself an equity instrument does the liability's maturity have no impact on its classification.

The amendments will be effective for years beginning on or after 1 January 2023, and must be applied retrospectively. No material impacts are expected for the Group with reference to this amendment.

<u>Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting Policies</u>

Presented in February 2021, these amendments are intended to help the drafter of the financial statements in deciding which accounting policies to present in their financial statements. They will be effective for financial years beginning on or after 1 January 2023. In particular, the entity is required to make the disclosure of the material accounting policies, rather than the significant accounting policies and several paragraphs are introduced that clarify the process of defining the material policies, which could be such by their very nature, even if the related amounts may be intangible. An accounting policy is material if the users of financial statements need it to understand other information included in the financial statements.

<u>Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates</u>

From February 2021, changes were introduced to the definition of accounting estimates, replacing the concept of changing them. According to the new definition, accounting estimates are monetary amounts subject to measurement uncertainty. The Board clarifies that a change in the accounting estimate, which results from new information or new developments, is not the correction of an error. Moreover, the effects of a change in the inputs or in the measurement technique used to develop an accounting estimate are changes in estimates unless they result from the correction of errors of previous years. A change in an accounting estimate may affect only the profit (or loss) for the current period or, alternatively, for both the current period and future periods. These amendments will be applicable, subject to approval, from 1 January 2023. No material impacts are expected for the Group with reference to this amendment.

<u>Amendments to IAS 12 Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction</u>

Issued in May 2021, IAS 12 requires the recognition of deferred taxes whenever there are temporary differences, i.e. taxes due or recoverable in the future. In particular, it was established that companies, in specific circumstances, may be exempted from recognising deferred tax when they recognise assets or liabilities for the first time. This provision previously raised some uncertainty as to whether the exemption would apply to transactions such as leasing and dismantling obligations, transactions for which the companies recognise both an asset and a liability. With the amendment to IAS 12, the IFRS clarifies that the exemption does not apply and that companies are required to recognise deferred tax on these transactions. The objective of the amendments is to reduce the diversity in the reporting of deferred taxes on lease agreements and dismantling obligations. The amendments are effective for years starting on 1 January 2023 and early application is envisaged. No material impacts are expected for the Group with reference to this amendment.

4. IFRS STANDARDS and INTERPRETATIONS APPROVED by the IASB and NOT ENDORSED in EUROPE

Below are the international accounting standards, interpretations, amendments to existing accounting standards and interpretations, or specific provisions contained in the standards and interpretations approved by the IASB that have not yet been endorsed for adoption in Europe at the date of these financial statements.

IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 Insurance Contracts (IFRS 17), a new comprehensive standard relating to insurance contracts that covers recognition and measurement, presentation and disclosure. When it comes into force, IFRS 17 will replace IFRS 4 Insurance Contracts, issued in 2005. IFRS 17 applies to all types of insurance contracts (e.g. life, non-life, direct insurance, reinsurance) regardless of the type of entity that issues them, as well as to certain guarantees and financial instruments with discretionary participation features. For this purpose, limited exceptions will be applied. The general objective of IFRS 17 is to present an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the provisions of IFRS 4, which are largely based on the maintenance of previous accounting policies, IFRS 17 provides a complete model for insurance contracts that covers all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-term contracts.

IFRS 17 will be in force for years beginning on or after 1 January 2023, and will require the presentation of comparative balances. Early application is permitted, in which case the entity must also have adopted IFRS 9 and IFRS 15 at the date of first-time application of IFRS 17 or earlier. No material impacts are expected for the Group's consolidated financial statements with reference to this amendment.

<u>*Amendment to IFRS 16 – Leases: Covid-19-Related Rent Concessions beyond 30 June 2021*</u>

Issued on 31 March 2021, it should have been effective from 1 April 2021, but was approved on 30 August 2021. With this amendment, the IASB further amended IFRS 16 to extend the time limit of one of the criteria that the lessor must comply with in order to apply the practical expedient to the concessions received (exemption to lessees from the obligation to determine whether a concession in terms of leases is a change to the lease), i.e. that any reduction in lease payments could only affect payments originally due by 30 June 2021.

<u>*Reference to the Conceptual Framework – Amendments to IFRS 3*</u>

In May 2020, the IASB published the amendments to *IFRS 3 Business Combinations – Reference to the Conceptual Framework*. The amendments were approved on 28 June 2021. The Board added an exception to the measurement standards of IFRS 3 to avoid the risk of potential losses or profits "of the day after" deriving from liabilities and contingent liabilities that would fall within the scope of IAS 37 or IFRIC 21 Levies, if contracted separately. At the same time, the Board decided to clarify that the existing guidance in IFRS 3 for contingent assets will not be impacted by the update of the references to the *Framework for the Preparation and Presentation of Financial Statements*. The amendments will be effective for the years starting on 1 January 2022 and apply prospectively. No material impacts are expected for the Group's consolidated financial statements with reference to this amendment.

<u>*Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16*</u>

In May 2020, the IASB published <u>*Property, Plant and Equipment – Proceeds before Intended Use*</u>, which prohibits the entity from deducting from the cost of property, plant and equipment any revenue deriving from the sale of items produced while the company is preparing the asset for its use in testing. These revenues must be recognised in the income statement under income from sales as well as the related costs. The amendments were approved on 28 June 2021. The amendment will be effective for years beginning on or after 1 January 2022 and must be applied retrospectively to items of property, plant and equipment made available for use at or after the start date of the period prior to the period in which the entity applies this amendment for the first time. No material impacts are expected for the Group with reference to these amendments.

Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37

In May 2020, the IASB published amendments to IAS 37 to specify which costs must be considered by an entity when assessing whether a contract is onerous or loss-making. The amendments were approved on 28 June 2021. The amendment provides for the application of a "directly related cost approach". Costs that refer directly to a contract for the supply of goods or services include both incremental costs and costs directly attributed to the contractual activities. General and administrative expenses are not directly related to a contract and are excluded unless they are explicitly recharged to the counterparty on the basis of the contract. The amendments will be effective for years beginning on or after 1 January 2022. The Group will assess the impacts of these changes in the event of contracts for which it has not yet satisfied all its obligations at the beginning of the year of first application.

5. 2018-2020 ANNUAL IMPROVEMENTS

IFRS 1 First-time Adoption of International Financial Reporting Standards – Subsidiary as a first-time adopter

As part of the 2018-2020 annual improvements process of the IFRS standards, the IASB published an amendment to IFRS 1 *First-time Adoption of International Financial Reporting Standards*. This amendment allows a subsidiary that chooses to apply paragraph D16(a) of IFRS 1 to account for the cumulative translation differences on the basis of the amounts recorded by the parent company, considering the date of transition to IFRS by the parent company. This amendment also applies to associates or joint ventures that choose to apply paragraph D16(a) of IFRS 1. The amendment will be effective for years beginning on or after 1 January 2022, and early application is permitted. No material impacts are expected for the Group's consolidated financial statements with reference to this amendment.

IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities

As part of the 2018-2020 annual improvements process of the IFRS standards, the IASB published an amendment to IFRS 9. This amendment clarifies the fees that an entity includes in determining whether the conditions of a new or amended financial liability are substantially different with respect to the terms of the original financial liability. These fees include only those paid or received between the debtor and the lender, including those paid or received by the debtor or the lender on behalf of others. An entity applies this amendment to financial liabilities that are amended or exchanged after the date of the financial year in which the entity applies the amendment for the first time. The amendment will be effective for years beginning on or after 1 January 2022, and early application is permitted. The Group will apply this amendment to financial liabilities that are amended or exchanged subsequently or at the date of the financial year in which the entity applies this amendment for the first time. No material impacts are expected for the Group's consolidated financial statements with reference to this amendment.

6. FINANCIAL STATEMENT FORMATS AND CLASSIFICATION CRITERIA

When preparing the formats of the documents that make up the financial statements, the Company adopted the following criteria:

- Income statement

The classification of costs was carried out on the basis of the criterion of their destination, which is considered more representative, as well as adhering to the criteria of the reporting used by the management of the Group companies in determining the strategic direction and the execution of the related business plans.

- Balance Sheet

The assets and liabilities shown in the financial statements have been separately classified as current and non-current in compliance with the provisions of IAS 1.

In particular, an asset must be classified as current when it meets one of the following criteria:

(a) it will be realised, or held for sale or consumption, in the normal course of the entity's operating cycle;

(b) it is held primarily for the purpose of trading;

(c) it is expected to be realised within twelve months of the reporting date;

(d) these are cash and cash equivalents.

All other assets were classified as non-current.

A liability must be classified as current when it meets one of the following criteria:

(a) it is expected to be settled in the normal operating cycle of an entity;

(b) it is held primarily for the purpose of trading;

(c) it must be settled within twelve months from the reporting date;

(d) the entity does not have an unconditional right to defer settlement of the liability for at least twelve months from the reporting date.

All other liabilities were classified as non-current.

Moreover, on the basis of the provisions of IFRS 5, those assets (and related liabilities) whose book value will be recovered mainly through a sale transaction rather than continuous use are classified, where they exist, as “Assets held for sale” and “Liabilities related to assets held for sale”.

- Statement of changes in shareholders’ equity

The statement was prepared by showing the items in individual columns with a reconciliation of the opening and closing balances of each item that makes up Shareholders' equity.

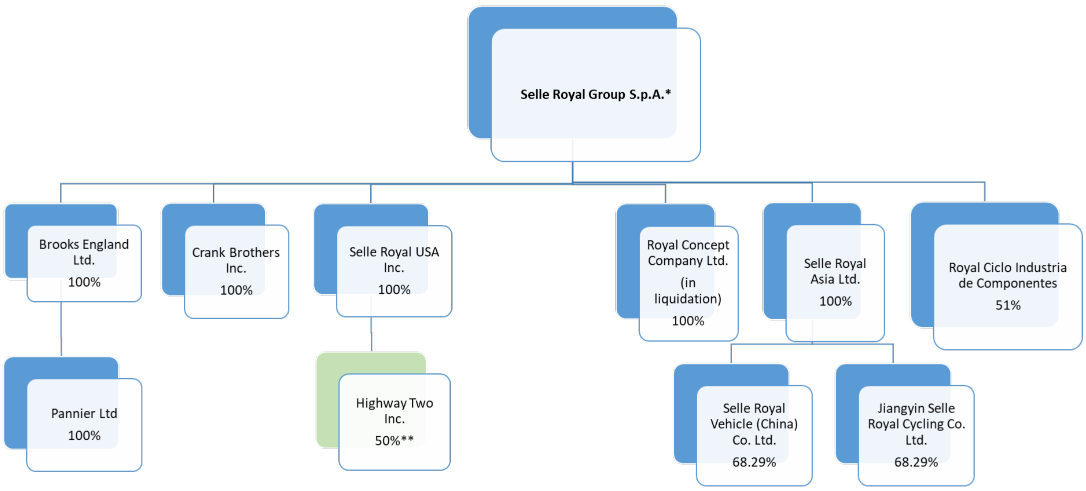
- Cash flow statement

The cash flows from operating activities are presented using the indirect method as permitted by IAS 7, since this criterion was considered the most appropriate to the business sector in which the company operates. By means of this criterion, the result for the year was adjusted for the effects of non-monetary transactions, operating, investing and financial activities.

7. ACTIVITIES OF GROUP COMPANIES

The companies that make up the Selle Royal Group produce and sell saddles, sports shoes and cycle accessories.

The structure of the Group as at the date of these consolidated financial statements is shown below, with an indication of the equity investment percentages.



* Following the change of company name resolved by the shareholders’ meeting of 12 January 2022

** Consolidated using the equity method

This structure has changed compared to the composition of the Group as at 30 June 2021, due to the establishment, on 6 July 2021, of Jiangyin Selle Royal Cycling Co., Ltd., a company under Chinese law, 68.29% controlled by the Group through the Hong Kong holding company Selle Royal Asia Limited and, for the remainder, by the same local shareholder holding the minority interest in Selle Royal (Vehicle) Co., Ltd. For further details, please refer to the section "Significant events during the period". On 6 December 2021, the merger by incorporation of SR84 S.r.l. into Selle Royal Group S.p.A. was completed, as resolved by the respective corporate bodies on 28 September 2021. The statutory effects of this transaction became effective as from 31 December 2021, while the taxation effect applied as from 1 July 2021.

Lastly, please note that on 22 December 2021 Selle Royal Group S.p.A. signed an agreement with M J K Partecipações Ltda., equal shareholder in the Brazilian company Royal Ciclo Industria de Componentes Ltda., for the purchase of an additional shareholding equal to 1% of the latter's share capital. As a result of this transaction, the parent company holds 51% of the subsidiary's share capital. The higher value recognised to the minority shareholder in the acquisition, with respect to the portion of shareholders' equity of Royal Ciclo Industria de Componentes Ltda. subject to transfer, was recorded as a decrease in shareholders' equity reserves, as required by international accounting standards in the event of increase of interest in companies already subject to control.

The consolidated half-yearly report as at 31 December 2021 includes the data of the parent company Selle Royal Group S.p.A. and those of the subsidiaries in which it has, directly or indirectly, the majority of the votes that can be exercised at the Shareholders' Meeting or in which it has decision-making power, i.e. the ability to direct the relevant activities of the investee, i.e. those activities that have a significant influence on the investee's returns.

In particular, the scope of consolidation is broken down as follows:

- **Selle Royal Group S.p.A.**, parent company, with registered office in Pozzoleone (VI), share capital of € 6,000,000. It should be noted that, as already described above, following a shareholders' meeting resolution of 12 January 2022, Selle Royal S.p.A. changed its company name as indicated above.
- **Brooks England Limited**, acquired in 2002, with registered office in Smethwick-Birmingham, United Kingdom, share capital of £ 239,100, equal to approximately € 301,799, 100% owned by Selle Royal Group S.p.A.
- **Selle Royal USA Inc.** (previously known as Hi-Move Inc.), established in 2006, with registered office in Chicago (Illinois), share capital of USD 1,000, equal to approximately

€ 901. The company is 100% owned by Selle Royal Group S.p.A. A joint venture was also established in 2006 with a leading German operator for the direct distribution of products on the US market. To this end, Highway Two Llc. was established, based in the USA, currently 50% owned by Selle Royal USA Inc. In these consolidated financial statements, Highway Two Llc. is measured using the equity method. The value at the reporting date was € 2,207,383.

- **Crank Brothers Inc.**, with share capital of US$ 2,000, equal to approximately € 1,802, 100% owned by Selle Royal Group S.p.A.
- **Selle Royal Vehicle (China) Co. Ltd**., formerly Jiangyin Justek Vehicle Co., Ltd.; the acquisition, completed in February 2010, was effective retroactively from 1 January 2010. The interest in Selle Royal Group S.p.A., through its wholly-owned subsidiary Selle Royal Asia Ltd., grew in 2014/15 from 51.86% of the share capital held since the acquisition to the 68.29% currently held, following a corporate reorganisation. Lastly, it should be noted that the aforementioned company Selle Royal Asia Ltd. is a pure holding company that holds exclusively the equity investment in Selle Royal Vehicle (China) Co. Ltd and does not carry out any activities.
- **Selle Royal Jiangyin Cycling Co. Ltd**.: established on 6 July 2021, with registered office in Jiangyin (Jiangsu province, People's Republic of China), the company is 68.29% owned by Selle Royal Asia Limited.
- **Pannier Ltd.**, with registered office in Smethwick-Birmingham, United Kingdom, share capital of £ 100.00 (corresponding to approximately € 120), fully subscribed and paid in by the subsidiary Brooks England Ltd. It should be noted that this company is exempted from the requirements of the Companies Act with reference to the audit of individual financial statements, as envisaged by Section 479A.
- **Royal Ciclo Industria de Componentes, Ltda**., with registered office in Rio do Sul, in the State of Santa Catarina, Brazil. The share capital, equal to 11,601,802 Brazilian Real, is 51% owned by Selle Royal Group S.p.A.
- **Royal Concept Co., Ltd.**: the liquidation process of this Company, with registered office in Hong Kong, is substantially completed, as at present only the formal notification of its cancellation from the local register of companies is pending ("Companies Registry"). This notification is expected by the end of the first quarter of 2022.

8. GENERAL PREPARATION CRITERIA AND CONSOLIDATION PRINCIPLES

Consolidation is carried out using the line-by-line method. The criteria adopted for the application of this method are mainly the following:

- the book value of the equity investments held by the Parent Company or by the other companies subject to consolidation is eliminated against the relative shareholders' equity as a result of the assumption of the assets and liabilities of the investee companies;
- any higher book value of the equity investments with respect to the shareholders' equity pertaining to the acquisition is allocated, where possible, to the assets of the companies included in the scope of consolidation up to the current value of the same and, for the residual part, to the "Goodwill" item;
- significant transactions between consolidated companies are eliminated, as well as receivables and payables and unrealised profits deriving from transactions between group companies, net of any tax effect;
- the portion of shareholders' equity pertaining to minority shareholders is shown in the specific item of consolidated shareholders' equity, while the portion pertaining to minority interests of the result for the year is shown separately in the consolidated income statement;
- the equity investments acquired during the year are included in the scope of consolidation from the date of acquisition.

Subsidiaries are those in which the Group simultaneously has:

- decision-making power, i.e. the ability to direct the relevant activities of the investee, i.e. those activities that have a significant influence on the investee's returns;
- the right to variable (positive or negative) results from its investment in the entity;
- the ability to use its decision-making power to determine the amount of the returns deriving from its investment in the entity.

Control can be exercised either by virtue of the direct or indirect ownership of the majority of shares with voting rights, or by virtue of contractual or legal agreements, also regardless of shareholder relations. In assessing the existence of control, the Company also considers its own and third-party potential voting rights to determine whether it has power. "Potential voting rights" are rights to obtain voting rights of an investee, such as those deriving from convertible financial instruments or options. These rights are considered only if they are substantial.

The existence of control is verified every time that facts or circumstances indicate a change in one or more of the three elements qualifying the control.

Subsidiaries are consolidated on a line-by-line basis from the date on which control is actually acquired and cease to be consolidated from the date on which control is transferred to third parties. The criteria adopted for line-by-line consolidation are as follows:

- the book value of the equity investments in the companies included in the scope of consolidation is eliminated against the relative shareholders' equity as a result of the assumption of the assets and liabilities of the investees;
- according to the provisions of IFRS 3, subsidiaries acquired by the Group are accounted for using the acquisition method, according to which the consideration transferred in a business combination is measured at fair value, calculated as the sum of the fair value of the assets transferred and liabilities assumed by the Group at the acquisition date and of the equity instruments issued in exchange for control of the acquired company. Accessory charges to the transaction are recognised in the income statement at the time they are incurred;
- the excess of the acquisition cost over the market value of the Group's share of net assets is accounted for as goodwill;
- if the acquisition cost is lower than the fair value of the Group's share in the net assets of the acquired subsidiary, the difference is recognised directly in the income statement;
- profits and losses not yet realised with third parties, deriving from transactions between Group companies, are eliminated as well as receivables, payables, costs, revenues, margins on products in inventory and all significant transactions that have taken place between the consolidated companies;
- dividends distributed among group companies are eliminated, as are the coverage of losses and write-downs of equity investments in consolidated companies;
- the portions of shareholders' equity and profit for the year pertaining to minority interests are shown separately, respectively, in a specific item of the consolidated balance sheet and income statement; pursuant to IFRS 10, the total loss is attributed to the shareholders of the parent company and to the minority interests, even when the shareholders' equity attributable to the minority interests presents a negative balance;
- acquisitions of minority interests relating to entities for which control already exists or the sale of minority interests that do not entail the loss of control are considered equity transactions; therefore, any difference between the acquisition/disposal cost and the

relative portion of shareholders' equity acquired/sold is recorded as an adjustment to the Group's shareholders' equity. Any obligation, relating to a forward contract, to purchase its own equity instruments for cash and cash equivalents entails the recognition of a liability whose fair value is reclassified from shareholders' equity. If the contract expires without a delivery, the accounting amount of the liability is transferred to shareholders' equity. The contractual obligation for the acquisition of own equity instruments gives rise to a liability for the present value of the redemption amount even if the obligation is subordinated to the exercise by the counterparty of the redemption right.

The financial statements of subsidiaries are prepared using the currency of the primary economic environment in which they operate. The rules for the translation of the financial statements of companies expressed in currencies other than the Euro are as follows:

- the assets and liabilities are converted using the exchange rates in force at the reporting date;
- costs and revenues are converted at the average exchange rate for the year;
- the "translation reserve" included among the items of the statement of comprehensive income includes both the exchange differences generated by the conversion of the economic items at an exchange rate different from the closing one and those generated by the conversion of the opening shareholders' equity at a different exchange rate from the one at the end of the reporting period;
- goodwill, if any, and fair value adjustments related to the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and converted at the closing exchange rate for the period.

The exchange rates adopted for the conversion of these financial statements are shown in the following table:

	Exact exchange rate as at			Average exchange rate in the first half of the year		
Currency	**31 December 2021**	**30 June 2021**	**Appreciation / (deprec.)**	**2021/22**	**2020/21**	**Appreciation / (deprec.)**
British Pound (GBP)	0.8403	0.8581	2.11%	0.8516	0.9042	6.18%
US Dollar (USD)	1.1326	1.1884	4.93%	1.1612	1.1808	1.69%
Hong Kong Dollar (HKD)	-	9.2293	n.s.	0	9.1526	n.s.
Chinese Yuan Renminbi (RMB)	7.1947	7.6742	6.66%	7.4681	7.9938	7.04%
Brazilian Real (BRL)	6.3101	5.9050	-6.42%	6.2707	6.3597	1.42%

9. MEASUREMENT CRITERIA

The measurement criteria, the accounting standards and the financial statements drafting principles, adopted according to a prudent approach and on a going concern basis, were as follows.

Revenues, income, costs and charges

On the basis of the five-step model introduced by IFRS 15, the company recognises revenues after identifying the contracts with its customers and the related performance obligations to be satisfied (transfer of goods and/or services), determined the consideration to which it expects to be entitled in exchange for the fulfilment of each of these performance obligations, as well as assessed the manner of satisfaction of these performance obligations (fulfilment at a given point in time versus fulfilment over time). In particular, the Company recognises revenues only if the following requirements are met (so-called requirements for identifying the "contract" with the customer):

a) the parties to the contract have approved the contract (in writing, orally or in compliance with other usual commercial practices) and have undertaken to fulfil their respective obligations; there is therefore an agreement between the parties that creates enforceable rights and obligations regardless of the form in which said agreement is expressed;

b) the Company may identify the rights of each party with regard to the goods or services to be transferred;

c) the Company may identify the payment terms for the goods or services to be transferred;

d) the contract has commercial substance; and

e) it is likely that the Company will receive the consideration to which it is entitled in exchange for the goods or services that will be transferred to the customer.

If the above requirements are not met, the related revenues are recognised when: (i) the Company no longer has any obligation to transfer goods and/or provide services to the customer and all, or almost all, of the consideration promised by the customer has been received and is not refundable; or (ii) the contract was terminated and the consideration that the Company received from the customer is not refundable.

If the above requirements are met, the revenues deriving from the sale of goods are recognised at the time of transfer of ownership, which generally takes place at the time of delivery or shipment, unless the delivery terms are such as to cause significant risks and benefits to pass to the purchasing counterparty at a later time than the aforementioned delivery or shipment of the asset, in which case, on the basis of the average delivery time, the sales revenues and the related costs are deferred to the following year.

Revenues from the provision of services are considered to have been achieved on the date on which the services are completed. Revenues of a financial nature and those deriving from the provision of continuous services are recognised on an accrual basis.

Income taxes

Taxes are allocated on the basis of the rates in force applied to taxable income, taking into account the regulations in force at the time of preparation of the financial statements, in compliance with the accrual principle.

Taxes for the period include current and deferred taxes. Income taxes are generally recognised in the income statement, except when they relate to items recorded directly in shareholders' equity. In this case, income taxes are also charged directly to shareholders' equity.

Current taxes are the taxes that are expected to be paid on the taxable income for the year and are calculated in compliance with the regulations in force in the various countries in which the Selle Royal Group operates.

Deferred taxes are calculated using the *liability method* on the temporary differences between the amount of assets and liabilities in the consolidated financial statements and the corresponding values recognised for tax purposes. Deferred taxes are calculated on the basis of the tax rate that is expected to be in force at the time the asset is realised or the liability is extinguished.

Deferred tax assets are recognised only if it is probable that sufficient taxable income will be generated in subsequent years for the realisation of these assets.

Income taxes relating to previous years include charges and income recognised in the year for income taxes relating to previous years.

Criteria for the translation of currency items

Receivables and payables in foreign currency and liquid funds in foreign currency at the end of the accounting period are stated in the financial statements at the exchange rate in force on the reporting date.

Profits and losses deriving from the translation of individual receivables and payables and of liquid funds in foreign currency, at the exchange rate in force on the date of the financial statements, are credited and debited respectively to the income statement as financial income components. If a net profit emerges from their conversion at the exchange rate in force at the end of the year, when the financial statements are approved, this net profit is recorded in a non-distributable reserve for the part not absorbed by any loss for the year.

Fair value measurement

In compliance with IFRS 13 - Fair value measurement, the Group measures financial instruments like derivatives at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The measurement of fair value is based on the presumption that the transaction to sell the asset or transfer the liability takes place in the main market or, in the absence of a main market, in the most advantageous market for the asset or liability.

The Group uses valuation techniques that are appropriate to the circumstances and for which sufficient data are available to measure the fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. All assets and liabilities for which the fair value is measured or disclosed in the financial statements are classified in the fair value hierarchy, described below, based on the lowest level input that is significant for the measurement of fair value in its complex:

- Level 1 - (Unadjusted) market prices listed in active markets for identical assets or liabilities;
- Level 2 - Valuation techniques for which the lowest level input that is significant for the measurement of fair value is directly or indirectly observable;
- Level 3 - Valuation techniques for which the lowest level input that is significant for the measurement of fair value is unobservable.

Cash and cash equivalents

The item consists of cash and current account deposits, recognised at nominal value, corresponding to the fair value. Cash and cash equivalents are short-term investments, highly liquid and readily convertible into cash, which are subject to an insignificant risk of change in value.

Trade receivables

Trade receivables are measured on the basis of the impairment model introduced by IFRS 9 on the basis of which the Group measures receivables by adopting an expected loss approach, replacing the IAS 39 framework based on the measurement of incurred losses. The Group has applied a simplified approach in the calculation of Expected Credit Losses ("ECL"), therefore it does not keep track of changes in credit risk, but recognises a provision for losses based on "ECL" calculated over the entire life of the loan (known as lifetime ECL) at each reference date, based on its historical experience of credit loss, adjusted for specific forward-looking factors of the debtors and the economic context. The amount of the receivables is shown in the balance sheet net of the related bad debt provision. The write-downs reported pursuant to IFRS 9 (including recoveries or write-backs) are recognised in the income statement under the other operating income and charges item.

Inventories

Inventories of raw materials, semi-finished and finished products are measured at the lower of cost and net realisable value.

The cost configuration used is that of the "weighted average cost".

Production costs include the expenses incurred to bring the assets to the state in which they are found in the financial statements; they include both the specific costs of the individual assets and the overall costs incurred in the activities carried out for their preparation.

Obsolete and slow-moving stocks are valued in relation to their possibility of use and realisation, with reference to the average duration of the production cycle, with the allocation of a specific write-down both directly and through the establishment of a provision to adjust their value.

Tangible assets

Property, plant and equipment are recognised according to the cost criterion and recognised at the purchase price or at the cost of production, revalued if necessary in accordance with the law, including directly attributable accessory costs necessary to make the assets ready for use. Financial charges directly attributable to the acquisition, construction or production of a tangible asset are recognised in the income statement at the time they are incurred if they do not refer to a qualifying asset. The Group does not hold assets for which a certain period of time normally elapses to make the asset ready for use (qualifying asset).

The expenses incurred for ordinary and/or cyclical maintenance and repairs are directly charged to the income statement in the year in which they are incurred. The capitalisation of costs relating to the expansion, modernisation or improvement of structural elements owned or used by third parties is carried out exclusively to the extent that they meet the requirements to be separately classified as an asset or part of an asset by applying the "Component approach".

Property, plant and equipment, with the exception of land, are systematically depreciated each year on a straight-line basis over the estimated useful life in relation to the remaining useful life of the assets. If the asset being depreciated is composed of distinctly identifiable elements whose useful life differs significantly from that of the other parts that make up the asset, depreciation is carried out separately for each of the parts that make up the asset in application of the "component approach" principle.

Depreciation begins when the asset is available for use, taking into account the actual moment in which this condition occurs.

The depreciation amounts charged to the income statement are calculated on the basis of the residual possibility of use, taking into account the use, the destination and the economic-technical duration of the assets. This criterion is considered well represented by the following rates:

▪ Land	0%
▪ Buildings	3%
▪ Generic plants	10% -12.50%
▪ Machinery	10%-12.50%
▪ Equipment	10%-35%
▪ Office furniture and equipment	12%
▪ Electronic office equipment	18% -20%
▪ Motor vehicles and internal transport vehicles	20% -25%
▪ Light constructions	10%
▪ Leasehold improvements	Duration of the contract on the underlying asset
▪ Rights of use	Duration of the lease

The depreciation rates of property, plant and equipment are reviewed and updated, where necessary, at least at the end of each year.

If, regardless of the depreciation already recorded, there is an impairment loss, the tangible asset is written down; if in subsequent years the reasons for the write-down no longer apply, the original value is restored.

The residual values and the useful life of the assets are reviewed at each reporting date and, if deemed necessary, the appropriate adjustments are made.

Intangible assets

- Goodwill and other assets with an indefinite useful life
- Other intangible assets.

These are non-monetary assets, identifiable even if they have no physical substance, from which it is probable that future economic benefits will flow. Intangible assets are recognised at cost, represented by the purchase price and any direct cost incurred to prepare the asset for use, net of accumulated amortisation, for intangible assets with a limited useful life, and impairment losses.

If there is objective evidence that an individual asset may have suffered a reduction in value, a comparison is made between the carrying amount of the asset and its recoverable value, equal to the higher of the fair value, less costs to sell, and the related value in use, intended as the present value of future cash flows that are expected to originate from the asset. Any value adjustments are recognised in the income statement.

Intangible assets with an indefinite useful life are not amortised. For these assets, the book value is compared annually with the recoverable value. If the book value is higher than the recoverable value, a loss equal to the difference between the two values is recognised in the income statement.

In the case of reversal of the value of intangible assets, excluding goodwill, previously written down, the increased net book value cannot exceed the book value that would have been determined if no impairment loss had been recognised for the asset in the previous years.

An intangible asset is derecognised from the balance sheet upon disposal or when no future economic benefits are expected from its use or disposal.

IAS 38 defines as intangible assets those identifiable non-monetary assets without physical substance. The main characteristics to meet the definition of an intangible asset are:

- identifiability;
- control of the resource in question;
- existence of future economic benefits.

In the absence of one of the above characteristics, the expense to acquire or generate the same internally is considered as a cost in the year in which it was incurred.

With reference to trademarks owned by the Group, it should be noted that they are classified among intangible assets with an indefinite life, and therefore not amortised, since:

- they play a key role in the Group’s strategy and constitute a primary value driver;
- the corporate structure, in its concept of organised tangible assets and organisation in a broad sense, is heavily committed, at the moment, to the dissemination and development of the brands on the markets for the products marketed by the Group, although the aforementioned brands may represent assets that may be freely used in markets adjacent to those of consolidated entities;
- the trademarks are owned and are correctly registered and constantly protected from a regulatory perspective, with options for renewing the legal protection at the end of the registration periods that are inexpensive, easy to implement and without external impediments;
- the products marketed by the Group under these brands are not subject to particular technological obsolescence in consideration of the development activities carried out by

the Group that allow them to qualify in the luxury market for the categories of cycling products that are subject to marketing and in which the Group is perceived by the market;

- in fact, the brands are considered by their consumers as constantly innovative and on trend, so much so that they become models to be imitated or inspired by;
- the brands are distinguished, in the typical national and/or international context for each of them, by market positioning and reputation such as to ensure their pre-eminence in the respective market segments, being constantly associated and compared to products of absolute reference;
- in the reference competitive context, it can be stated that the investments to maintain the brands are proportionally limited, compared to the substantial and favourable cash flows expected.

Goodwill

Goodwill recognised in the financial statements is that paid for a business combination, i.e. for the acquisition of control of a company or business unit. It is not subject to amortisation, but to an impairment test to be carried out at least annually. If the purchasing company can demonstrate that it is able to achieve the value creation objectives implicit in the acquisition price, it does not make any adjustments to the goodwill recorded; otherwise, it must record an impairment loss in accordance with IAS 36. The goodwill generated internally by the company is not recognised. In accordance with IAS 36, the impairment test is based on the discounting of cash flows.

Impairment losses

IAS 36, in the presence of indicators, events or changes in circumstances that suggest the existence of impairment, requires intangible assets and tangible assets be subjected to the impairment test, in order to ensure that they are not recognised as assets at a value higher than the recoverable amount. This test is performed at least annually for assets and goodwill with an indefinite useful life, in the same way as for tangible and intangible assets not yet in use.

The certification of the recoverability of the values recorded in the financial statements is obtained by comparing the book value at the reference date and the fair value net of costs to sell (if available) or the value in use. The value in use of a tangible or intangible asset is

determined on the basis of the estimated future cash flows expected from the asset, discounted through the use of an after-tax discount rate, which reflects the current market valuation of the present value of money and risks related to the Group's activities, as well as cash flows deriving from the disposal of the asset at the end of its useful life. If it is not possible to estimate an independent cash flow for an individual asset, the smallest operating unit (cash generating unit) to which the asset belongs and to which it is possible to associate future cash flows that can be objectively determined and independent from those generated by others is identified. The identification of the cash generating units was carried out in line with the organisational and operating architecture of the Group.
If the impairment test shows an impairment loss on an asset, its book value is reduced to the recoverable value, through direct recognition in the income statement, unless the asset is measured at revalued value, in which case the write-down is charged to the revaluation reserve. When the reasons for a write-down no longer apply, the book value of the asset (or of the cash-generating unit), with the exception of goodwill, is increased to the new value deriving from the estimate of its recoverable value, but not beyond the net book value that the asset would have had if the write-down for impairment had not been made. The write-back is charged to the income statement immediately, unless the asset is measured at the revalued amount, in which case the write-back is charged to the revaluation reserve.

Leases

The Group assesses at the beginning of the contract whether a contract is, or contains, a lease. This occurs if the contract transfers, in exchange for consideration, the right to control the use of an identified asset for a period of time.
According to IFRS 16 - Leases, the Group applies a recognition and measurement approach for all leases, with the exception of short-term leases and leases of low-value assets. Consequently, the lease payments for short-term leases and the leases of low-value assets are recognised as expenses on a straight-line basis for the duration of the lease.
The Group recognises the lease liabilities that represent the obligations to pay the lease payments and the right-of-use assets that represent the right of use for the underlying assets.
The Group recognises the right-of-use assets at the start date of the lease and measures them at cost, less accumulated depreciation and impairment, and adjusted for any re-measurement of lease liabilities. Right-of-use assets are measured at cost, which includes the following: (i) the amount of the initial measurement of the lease liability; (ii) any lease payment made on or

before the commencement date, less any lease incentive received; (iii) any initial direct costs and, if applicable, (iv) restoration costs. Right-of-use assets are depreciated on a straight-line basis for the shorter of the lease term and the estimated useful life of the assets.

Financial assets

Other equity investments are recognised at purchase or subscription cost, adjusted if necessary for impairment losses.

Provisions for risks and charges

Provisions for risks and charges relate to costs and charges of a certain nature and of certain or probable existence that at the end of the year are undetermined in terms of amount or date of occurrence. Allocations to these provisions are recognised when:

- it is probable that there is a current legal or implicit obligation deriving from a past event;
- it is probable that the fulfilment of the obligation will be onerous;
- the amount of the obligation can be reliably estimated.

Provisions are recognised at the value representing the best estimate of the amount that the company would reasonably pay to extinguish the obligation or to transfer it to third parties at the end of the year. When the financial effect of time is significant and the payment dates of the obligations can be reliably estimated, the provision is determined by discounting back the expected cash flows determined taking into account the risks associated with the obligation; the increase in the provision related to the passage of time is recognised in the income statement under "financial income" or "financial charges".

The provisions are periodically updated to reflect changes in cost estimates, realisation times and the discount rate; revised estimates are charged to the same income statement item that previously included the provision.

The existence of contingent liabilities, represented by obligations:

- possible, but not probable, arising from past events, the existence of which will be confirmed only upon the occurrence or otherwise of one or more uncertain future events not fully under the control of the company; or
- current events, as they derive from past events, for which, however, the possibility of incurring charges in the future is considered remote, or the amount of which cannot be reliably estimated;

it does not give rise to the recognition of liabilities recorded in the financial statements, but is illustrated in a special explanatory note to the financial statements.

Employee benefits

The Group has defined benefit pension plans with employees. Defined benefit pension plans typically define the amount of benefit that employees will receive at the time of retirement and which, usually, depends on one or more factors such as age, years of service and compensation. The liability recognised in the balance sheet in respect of defined benefit pension plans is equal to the present value of the pension obligation at the end of the period, also including any adjustment deriving from unrecognised costs relating to past benefits, less the fair value of pension assets ("plan asset"). The pension obligation is calculated annually, with the help of external actuaries, using the "Projected Unit Credit Method". The present value of the pension obligation is calculated by discounting the disbursements expected in the future on the basis of the interest rate applied to bonds issued by leading companies in the same currency in which the benefits will be paid and which have a maturity similar to that of the pension obligation. Actuarial gains and losses relating to defined benefit plans deriving from changes in the actuarial assumptions used or from changes in the plan conditions are recognised in the statement of comprehensive income in the year in which they occur. The amount reflects not only the payables accrued at the reporting date, but also future salary increases and the related statistical trends. Costs relating to services provided in previous periods are recognised immediately in the income statement.

The benefits guaranteed to employees through defined contribution plans (also by virtue of recent changes in national pension legislation) are recognised on an accrual basis and at the same time give rise to the recognition of a liability measured at nominal value.

Current and deferred taxation

Provisions for income taxes for the year made by the individual companies included in the scope of consolidation are calculated in accordance with the current tax regulations of the country where the companies are based and are recorded under "tax payables", net of any tax credits legally offset during the subsequent tax period.

Deferred taxes are calculated on the cumulative amount of all temporary differences between the value of an asset or a liability determined according to statutory criteria and the value attributed to that asset or liability for tax purposes, applying the presumed tax rate in force at

the moment in which the temporary differences will reverse, as well as the tax effect of the typical consolidation adjustments.
It should also be noted that no deferred taxes have been allocated against the revaluation reserves subject to taxation recognised under shareholders' equity since, at present, it is believed that no transactions are carried out that would result in taxation.
Deferred tax assets deriving from losses that can be carried forward for tax purposes are also recognised if the conditions of reasonable certainty of obtaining taxable income that will be able to absorb the losses carried forward and the losses in question derive from well-identified circumstances and it is reasonably certain that these circumstances will not be repeated.

Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired from suppliers in the course of ordinary activities. Trade payables are classified as current liabilities if payment is due within one year or less from the reference date. Otherwise, they are presented as non-current liabilities.
Trade payables are stated at their nominal value, modified in the event of returns or invoicing adjustments. This measurement approximates the fair value in an appropriate manner.
The Group recognises payables from other taxes and social security and other non-financial payables at the amount payable on the due date.

Payables to banks and other lenders

Payables to banks and other lenders are initially recognised at fair value net of directly attributable accessory costs and are subsequently measured at amortised cost, applying the effective interest rate method. If there is a change in the expected cash flows and/or the internal rate of return initially determined, the value of the liabilities is recalculated to reflect this change. Payables to banks and other lenders are classified under current liabilities, unless the Group has an unconditional right to defer their payment for at least 12 months after the reference date. Payables to banks and other lenders are removed from the financial statements when they are extinguished, i.e. when all risks and charges relating to the instrument are transferred, derecognised or settled. The bond payable is recognised on the basis of the amounts collected, net of the transaction costs and subsequently measured at amortised cost, using the effective interest rate method.

Derivative contracts

Derivative contracts can be considered trading or hedging contracts and, based on IAS rules, must be recognised in the financial statements and measured at fair value regardless of their destination and classification. The hedging transaction must also be attributable to a predefined risk management strategy, must be consistent with the risk management policies adopted, must be documented and effective in effectively neutralising the risk to be hedged. This principle of consistency can be maintained only in the presence of effective hedging contracts. Hedging transactions can be divided into fair value and cash flow hedges of specific financial statements items.

Share capital

The item is represented by the subscribed and paid-in capital.

Reserve for first-time adoption of IAS/IFRS

The item includes the total amount of IAS/IFRS adjustments recognised directly in shareholders' equity at the time of First Time Adoption (1 July 2014).

Other shareholders' equity reserves

Among others, the item includes the cash flow hedge reserve, where changes in the fair value of hedging derivatives are recognised directly in shareholders' equity net of the related taxes.
It also includes the employee severance indemnity discounting reserve, where the effects of changes in the severance indemnity provision of employees of the Italian companies of the Group are accounted for, as resulting from the actuarial analysis carried out by professionals enrolled in the professional register to which the data in question are subjected on an annual basis.

10. ESTIMATES AND ASSUMPTIONS

The preparation of the consolidated financial statements requires the directors to apply accounting standards and methods which, in certain circumstances, are based on difficult and subjective assessments and estimates based on historical experience and assumptions that are considered reasonable and realistic from time to time depending on the relevant circumstances.
The application of these estimates and assumptions affects the amounts shown in the financial

statements, such as the statement of financial position, the income statement and the cash flow statement, as well as the information provided.

The final results of the items in the consolidated financial statements for which the above-mentioned estimates and assumptions were used, may differ from those reported in the financial statements of the individual companies due to the uncertainty that characterises the assumptions and the conditions on which the estimates are based.

The estimates and assumptions are reviewed periodically and the effects of each change are reflected in the income statement of the period in which the estimate is revised.

Below is a summary of the financial statement items that require greater subjectivity than others on the part of the directors in preparing the estimates and for which a change in the conditions underlying the assumptions used could have a significant impact on the financial statements:

- Depreciation/amortisation: changes in the economic conditions of the markets, in technology and in the competitive scenario could significantly affect the useful life of property, plant and equipment and of intangible assets and could result in a difference in the timing of the amortisation process, as well as on the amount of depreciation/amortisation costs.
- Income taxes: determined in each country in which the Group operates according to a prudent interpretation of current tax regulations. This sometimes involves complex estimates in determining the taxable income and the deductible and taxable temporary differences between the carrying amounts and taxable amounts.
- Provision for inventory obsolescence: reflects the Company management's estimate of expected impairment losses in relation to inventories, determined on the basis of past experience. Any anomalous trends in market prices could have repercussions in future inventory write-downs.
- Bad debt provision: the recoverability of receivables is measured taking into account the risk of non-collectability, their age and losses on receivables recognised in the past for similar types of receivables. The company uses a simplified approach to calculate the ECL (Expected Credit Loss) for trade receivables and contractual assets, initially based on the historical default rates observed . The Company adjusts the historical experience of credit loss with forward-looking information. At each reporting date, the historical default rates observed are updated and changes in forward-looking estimates are analysed. The assessment of the correlation between the historical default rates

observed, the expected economic conditions and the “ECLs” is a significant estimate. The amount of the “ECL” is sensitive to changes in circumstances and expected economic conditions. The company's historical experience of credit loss and the forecast of economic conditions may not be representative of the actual default of the customer in the future.

- Non-current assets: the Group periodically reviews the carrying amount of property, plant and equipment, intangible assets, investments in joint ventures and associates and other non-current assets, when facts and circumstances require such revision in order to determine their recoverable value. The recoverability analysis of the book value is generally carried out using estimates of expected cash flows from the use or sale of the asset and appropriate discount rates to calculate the present value. When the book value of a non-current asset is impaired, the Group recognises a write-down equal to the excess between the book value of the asset and its recoverable value through the use or sale of the same, determined with reference to the cash flows inherent in the most recent business plans.
- Deferred tax assets: the Group has deferred tax assets on deductible temporary differences and theoretical tax benefits for losses carried forward that are recognises to the extent it is probable that future taxable income will be available against which they can be recovered. The valuation of the recoverability of deferred tax assets, recognised in relation to both tax losses usable in subsequent years and deductible temporary differences, takes into account the estimate of future taxable income and is based on prudent tax planning.
- Employee benefits: provisions for employee benefits and net financial charges are measured using an actuarial method that requires the use of estimates and assumptions to determine the net value of the obligation. The actuarial methodology considers financial parameters such as, for example, the discount rate and the growth rates of wages and takes into account the probability of occurrence of potential future events through the use of demographic parameters such as, for example, employee mortality rates and resignation or retirement rates.
- Contingent liabilities: the Group ascertains a liability for pending disputes and lawsuits when it deems it probable that a financial outlay will occur and when the amount of the resulting losses can be reasonably estimated. In the event that a financial outlay becomes possible but the amount cannot be determined, this fact is reported in the

explanatory notes to the financial statements. The lawsuits may concern complex legal and tax issues, subject to a different degree of uncertainty against which it is possible that the value of the provisions may change as a result of future developments in the ongoing proceedings. The Group monitors the status of pending lawsuits and consults with its legal advisors and experts.

11. SEGMENT REPORTING

The segment reporting of the Selle Royal Group, in application of IFRS 8, is provided with reference to the geographical areas in which the Group operates based on the availability of financial statement information and in line with the main method with which the results are periodically reviewed by management for performance assessment purposes. More specifically, the Group's areas of activity can be broken down as follows:

EUROPE

From a corporate point of view, this area is represented by the parent company Selle Royal Group S.p.A. and its direct and indirect subsidiaries, whose registered office and whose operating activities are mainly concentrated in the territory of the European Union.

From a business point of view, this sub-scope includes both industrial activities, carried out in the factories of Selle Royal Group S.p.A. in Pozzoleone (VI) and of Brooks England Ltd. in Smethwick (GB), as well as purely commercial activities. The latter consist of the sale and distribution of own-brand products, the result of both internal production and pure marketing, and the distribution of third-party brand products. With specific reference to this latter aspect, please note that the parent company Selle Royal Group S.p.A. has, for years now, supported the traditional sales in the OEM ("original equipment") and aftermarket (sales of spare products to national/regional distributors) channels with direct sales to retailers in Italy, France and Austria, under the A4 Selection brand name.

AMERICA

This area is represented, from a corporate point of view, by the subsidiaries whose registered office and operating activities are mainly concentrated in North America and by Royal Ciclo, whose registered office and reference market are in Brazil.

The activities carried out by the companies belonging to this sub-scope are varied and mainly include the design, development and marketing of hardware products (defined, for simplicity, as all those “non-saddles” and “non-sports shoes” products); the production of saddles and other accessories in the Brazilian plant and the marketing of the Group’s brands and selected third-party brands on the American, Canadian and Brazilian markets, through the retail channel and selected specialised chains.

ASIA

This area is represented, from a corporate point of view, by the subsidiaries whose registered office and operating activities are mainly concentrated in Asia.

These are primarily industrial activities carried out in the Chinese plants of Selle Royal Vehicle (China) Co., Ltd., whose products are intended for both the domestic market and the export market. The main sales channel that includes these products is the so-called “OEM” channel, in which the Group's direct customers are bicycle assemblers, who operate both on their own behalf and on behalf of third parties. In the latter case, the Group exploits its relations and its sales force by negotiating supplies with Western brands (mainly European and American), which then decide to allocate production to its own and/or third-party plants, mainly in Europe or in the Far East.

Overall, it should be emphasised that the global presence, both in production and commercial terms, and the portfolio of own brands, which is also accompanied by a service for the development of specific products at the request of customers, make the Selle Royal Group a privileged counterparty for the large groups/agglomerations of brands that have formed over the years in the cycle sector.

The following tables present data on revenues for the first half of 2021/22 and the same period of the previous year and on certain balance sheet items relating to the Group’s business segments as at 31 December 2021 and 30 June 2021.

	1st half of 2021/22			2020/21		
	EUROPE	**AMERICA**	**ASIA**	**EUROPE**	**AMERICA**	**ASIA**
Revenues	56,430,314	30,925,576	18,157,930	45,038,937	28,371,506	15,759,817
Current assets	44,749,632	32,110,517	20,874,245	32,570,097	25,938,873	19,856,263
Non-current assets	43,222,418	20,729,817	7,897,105	38,290,469	20,423,318	7,389,573
Current liabilities	42,630,563	18,622,885	3,713,962	35,786,701	18,289,299	7,573,971
Non-current liabilities	46,410,058	3,244,192	63,510	38,417,919	3,137,661	59,541

12. DERIVATIVE FINANCIAL INSTRUMENTS

As at 31 December 2021, the parent company Selle Royal Group S.p.A. held three derivative financial instruments, subscribed with a leading Italian bank, for the purpose of hedging against interest rate volatility ("IRS").

The first financial derivative was subscribed in May 2019 and will expire in May 2022. The other two derivative financial instruments were subscribed on 29 October 2021, at the same time as the opening of two multi-year unsecured mortgages at variable rates. For further information, please refer to the section on financial liabilities measured at fair value in these Explanatory Notes.

These derivative financial instruments are found to be hedges from the effectiveness tests carried out and, as a result, the effects relating to the change in their value were reflected in a specific equity reserve ("cash flow hedge reserve"), net of the related tax effect.

13. RISK MANAGEMENT

In relation to financial and other risks, please refer to the Report on Operations.

14. TRANSACTIONS with RELATED PARTIES

The main transactions with related parties are described below:

- Dec. 28, 1928 Holding S.p.A.: parent company of Selle Royal Group S.p.A., of which it holds 66.6% of the share capital; the debit balances for IRES are transferred to it. Following the merger by incorporation of SR84 S.r.l. already mentioned, Selle Royal Group S.p.A. and its majority parent company participate in the related tax consolidation.
- Dec. 28, 1928 Real Estate S.r.l.: the parent company Selle Royal Group S.p.A., by virtue of a lease signed on 1 July 2021, which renewed the agreement previously signed in June 2013, and with a duration of 6 years, manages the property leased from Dec. 28, 1928 Real Estate S.r.l. in which the production and sales activities of Selle Royal Group S.p.A. are carried out.
- Wise Equity SGR S.p.A.: some shareholders of Wise Equity SGR S.p.A. (which holds 33.3% of the share capital of the parent company Selle Royal Group S.p.A.) are members of the latter's Board of Directors, a position for which Wise Equity SGR S.p.A. charges the relative emoluments periodically; these emoluments are fully paid for the amounts pertaining to the period in question.

- Minority shareholders in subsidiaries: the amount shown in the table below refers to the amount due to the minority shareholder in Royal Ciclo Industria de Componentes Ltda., for the transfer of 1% of the latter's share capital, already commented on previously. This debt was settled on 12 January 2022.
- Family members of the controlling shareholders of the parent company: the amounts refer to the residual payables at the reporting date for future lease payments on the property located in Rossano Veneto, the parent company’s secondary headquarters where the offices of the A4Selection division are located, and recorded in accordance with the provisions of IFRS 16. This contract, with a duration of 6 years, will expire in February 2025.

The economic and financial transactions carried out during the half year ended 31 December 2021 are summarised in the following table:

COUNTERPARTY	GENERAL and ADMINISTRATIVE C.	OTHER NON-CURRENT ASSETS	CURRENT LIABILITIES	NON-CURRENT LIABILITIES
Wise Equity SGR	105,000	-	-	-
Dec. 28, 1928 Holding S.p.A.	-	-	3,269,668	-
Dec. 28, 1928 Real Estate S.r.l.	-	600,000	1,079,323	5,258,225
Minority shareholders in subsidiaries	-	-	750,000	-
Directors	797,125	-	128,034	-
Family members of the controlling shareholders of the parent company	-	25,200	46,750	101,181
TOTAL RELATED PARTIES	**902,125**	**625,200**	**5,273,775**	**5,359,406**

ANALYSIS and COMPOSITION of the INCOME STATEMENT

15. SEGMENT REPORTING

An additional level of analysis used by management in ordinary operations and in determining strategic initiatives is provided below:

	1st half of 2021/22						
	SELLE ROYAL	FIZIK	BROOKS	CRANK BROTHERS	PEdALED	OTHER / NOT ALLOCATED (*)	CONSOLIDATED
Revenues	34,477,456	23,061,473	9,008,132	18,770,687	1,322,232	18,873,840	105,513,820
Gross margin	16,183,587	11,405,436	5,191,082	8,251,491	700,032	5,576,140	47,307,768
	46.9%	*49.5%*	*57.6%*	*44.0%*	*52.9%*	*n.s.*	*44.8%*

	1st half of 2020/21						
	SELLE ROYAL	FIZIK	BROOKS	CRANK BROTHERS	PEdALED	OTHER / NOT ALLOCATED (*)	CONSOLIDATED
Revenues	30,528,656	15,558,638	7,947,111	14,331,329	1,164,858	19,639,667	89,170,259
Gross margin	14,742,351	7,807,651	4,658,083	6,949,287	585,003	5,363,022	40,105,397
	48.3%	*50.2%*	*58.6%*	*48.5%*	*50.2%*	*n.s.*	*45.0%*

(*) Revenues represent the turnover of third-party brands that do not exceed the materiality thresholds set for separate disclosure, as envisaged by par. 13 of IFRS 8, as well as non-core turnover. The gross margin instead represents the net balance between the margin of "other" turnover and cost of sales elements not directly attributable to a specific brand.

16. REVENUES

Revenues for the current year deriving from the Group's ordinary operations amounted to a total of € 105,513,820 and were generated by the sale of saddles, pedals and other accessories, and by the provision of services. The breakdown of revenues from sales and services by business category is shown in the following table:

	1st half of 2021/22	1st half of 2020/21	*Change*
Revenues from sales of saddles	54,757,475	48,136,743	6,620,732
Revenues from the sale of accessory components	48,839,372	40,148,872	8,690,500
Revenues from the sale of sundry materials	2,128,615	1,168,837	959,778
Revenue from services	131,521	112,185	19,336
Total gross revenues	**105,856,983**	**89,566,637**	**16,290,346**
Price changes and others	(7,371)	(72,195)	64,824
Year-end bonus	(335,792)	(324,183)	(11,608)
Revenue adjustments	(343,163)	(396,378)	53,215
Total revenue from sales	**105,513,820**	**89,170,259**	**16,343,562**

RECOGNITION of REVENUES

Realised at a specific point in time	105,513,820	89,170,259	16,343,562
Realised over time	-	-	-
Total revenue from sales	**105,513,820**	**89,170,259**	**16,343,562**

17. COST OF SALES

The components of the cost of sales are shown below, compared with the previous year:

	1st half of 2021/22	1st half of 2020/21	*Change*
Purchase of raw materials	52,834,947	40,678,202	12,156,745
Ancillary charges on RM purchases	2,550,534	1,650,846	899,688
Outsourcing	3,480,403	2,900,715	579,688
Labour	11,083,959	9,850,069	1,233,890
Change in inventories	(11,743,790)	(6,014,970)	(5,728,820)
Total cost of sales	**58,206,052**	**49,064,862**	**9,141,190**

18. INDUSTRIAL COSTS

This item includes ancillary production process costs, although not directly variable with respect to production volumes, and therefore can be classified under the item “cost of sales”.

	1st half of 2021/22	1st half of 2020/21	*Change*
Electricity	713,811	706,295	7,516
Consumables	760,832	730,791	30,041
Minor equipment	238,993	302,699	(63,705)
Maintenance	305,268	367,103	(61,835)
Lease payments	61,786	67,120	(5,334)
Research and development costs	415,520	219,729	195,791
Other industrial costs	570,430	440,189	130,241
Total industrial costs	**3,066,641**	**2,833,926**	**232,715**

19. SALES AND PROMOTION COSTS

The balance of the item "sales and promotion costs", which is composed of costs directly related to sales activities, is shown below.

	1st half of 2021/22	half of 2020/21	*Change*
Sales and advertising costs	2,730,225	2,773,597	(43,372)
Transports on sales	2,447,711	2,355,484	92,226
Commissions	1,025,141	1,192,455	(167,313)
Royalties	28,080	24,895	3,185
Gifts	132,633	199,908	(67,275)
Other sales and promotion costs	414,614	90,482	324,133
Total sales and promotion costs	**6,778,404**	**6,636,821**	**141,583**

20. COSTS of the MANAGEMENT STRUCTURE

This item, which amounts to € 8,445,986 for the year in question, includes the cost of the clerical and managerial structures of the various Group companies.

21. GENERAL and ADMINISTRATIVE COSTS

The item in question is detailed below, mainly consisting of services purchased by the various Group companies.

	1st half of 2021/22	1st half of 2020/21	*Change*
Consulting	2,748,746	1,820,164	928,582
Travel expenses	439,151	103,362	335,789
Board of Directors' fees	902,125	525,930	376,195
Board of Statutory Auditors' fees	24,000	21,000	3,000
Utilities	145,791	165,762	(19,970)
Entertainment and hospitality expenses	114,850	188,505	(73,655)
Motor vehicles	224,821	226,197	(1,376)
Fees and IT support	633,289	563,447	69,842
Insurance	696,781	427,429	269,352
Lease payments	180,679	143,123	37,557
Bank charges	265,149	332,993	(67,844)
Other general and administrative costs	1,132,622	1,063,422	69,200
Total general and administrative costs	**7,508,004**	**5,581,333**	**1,926,671**

As previously mentioned, this item includes some non-recurring costs linked to the listing project of the parent company Selle Royal Group S.p.A. on the Italian electronic market Euronext Milan.

22. OTHER OPERATING INCOME and EXPENSES

The table below provides details of other operating income and expenses that cannot be classified in other items of the income statement, including extraordinary positive and negative income components.

	1st half of 2021/22	1st half of 2020/21	*Change*
Operating income:			
Minor independent works	5,131	4,604	527
Repayments and sundry income	427,807	48,287	379,520
Capital gains	445	1,000	(555)
Contingent assets and other income	597,501	363,545	233,957
Royalty income	0	38	(38)
Research & development	66,439	197,117	(130,678)
Total operating income	1,097,323	614,591	482,732
Operating expenses:			
Allocation to provision for obsolescence	3,502	(660,846)	664,348
Allocation to provision for credit risks	(76,229)	0	(76,229)
Losses on receivables	1,619	(17,815)	19,434
Capital losses	(19,023)	(105,008)	85,985
Contingent liabilities and other charges	(187,390)	(69,980)	(117,410)
Total operating expenses	(277,521)	(853,648)	576,127
TOTAL OPERATING INCOME / (EXPENSES)	**819,803**	**(239,057)**	**1,058,860**

The net balance of this item is positive for € 819,803.

The growth in the item “repayments and sundry income” is mainly attributable to the results achieved in the marketing of the product lines of some premium brands in the cycle sector, for which the joint venture Highway 2 Llc. operates as a distributor in the North American market. This business is complementary and in support of the relevance of the brands of the Selle Royal Group and the Continental Group, equal partners in Highway 2 LLC.

The greater balance of the item “contingent assets and other income” is mainly attributable to the reimbursement deriving from winning the tax dispute by Royal Ciclo Industria de Componentes Ltda. This amount, net of the costs for consultancy incurred as part of the proceedings, was subject to normalisation in the calculation of the “adjusted” EBITDA, as it is non-recurring.

23. OTHER FINANCIAL INCOME and CHARGES

The breakdown of interest and other financial charges is provided in the table below:

	1st half of 2021/22	**1st half of 2020/21**	***Change***
Financial income:			
Bank and postal interest	58,902	46,424	12,478
Dividends	460	2,445	(1,985)
Other financial income	58,786	7,313	51,473
Total financial income	118,148	56,182	61,966
Financial charges:			
Interest on bonds	(246,318)	(309,607)	63,289
Interest expense	(629,502)	(654,062)	24,560
Interest cost provision for employee severance indemnity	(2,242)	(2,715)	473
Discounts	(416,301)	(384,641)	(31,660)
Fees on loans	(106,792)	(71,907)	(34,885)
Other financial charges	(133,697)	(96,627)	(37,070)
Total financial charges	(1,534,853)	(1,519,561)	(15,292)
Net exchange rate differences	165,269	(1,094,352)	1,259,620
TOTAL FINANCIAL INCOME / (CHARGES)	**(1,251,436)**	**(2,557,730)**	**1,306,294**

This item, negative for € 1,251,436, was positively affected by the decrease in interest expense to service the debt subscribed by some Group companies, as well as lower interest on the bond loan issued by Selle Royal Group S.p.A. The item “other financial charges” mainly includes the recognition of financial charges related to the adoption of IFRS 16.

On the other hand, the item relating to cash discounts increased, in line with the increase in turnover and fees on loans, mainly due to the higher commissions paid to SACE S.p.A. for the guarantees offered by the latter on some loan agreements signed by the parent company with leading Italian banks, pursuant to Law Decree no. 23 of 8 April 2020, as converted with amendments into Law no. 40 of 5 June 2020.

Lastly, the impact of the net exchange rate differences significantly improved. On the whole, these were positive in the half-year in question for € 165,269 (compared to a negative balance of € -1,094,352 in the same period of the previous year). This item includes both exchange gains and losses realised as at 31 December 2021 (which show a negative net balance of € -61,306), and unrealised exchange gains and losses at the same date deriving from the alignment of foreign currency balances with the current exchange rates at the end of the year, in addition to exchange differences resulting from the elimination of intragroup items (which cumulatively show a positive net balance of € +226,575).

24. TAXES FOR THE YEAR

The following table details the tax burden emerging at the level of the individual companies belonging to the Group scope and any income adjustment items related to the consolidation.

	1st half of 2021/22	**1st half of 2020/21**	***Change***
Current taxes	4,772,199	4,178,974	593,225
Deferred tax (assets) / liabilities	(950,875)	(473,834)	(477,041)
TOTAL TAXES FOR THE YEAR	**3,821,324**	**3,705,140**	**116,184**

The increase in current taxes is attributable to the better results achieved by the Group companies with respect to the comparison period.

The increase in the balance relating to deferred tax assets is mainly attributable to higher deferred tax assets allocated during the period, and in particular to the increase in the provision for the reversal of the unrealised intra-Group margin.

ANALYSIS and COMPOSITION of the BALANCE SHEET

CURRENT ASSETS

25. CASH AND CASH EQUIVALENTS

This item refers to the positive balances in the bank current accounts and postal deposits of the Group Companies, together with a limited amount of cash held by each Company to meet current needs.

The balance as at 31 December 2021, amounting to € 21,493,845 (of which € 11,348,130 in Selle Royal Group S.p.A. and € 7,936,271 in Selle Royal China, the latter with a positive net financial position), was up compared to the previous year thanks to the liquidity generated during the half year.

As at 31 December 2021 (and as at 30 June 2021) there were no restrictions or limitations on the use of the Group's cash and cash equivalents.

26. TRADE RECEIVABLES

The breakdown of this item, expressed in the financial statements net of allocations to the bad debt provision carried out prudentially on the portion of receivables not covered by insurance, is as follows:

	31/12/2021	**30/06/2021**	***Change***
Trade receivables	31,861,248	29,365,523	2,495,725
Bad debt provision	(984,902)	(912,207)	(72,695)
TRADE RECEIVABLES, net	**30,876,346**	**28,453,316**	**2,423,030**

Receivables insured at the date of this Report amounted to € 21.7 million, compared to € 18.8 million as at 30 June 2021.

For receivables of uncertain collectability, for which legal procedures for collection have been initiated, and for some receivables from customers with a potential lower degree of collectability, specific provisions for write-downs have been allocated up to the presumed realisable value.

It should be noted that the parent company Selle Royal Group S.p.A. transferred receivables from certain foreign and domestic customers, through a factoring transaction without recourse, to a leading bank for € 2,333,571. During the previous year, the cumulative value of the transfers of receivables without recourse made by Selle Royal Group S.p.A. and by the subsidiary Selle Royal Vehicle (China) Co., Ltd. amounted to € 4,014,502.

Finally, the change in the bad debt provision during the year in question is shown below:

	Balance as at 30 June 2021	Provisions (+)	Releases (-)	Uses (-)	Translation diff.	Balance as at 31 December 2021
Bad debt provision	912,206	76,229	0	(10,089)	6,555	984,902
TOTAL BAD DEBT PROVISION	**912,206**	**76,229**	**0**	**(10,089)**	**6,555**	**984,902**

27. INVENTORIES

The breakdown of this item by type of stock and with details of the provisions recorded against the risk of potential obsolescence is shown in the table below:

	31/12/2021	**30/06/2021**	***Change***
Raw materials, supplies and consumables	12,299,313	9,767,182	2,532,131
Work in progress and semi-finished products	5,940,671	4,631,511	1,309,160
Finished products and goods	19,178,762	12,649,871	6,528,891
Goods in transit	8,468,337	2,378,635	6,089,702
Gross inventories	**45,887,083**	**29,427,199**	**16,459,883**
Provision for obsolescence	(2,178,460)	(2,210,367)	31,907
Provision for unrealised intra-Group margin	(3,510,901)	(898,287)	(2,612,614)
INVENTORIES	**40,197,721**	**26,318,546**	**13,879,176**

The growth of this item can be seen in each inventory category and is conducive to the higher business volumes. Moreover, the cycle sector in which the Group operates is characterised by seasonality of sales, given that it pertains to outdoor activities and therefore subject to weather trends during the year. Therefore, the increase in stocks in anticipation of the increase in sales that usually characterises the second half of the fiscal year (with particular reference to the aftermarket channel, i.e. sales to wholesalers, retailers and end consumers) is typical.

Lastly, the global logistical congestion, to which reference was made previously, led to a lengthening of transit times, especially for products from Asia and destined to the North American market, with a consequent increase in both the balance of finished products and the goods in transit. At the state of the art, the global situation remains critical and there are still no signs of normalisation.

Lastly, the change in provisions for adjusting the value of stocks during the year in question is shown below:

	Balance as at 30 June 2021	Provisions (+)	Releases (-)	Uses (-)	Translation diff.	Balance as at 31 December 2021
Provisions for obsolescence	2,210,367	7,195	(8,108)	(91,683)	60,688	2,178,460
Provision for unrealised intra-Group margin	898,287	2,612,614		-	-	3,510,901
TOTAL ADJUSTMENT PROVISIONS of INVENTORIES	**3,108,654**	**2,619,810**	**(8,108)**	**(91,683)**	**60,688**	**5,689,361**

28. TAX RECEIVABLES

Tax receivables increased compared to the balance as at 30 June 2021, as detailed below:

	31/12/2021	**30/06/2021**	***Change***
Current tax receivables:			
For direct taxes	820,487	1,555,585	(735,098)
For indirect taxes	1,353,945	137,865	1,216,080
For other withholdings	422,826	149,963	272,863
Subtotal current taxes	2,597,258	1,843,413	753,845
Current deferred tax assets	1,310,461	423,494	886,967
TOTAL TAX RECEIVABLES	**3,907,719**	**2,266,907**	**1,640,812**

Compared to 30 June 2021, the receivables for direct taxes of the subsidiaries Crank Brothers Inc. and Royal Ciclo Industria de Componentes Ltda were down.

The growth in receivables for indirect taxes is mainly due to the growth in the VAT credit of Selle Royal Group S.p.A. and of the Taiwanese branch of Crank Brothers Inc.

Lastly, for an examination of the change in current deferred tax assets, please refer to the relevant section of these notes.

29. OTHER CURRENT ASSETS

The breakdown of this item and the comparison with the previous year are as follows:

	31/12/2021	**30/06/2021**	***Change***
Advance costs	19,033	154,547	(135,514)
Accrued income and prepaid expenses	605,653	598,724	6,930
Sundry receivables	634,077	727,126	(93,050)
TOTAL CURRENT ASSETS	**1,258,763**	**1,480,397**	**(221,634)**

The lower advance costs compared to 30 June 2021 derive from the seasonality of the sector and from incurring, at the end of the fiscal year, costs related to the launch of new products and participation in events in the following fiscal year, which are therefore suspended under this item as at 30 June of each year to comply with the accrual principle.

NON-CURRENT ASSETS

30. INTANGIBLE ASSETS

Details of the item and the changes that have taken place since the previous year are shown in the table below:

	Balance as at 30 June 2021	Increases (+)	Decreases (-)	Reclassification	Amortisation (-)	Translation diff.	Balance as at 31 December 2021
Industrial patent rights and intellectual property rights	1,588,355	44,522	-	-	(304,793)	36,250	1,364,334
Concessions, licences, trademarks and similar rights	19,477,822	188,316	-	-	(221,932)	34,239	19,478,445
Other	25,552	-	-	-	(1,124)	1,644	26,071
Fixed assets in progress and payments on account	50,964	55,958	-	-	-	3,511	110,434
Total intangible assets	**21,142,693**	**288,796**	**-**	**-**	**(527,849)**	**75,644**	**20,979,284**

The item "Industrial patent rights" mainly includes the corresponding item recorded in the financial statements of the subsidiary Crank Brothers, Inc. at the time of the acquisition of the same company by Selle Royal Group S.p.A.; the value was also tested on the basis of valuations issued by independent experts who also indicated the useful life on which to calculate the amortisation; higher values for a total of US$ 7,694,000 are recognised in the financial statements of Crank Brothers Inc., allocated for US$ 4,780,500 to the item "Industrial patent rights", amortised over 15 years. The residual portion was recorded under "Goodwill", as shown below.

The item "Concessions, licences, trademarks and similar rights" refers to the value of the trademark portfolio held by the Group companies, for a value of € 18,288,242; the remainder relates to the concession rights of the land on which the Selle Royal China plant stands and to licenses and costs for the implementation of non-proprietary management software.

Trademarks are considered "with an indefinite useful life" and are therefore subject to annual impairment tests. As at the date of this consolidated half-yearly report, the Board of Directors checked the consistency of the assumptions underlying the business plan used in preparing the impairment tests as at 30 June 2021 and the results provided therein; in light of the results achieved in the period compared to those expected and of the current market context, which confirm the assumptions adopted, the outcome of this audit confirmed the validity of the annual impairment test conducted and, consequently, the consistency of the value of the trademarks as represented in the financial statements.

The item "Other" refers to the recognition of intangible assets that meet the requirements of

IAS 38 for their recognition in the financial statements.

Intangible assets in progress and payments on account mainly relate to expenses incurred by the Group in relation to projects for the development of new products and product lines not yet operational at the end of the year.

31. TANGIBLE ASSETS

Details of the item and the changes that have taken place since the previous financial statements are shown in the following table:

	Balance as at 30 June 2021	Increases (+)	Decreases (-)	Reclassification	Depreciation (-)	Translation diff.	Balance as at 31 December 2021
Land and buildings	7,564,390	115,418	-	-	(380,586)	(198,007)	7,101,216
Right of use of leased assets	6,853,524	4,733,498	-	-	(746,330)	46,641	10,887,332
Plant and machinery	8,537,565	621,015	(3,907)	-	(695,809)	(64,911)	8,393,954
Industrial and commercial equipment	4,824,429	623,321	(2,201)	106,605	(1,249,700)	(2,689)	4,299,765
Other assets	1,457,009	316,837	(1,210)	(8,535)	(222,468)	69,701	1,611,334
Fixed assets in progress and payments on account	1,292,697	2,626,943	(14,780)	(98,070)	-	10,377	3,817,168
Total tangible assets	**30,529,614**	**9,037,033**	**(22,097)**	**-**	**(3,294,894)**	**(138,887)**	**36,110,769**

The increases in the item “land and buildings” relate to improvements made by Selle Royal Group S.p.A. and by some of its subsidiaries on properties used for production and commercial activities.

The item “rights of use of leased assets” represents the discounted value recorded in the financial statements following the adoption of IFRS 16, and relates to the premises leased by Selle Royal Group S.p.A. and the offices of Crank Brothers Inc. The increase in this item relates to the redetermination of future payments due for the lease of the Selle Royal Group S.p.A. headquarters following the signing of a new lease contract, to the lease of a property in San Clemente (California) to which personnel and equipment previously at the branch office of Crank Brothers Inc. in Ogden, Utah, will be transferred, as well as, lastly, new multi-year rental contracts that meet the criteria for recognition in the financial statements in accordance with the provisions of accounting standard IFRS 16.

The increases in other items, and in particular “plant and machinery”, “industrial and commercial equipment” and “fixed assets in progress and payments on account” mainly refer to investments of an industrial nature, made mainly by the parent company and the production subsidiaries.

32. EQUITY INVESTMENTS

The balance reflects the cost incurred for the acquisition of equity investments in companies not consolidated on a line-by-line basis and relates, for € 2,207,383, to the equity investment in Highway Two Llc., with registered office in Olney (USA) and share capital of US$ 241,648, over which indirect joint control of 50% is exercised. This investment is measured using the equity method. The residual amount, equal to € 14,934, relates to minority interests held by Selle Royal Group S.p.A. (€ 723) and the subsidiary Royal Ciclo (€ 14,211).

Some economic indicators of Highway Two LLC, relating to 2021, are listed below, as well as the balance sheet figures as at 31 December 2021, and related comparative data. For the sake of completeness, the tax year of the joint venture coincides with the calendar year.

		31/12/2021		30/06/2021		*Change*
Highway 2 Llc:						
Current assets	$	20,733,324	$	23,813,171	$	-3,079,847
Non-current assets	$	870,797	$	1,043,037	$	-172,240
Current liabilities	$	-16,531,827	$	-19,918,573	$	3,386,747
Non-current liabilities	$	-56,490	$	-63,444	$	6,954
Shareholders' equity	**$**	**5,015,804**	**$**	**4,874,191**	**$**	**141,613**
Group interest (50%)	$	2,507,902	$	2,437,095	$	70,807
Carrying amount of the investment in Highway 2 Llc. (in €)		2,207,383		2,045,238		162,145
Other equity investments *(in €)*		14,934		15,400		(466)
Total equity investments		**2,222,317**		**2,060,638**		**161,679**

		Financial year 2021		Financial year 2020		*Change*
Highway 2 Llc:						
Revenues	$	24,958,248	$	21,082,877	$	3,875,372
Cost of sales	$	-13,929,547	$	-10,725,502	$	-3,204,045
Operating and financial costs	$	-10,751,125	$	-10,018,082	$	-733,043
Net profit	**$**	**277,577**	**$**	**339,293**	**$**	**-61,716**
Group interest (50%)	$	138,789	$	169,647	$	-30,858

33. GOODWILL

This item had a balance at the reporting date of € 10,440,855.

This item includes the goodwill recorded in the financial statements of the subsidiary Crank Brothers Inc., as well as the higher value recognised at the time of acquisition of the shares in the same American subsidiary, in the Chinese subsidiary Selle Royal Vehicle (China) Co. Ltd. and the Brazilian subsidiary Royal Ciclo Industria de Componentes Ltda.

In line with the provisions of IAS 36, goodwill is not subject to amortisation but to impairment testing. As already illustrated with reference to trademarks, at the date of this interim report, the current consistency of the assumptions underlying the business plan used in preparing the impairment tests as at 30 June 2021 was verified, in light of the current context and the performance achieved in this first half of the year compared to what was then expected. The outcome of this check confirmed the consistency of the value of goodwill as stated in the financial statements, with respect to the cash flows that can reasonably be expected to be generated in the future by the cash generating units to which they refer.

34. DEFERRED TAX ASSETS

Details of the item in question is shown in the following table:

	31/12/2021		30/06/2021	
	TEMPORARY DIFFERENCES	TAX EFFECT	TEMPORARY DIFFERENCES	TAX EFFECT
Current deferred tax assets:				
Estimate of customer bonuses	332,101	92,656	18,818	5,250
Employee bonuses	574,307	160,232	-	-
Accrued leave for employees	131,203	36,372	133,686	40,481
Bad debt provision	258,745	55,143	247,858	52,857
Unrealised margin on intra-Group sales	3,604,337	903,794	989,788	250,100
Tangible assets	122,055	20,749	243,538	41,401
Other temporary differences	136,597	41,514	106,959	33,403
Subtotal current deferred tax assets	**5,159,344**	**1,310,461**	**1,740,647**	**423,494**
Non-current deferred tax assets:				
Provision for supplementary customer indemnities	195,177	54,454	144,961	40,444
Inventory write-down provision	1,735,190	405,273	1,685,361	394,650
Intangible assets	580,859	162,060	580,859	162,060
Tangible assets	710,520	113,564	227,614	30,652
Derivative financial instruments	123,049	29,532	-	-
Prior tax losses - Federal taxes	426,860	89,641	566,552	118,976
Prior tax losses - State taxes	103,302	61,839	1,296,687	124,926
Subtotal non-current deferred tax assets	**3,874,957**	**916,362**	**4,502,033**	**871,708**
TOTAL DEFERRED TAX ASSETS	**9,034,302**	**2,226,823**	**6,242,681**	**1,295,202**

The change in the current portion of deferred tax assets is mainly related to the deferred tax effect on the higher value of the provision for unrealised margin on intra-Group sales.

Non-current deferred tax assets, as a whole, did not record significant changes.

35. FINANCIAL ASSETS AT FAIR VALUE

This item includes, for an amount of € 512,913, the value of a financial asset recognised in the financial statements of the subsidiary Royal Ciclo and refers to the amounts paid by the latter to a financing consortium in which it participates. During the first half of the year in question, there were no significant changes.

36. OTHER NON-CURRENT ASSETS

This item, amounting to € 666,840, mainly refers to security deposits relating to lease contracts pertaining to Selle Royal Group S.p.A. and Crank Brothers, Inc. The balance is in line with that as at 30 June.

CURRENT LIABILITIES

37. TRADE PAYABLES

"Trade payables" are recognised net of trade discounts and any advances paid to suppliers; cash discounts are instead recognised at the time of payment. The nominal value of these payables was adjusted, in relation to returns or allowances (invoicing adjustments), to the extent corresponding to the amount defined with the counterparty.

The balance is equal to € 26,406,496, up compared to the previous year, also due to the effect of what is described with reference to inventories.

38. TAX PAYABLES

The item in question is detailed below:

	31/12/2021	**30/06/2021**	***Change***
Direct taxes	1,516,878	1,175,186	341,692
Indirect taxes	715,463	931,773	(216,310)
Local taxes	14,856	54,327	(39,471)
Withholding taxes on employees and others	781,768	1,485,159	(703,392)
Payables due to tax disputes	2,577,814	2,616,446	(38,632)
TOTAL TAX PAYABLES	**5,606,779**	**6,262,892**	**(656,112)**

The higher payables for direct taxes are attributable to the significant profits recorded by the Group companies; the decrease in payables for withholdings, almost entirely pertaining to the parent company Selle Royal Group S.p.A., is due to the payment of the amount withheld as at 30 June 2021 for the higher performance bonuses recognised by virtue of the extremely positive results achieved in the previous fiscal year.

39. MEASUREMENTS AT FAIR VALUE

IFRS 13 establishes a three-level hierarchy useful for categorising assets/liabilities measured at fair value on the basis of increasingly less certain inputs; these levels, shown in descending order of priority, can be described as follows:

Level 1: Level 1 inputs are quoted prices (not adjusted) in active markets for identical assets or liabilities, which the entity can access at the measurement date. A price quoted in an active market provides the most reliable proof of fair value and, when available, must be used without any adjustment to measure the fair value. A Level 1 input will be available for many financial assets and liabilities, some of which may be traded in different active markets (for example, on different stock exchanges). Therefore, in Level 1 the focus is on the determination of the following elements:

- the main market for the asset or liability or, in the absence of a main market, the most advantageous market for the asset or liability; and
- the possibility for the entity to carry out a transaction with the asset or liability at the price of that market at the measurement date.

Level 2: Level 2 inputs are inputs other than the listed prices included in Level 1 observable directly or indirectly for the asset or liability. If the asset or liability has a certain (contractual) duration, a Level 2 input must be observable for substantially the entire duration of the asset or liability. Level 2 inputs include:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in non-active markets;
- data other than the quoted prices observable for the asset or liability, for example:
    - interest rates and yield curves observable at commonly quoted intervals;
    - implied volatility;
    - credit spreads;
- inputs corroborated by the market.

Level 3: Level 3 inputs are unobservable inputs for the asset or liability. The non-observable inputs must be used to measure the fair value to the extent that the relevant observable inputs are not available, therefore allowing situations of low market activity for the asset or liability at the measurement date. However, the purpose of the fair value measurement remains the same, i.e. a closing price at the measurement date from the perspective of a market operator who owns the asset or liability. Therefore, unobservable inputs must reflect the assumptions that market participants would use in determining the price of the asset or liability, including assumptions about risk.

The following tables summarise the financial assets and liabilities measured at fair value shown in the financial statements and the related measurement criteria adopted:

As at 31 December 2021

		fair value measurements			
	Notes	Total	Level 1	Level 2	Level 3
Cash and cash equivalents	25, 39	21,493,845	21,493,845	-	-
Equity investments	32	2,222,317	-	-	2,222,317
Financial assets at fair value	35, 39	512,913	-	-	512,913
TOTAL ASSETS		**24,229,075**	**21,493,845**	**-**	**2,735,230**
Loans	39, 40, 50	51,514,543	-	51,514,543	-
Bonds	39, 45	5,827,278	-	5,827,278	-
Derivative financial instruments	39, 41	123,387	-	123,387	-
TOTAL LIABILITIES		**57,465,208**	**-**	**57,465,208**	**-**

As at 30 June 2021

		fair value measurements			
	Notes	Total	Level 1	Level 2	Level 3
Cash and cash equivalents	25, 39	19,846,067	19,846,067	-	-
Equity investments	32	2,060,638	-	-	2,060,638
Financial assets at fair value	35, 39	509,813	-	-	509,813
TOTAL ASSETS		**22,416,519**	**19,846,067**	**-**	**2,570,452**
Loans	39, 40, 50	47,362,266	-	47,362,266	-
Bonds	39, 45	7,778,960	-	7,778,960	-
Derivative financial instruments	39, 41	1,452	-	1,452	-
TOTAL LIABILITIES		**55,142,678**	**-**	**55,142,678**	**-**

40. SHORT-TERM LOANS

The balance of this item, as at 31 December 2021, amounting to € 17,403,758, down compared to 30 June 2021, reflects the actual payable for principal, interest and accessory charges accrued and payable and includes both credit lines whose duration does not exceed 12 months and the current portion of medium/long-term loans. The decrease is mainly attributable to the non-use of short-term credit lines by Selle Royal Vehicle (China) Co., Ltd. at the reporting date.

41. CURRENT FINANCIAL LIABILITIES AT FAIR VALUE

This item, amounting to € 338, relates to the market value of a hedging derivative instrument with respect to the risk of fluctuations in interest rates ("IRS") subscribed by Selle Royal Group S.p.A. in June 2017 as collateral for a new multi-year floating rate loan maturing in May 2022.

This derivative, maturing in May 2022, has the following characteristics:

Interest Rate Swap;

Purpose: hedging;

Underlying financial risk: interest rate risk;

Date of trading: 05/06/2017;

Notional value: € 2,000,000;

Liability hedged: medium-term loan;

Initial date: 05/06/2017;

End date: 31/05/2022;

Debtor Selle Royal Group S.p.A.: basic product index rate act/360 paid at the end of the quarter - 3-month Euribor at the beginning of the period;

Bank debtor: basic contractual fixed rate act/360 paid at the end of the quarter - contractual fixed rate -0.21%;

Periodic expiry date: quarterly.

Since the hedge is effective, the change in the fair value of this derivative instrument occurred during the year in question was recorded in a special reserve in shareholders' equity (so-called "cash flow hedge reserve").

42. CURRENT LIABILITIES FOR LEASED ASSETS

The balance of this item expresses the discounted value of the lease payments subject to recognition in accordance with IFRS 16 and falling due by 31 December 2022.

43. OTHER CURRENT LIABILITIES

The item in question, compared with the balance as at the reporting date of the previous year, is detailed as follows:

	31/12/2021	30/06/2021	*Change*
Payables to employees	4,967,295	6,099,043	(1,131,748)
Payables to social security institutions	1,012,563	825,331	187,232
Payables to sales agents	207,224	305,035	(97,812)
Payables for tax consolidation	3,269,668	1,339,644	1,930,024
Accrued expenses and deferred income	317,462	168,747	148,716
Sundry payables	1,794,738	952,253	842,485
TOTAL CURRENT LIABILITIES	**11,568,949**	**9,690,052**	**1,878,897**

This item increased as at 31 December 2021 compared to 30 June 2021, due, however, to the opposite trend.

Payables to employees were down, especially due to the payment of the thirteenth monthly salary in December, by Selle Royal Group S.p.A.

The higher value of payables for tax consolidation corresponds to the allocation of IRES (corporate income tax) on the taxable income of Selle Royal Group S.p.A., which is added to the payable balance relating to the previous year, the latter paid to the parent company for the tax consolidation during the month of January 2022.

Lastly, the increase in the balance of sundry payables is mainly due to the payable to the minority shareholders of Royal Ciclo Industria de Componentes Ltda. for the purchase of 1% of the latter's share capital, as already mentioned previously.

NON-CURRENT LIABILITIES

44. EMPLOYEE BENEFITS

This item mainly includes the employee severance indemnity provision of the Italian companies of the Group.

The value of the employee severance indemnity provision was correctly determined by the Group by applying actuarial methods. The valuation of the liability was carried out by independent actuaries using the projected unit credit method, which determined the value on the basis of the following fundamental assumptions:

- mortality rate: these data were taken from the actuary technician on the basis of the RG48 mortality tables published by the State General Accounting Office;
- disability rate: the annual probabilities of elimination from the service due to incapacity were inferred on the basis of what was published by INPS in 2000;
- annual probability of elimination from the service for other reasons: this was assumed to be

0.5%, determined on the basis of the historical trend of this parameter within the company;

- annual probability of request for employee severance indemnity advances: this was assumed to be 3.0%, based on the historical trend of this parameter within the company;
- annual discount rate: this was assumed to be 0.44% based on the average financial duration of the liabilities to employees;
- annual rate of increase in employee severance indemnity: as envisaged by art. 2120 of the Italian Civil Code, is determined as 75% of the inflation rate plus 1.5% and equal to 2.813%;
- annual inflation rate: estimated at 1.75% over the time horizon considered.

The relative changes are shown in the following table:

	Balance as at 30 June 2021	Provisions (+)	Uses (-)	Interest cost	Actuarial (gains) / losses	Translation diff.	Balance as at 31 December 2021
Provisions for employees	1,874,444	37,773	(24,814)	2,242	57,446	3,380	1,950,472
TOTAL	**1,874,444**	**37,773**	**(24,814)**	**2,242**	**57,446**	**3,380**	**1,950,472**

In compliance with the provisions of IAS 19 revised, the possible effects on the employee severance indemnity provision deriving from fluctuations in the main parameters used in the actuarial estimate are given below:

Variable	Value
+1% on the turnover rate	1,852,997
-1% on the turnover rate	1,902,593
+1/4% on the annual inflation rate	1,904,520
-1/4% on the annual inflation rate	1,848,463
+1/4% on the annual discount rate	1,831,430
-1/4% on the annual discount rate	1,922,825

The above-mentioned sensitivity analysis on employee severance indemnity is based on reasonable changes in the key assumptions that occur at the end of the year, while maintaining all other assumptions constant.

This analysis may not be representative of an actual change in the provision for employee benefits, as it is unlikely that the changes in the assumptions will occur independently of each other.

Lastly, the expected future disbursements are shown below, based on the assumptions presented above:

Years	Expected disbursements
1	152,567
2	125,614
3	70,846
4	115,046
5	160,397

45. BONDS

The amount due for bonds is shown under current liabilities, in relation to the portion maturing within twelve months from the reporting date, and under non-current liabilities for the residual portion.

These items refer to the value of the liability in the books of the parent company Selle Royal Group S.p.A. relating to the bond loan (so-called mini-bond) listed on the Pro^3 segment of the ExtraMOT list managed by Borsa Italiana SpA, and issued on 24 September 2018 for a nominal amount equal to € 10,000,000.00.

The payable recorded therein, in compliance with the provisions of IAS 39, is recognised on the basis of the amounts collected, net of the transaction costs and subsequently measured at amortised cost, using the effective interest rate method.

During the half year, the second repayment instalment was paid, amounting to € 2,000,000.

46. MEDIUM/LONG-TERM LOANS

This item, amounting to € 34,110,785, up by € 7,379,416 compared to 30 June 2021, relates to the portion falling due beyond the next year of medium/long-term loans (mainly unsecured loans) taken out for the most part by the parent company Selle Royal Group S.p.A. with leading credit institutions. The increase in the balance is essentially attributable to the signing of two unsecured mortgages backed by a government guarantee, according to the methods and terms set forth in the emergency decrees issued by the Italian government to support the liquidity of companies.

47. PROVISIONS for RISKS and CHARGES

The breakdown and changes in this item are shown below:

	Balance as at 30 June 2021	Provisions (+)	Uses (-)	IAS adjustment	Balance as at 31 December 2021
Provision for supplementary customer indemnities	75,164	8,200	-	-	83,364
Provision for payment of foreign agents	144,961	50,216	-	-	195,177
End of mandate indemnity	406,250	45,000	-	-	451,250
TOTAL	**626,375**	**103,416**	**-**	**-**	**729,791**

The end of mandate indemnity provision refers to the pension fund set up by the parent company Selle Royal Group S.p.A. in compliance with the resolutions of the Shareholders' Meeting.

48. DEFERRED TAXES

The balance and breakdown of this item are broken down as follows:

	31/12/2021		30/06/2021	
	TEMPORARY DIFFERENCES	TAX EFFECT	TEMPORARY DIFFERENCES	TAX EFFECT
Intangible assets	304,066	69,671	423,877	97,121
Tangible assets	2,187,333	600,704	2,379,229	650,196
Other temporary differences	76,839	16,136	65,123	13,676
TOTAL DEFERRED TAXES	**2,568,238**	**686,512**	**2,868,228**	**760,993**

49. NON-CURRENT FINANCIAL LIABILITIES AT FAIR VALUE

This item, amounting to € 123,049, relates to the market value of two hedging derivative instruments with respect to the risk of fluctuations in interest rates (“IRS”) subscribed by Selle Royal Group S.p.A. in October 2021 as collateral for the opening of the same number of long-term floating rate loans maturing in September 2027.

These derivatives, maturing on the same date, have the following characteristics:

Interest Rate Swap;

Purpose: hedging;

Underlying financial risk: interest rate risk;

Date of trading: 29/10/2021;

Notional value: € 10,000,000, the first; € 9,500,000, the second;

Liability hedged: medium-term loan;

Initial date: 31/10/2021;

End date: 30/09/2027;

Debtor Selle Royal Group S.p.A.: basic product index rate 30E/360 paid at the end of the quarter - 3-month Euribor at the beginning of the period, with a minimum rate (floor) of 0.90%;

Bank debtor: basic contractual fixed rate 30E/360 paid at the end of the quarter - contractual fixed rate 0.10%;

Periodic expiry date: quarterly.

Since the hedge is effective, the initial recognition and subsequent change in the fair value of these derivative instruments during the period in question were recognised in a special restricted equity reserve (“cash flow hedge reserve”), net of the related deferred tax effect.

50. NON-CURRENT LIABILITIES for LEASED ASSETS

The balance of this item expresses the discounted value of the lease payments subject to recognition in accordance with IFRS 16 and falling due after 31 December 2022.

51. SHAREHOLDERS’ EQUITY

The share capital is composed as follows:

Ordinary shares - 6,000,000.00 (with no par value)

The reconciliation between shareholders' equity and profit for the year of the parent company and consolidated shareholders’ equity and profit for the year is shown in the following table:

	31 December 2021		30 June 2021	
	Shareholders’ equity	Profit for the year	Shareholders’ equity	Profit for the year
Selle Royal S.p.A. as per the financial statements	24,846,490	6,047,870	21,372,116	10,144,396
Difference between book value and pro-rata value shareholders' equity of consolidated companies	15,948,592	-	5,214,939	-
Pro-rata results achieved by consolidated subsidiaries	-	7,603,153	-	11,415,016
Elimination of intercompany profits included in inventories	(2,633,175)	(1,959,461)	(673,714)	31,769
Other consolidation differences	6,102,279	(122,366)	6,625,516	(6,673,626)
Shareholders' equity and profit for the year pertaining to the Group	**44,264,187**	**11,569,197**	**32,538,857**	**14,917,555**
Shareholders' equity and profit for the year attributable to minority interests	10,634,377	1,863,837	8,664,645	3,622,371
Shareholders' equity and profit for the year as reported in the consolidated financial statements	**54,898,563**	**13,433,034**	**41,203,502**	**18,539,926**

These consolidated financial statements, consisting of the Income Statement, the Balance Sheet, the Cash Flow Statement and the Explanatory Notes, provide a true and fair view of the equity and financial position as well as the economic result for the half year ended 31 December 2021 and correspond to the results of the accounting records.

* * *

Pozzoleone (VI), 15 February 2022
The Chairman of the Board of Directors
(Barbara Bigolin)

Selle Royal Group S.p.A.

Independent Auditors' Report

Consolidated Financial Statements as at 31 December 2021

BDO

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Independent Auditors' Report

To the Board of Directors of
Selle Royal Group S.p.A.

Report on the audit of the consolidated interim financial statements

Opinion

We have audited the consolidated interim financial statements comprising the balance sheet, the income statement, the statement of comprehensive income, the statement of changes in shareholders' equity, the cash flow statement and the relative explanatory notes for the six-month period ended as at 31 December 2021 of Selle Royal Group S.p.A (the "Company") and of its subsidiaries (Selle Royal Group). The consolidated interim financial statements were prepared by the directors for the purpose of inclusion in the Prospectus relative to the public offer for sale and subscription of the shares of Selle Royal Group S.p.A. for listing on the electronic equity market organised and managed by Borsa Italiana S.p.A.

In our opinion, the consolidated interim financial statements of the Selle Royal Group for the period ended as at 31 December 2021 was drafted, in all its significant aspects, in compliance with the international financial standard applicable for interim financial disclosures (IAS 34) adopted by the European Union.

Basis for a qualified opinion

We have carried out the audit in compliance with the International Standards on Auditing (ISA Italy). Our responsibilities pursuant to these standards are further described in the section *Responsibilities of the independent auditors for the audit of the consolidated Interim Financial Statements* of this report.

We are independent from the Company in compliance with the rules and standards in relation to ethics and independence applicable in Italian law to the audit of financial statements. We believe we have obtained sufficient and appropriate evidence on which to base our opinion.

Responsibilities of the Directors and of the Board of Statutory Auditors with regard to the Consolidated Interim Financial Statements

The directors are responsible for the preparation of the consolidated interim financial statements in compliance with the applicable international accounting standard for interim financial disclosures (IAS 34) adopted by the European Union and, within the terms provided by the law, for that part of internal control on the part of the same deemed necessary to allow the preparation of consolidated Interim Financial Statements without significant errors due to fraud or to unintentional behaviours or events.

The directors are responsible for the evaluation of the Company's ability to continue to operate as a going concern and, in the preparation of the consolidated Interim Financial Statements, for the appropriateness of the use of the going concern assumption, as well as for adequate disclosures at this regard.

The directors use the going concern assumption in the preparation of the consolidated Interim Financial Statements unless they have evaluated the presence of conditions for the liquidation of the Company or the suspension of activities or have no realistic alternatives to such choices.
The Board of Statutory Auditors has the responsibility of supervision, in the terms provided by the law, on the process of preparation of the Company's financial disclosures.

Responsibilities of the independent auditors for the audit of the consolidated Interim Financial Statements

Our objectives are the acquisition of a reasonable certainty that the consolidated Interim Financial Statements as a whole do not include significant errors, due to fraud or to unintentional behaviours or events, and the publication of an audit report including our opinion. Reasonable certainty means a high level of security which, however, does not guarantee that an audit carried out in compliance with the international standards on auditing (ISAs) will always identify a significant error, if present. Errors may derive from fraud or unintentional behaviours or events and are deemed to be significant if it is reasonable to expect that they, individually or as a whole, are able to influence the economic decisions of users taken on the basis of the Interim Financial Statements.

As part of the audit carried out in compliance with the international standards on auditing (ISAs), we have exercised our professional judgement and we have maintained our professional scepticism for the entire duration of the audit. Furthermore:

- we have identified and evaluated the risks of significant errors in the consolidated financial statements, due to fraud or unintentional behaviours or events; we have defined and implemented audit procedures in response to such risks; we have acquired sufficient and appropriate evidence on which to base our opinion. The risk of not identifying a significant error due to fraud is higher than the risk of not identifying a significant error due to unintentional behaviours or events, as fraud may imply collusions, falsifications, intentional omissions, misleading representations or overriding of internal controls;
- we have gained an understanding of the relevant internal controls for the purposes of the audit with the objective of defining audit procedures appropriate to the circumstances and not to express an opinion on the efficiency of the Group's internal control;
- we have evaluated the appropriateness of the accounting standards used as well as the reasonableness of the accounting estimates made by the directors, including the relative disclosures;
- we have come to a conclusion on the appropriateness of the use by the directors of the going concern assumption and, on the basis of the evidence acquired, on the possible existence of significant uncertainty regarding events or circumstances that may give rise to significant doubts on the Group's ability to continue to operate as a going concern. In the presence of a significant uncertainty, we are required to draw attention in the audit report on the relative disclosures in the financial statements, or, if these disclosures are not adequate, to highlight this circumstance in the formulation of our opinion. Our conclusions are based on evidence acquired up to the date of this report. However, subsequent events or circumstances may lead to the Group ceasing to operate as a going concern;
- we have evaluated the presentation, structure and content of the consolidated financial statements as a whole, including the relative disclosures, and whether the consolidated financial statements provide a true representation of the underlying transactions and events;
- we have acquired sufficient and appropriate evidence on the financial information of the companies or different economic activities carried out within the Group to express an opinion on the consolidated financial statements. We are responsible for management, supervision and implementation of the mandate for the Group's audit engagement. We are sole party responsible for the audit opinion on the consolidated financial statements.

We have informed the persons responsible for governance activities, identified at an appropriate level as required by ISA Italy, among other things, about the extent and planned timeframe for the audit and the significant results identified, including any significant shortcomings in the internal controls identified during the audit.

We have also provided the persons responsible for governance activities with a declaration on the fact that we have respected the rules and standards in relation to ethics and independence applicable in Italian law and we have communicated to them any situation that may reasonably have an effect on our independence and, where applicable, the relative safeguarding measures adopted.

Milan, 15 February 2022

BDO Italia S.p.A.

Carlo Consonni
Partner
[signed on the original]