



Tristate Holdings Limited

(Incorporated in Bermuda with limited liability)

(Stock Code: 458)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2008

FINANCIAL SUMMARY OF 2008 INTERIM RESULTS

- Revenue rose by approximately 22% to HK\$1,516 million
- Profit attributable to equity holders of the Company decreased by approximately 32% to HK\$34 million
- Earnings per share decreased from HK\$0.19 to HK\$0.13
- Interim dividend of HK\$0.06 per share

INTERIM RESULTS

The board of directors of Tristate Holdings Limited (the “Company”) is pleased to announce the unaudited interim results of the Company and its subsidiaries (together, the “Group”) for the six months ended 30 June 2008 (together with comparative figures for 2007).

CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT

For the six months ended 30 June 2008

		Unaudited six months ended 30 June	
		2008	2007
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	3	1,516,364	1,240,010
Cost of sales		(1,220,408)	(970,118)
Gross profit		295,956	269,892
Other income		3,264	2,895
Gain on disposal of non-current assets held for sale	4	15,125	—
Selling and distribution expenses		(68,890)	(47,163)
General and administrative expenses		(210,930)	(165,773)
Profit from operations	5	34,525	59,851
Finance income	6	3,978	6,290
Finance costs	6	(5,010)	(5,159)
Share of results of associates		13	—
Profit before income tax		33,506	60,982
Income tax credit/(expense)	7	159	(9,101)
Profit for the half year		33,665	51,881
Attributable to:			
Equity holders of the Company		33,684	49,732
Minority interests		(19)	2,149
		33,665	51,881
Interim dividend	8	16,124	21,499
Earnings per share attributable to equity holders of the Company:			
Basic and diluted	9	HK\$0.13	HK\$0.19

CONDENSED CONSOLIDATED INTERIM BALANCE SHEET

As at 30 June 2008

		Unaudited As at 30 June 2008 HK\$'000	Audited As at 31 December 2007 HK\$'000
	Note		
NON-CURRENT ASSETS			
Property, plant and equipment		490,328	468,334
Investment properties		1,079	1,649
Leasehold land and land use rights		28,256	28,868
Intangible assets		75,184	18,269
Other long-term assets		12,091	11,806
Deferred income tax assets		4,537	3,793
Investments in associates		10,288	—
		<u>621,763</u>	<u>532,719</u>
CURRENT ASSETS			
Inventories		511,233	367,438
Accounts receivable and bills receivable	10	419,773	360,686
Amounts due from associates		1,445	—
Prepayments and other receivables		106,768	63,506
Income tax recoverable/prepayment		35,196	25,113
Cash and cash equivalents		226,000	389,398
		<u>1,300,415</u>	<u>1,206,141</u>
Non-current assets held for sale		9,259	5,874
		<u>1,309,674</u>	<u>1,212,015</u>
CURRENT LIABILITIES			
Accounts payable and bills payable	11	278,702	184,029
Accruals and other payables		178,184	160,269
Income tax liabilities		41,368	40,338
Bank borrowings		256,678	227,092
		<u>754,932</u>	<u>611,728</u>
NET CURRENT ASSETS		<u>554,742</u>	<u>600,287</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>1,176,505</u>	<u>1,133,006</u>
NON-CURRENT LIABILITIES			
Retirement benefits and other post retirement obligations		35,584	35,427
License fees payable		48,787	17,612
Deferred income tax liabilities		89,168	96,493
		<u>173,539</u>	<u>149,532</u>
NET ASSETS		<u>1,002,966</u>	<u>983,474</u>
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital		26,874	26,874
Reserves		975,643	956,113
		<u>1,002,517</u>	<u>982,987</u>
Minority interests		449	487
TOTAL EQUITY		<u>1,002,966</u>	<u>983,474</u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2008

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

This unaudited Condensed Consolidated Interim Financial Information for the six months ended 30 June 2008 has been prepared in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants.

The unaudited Condensed Consolidated Interim Financial Information should be read in conjunction with the annual financial statements for the year ended 31 December 2007.

The accounting policies applied are consistent with those used in the preparation of the annual financial statements for the year ended 31 December 2007, except as described in Note 2 below. In addition, during the six months ended 30 June 2008, the Group had interests in two associates through the acquisition of Velmore Holdings Limited and its subsidiaries. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost.

2. IMPACTS OF ADOPTING NEW/REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In 2008, the Group adopted the following interpretation which is relevant to the Group and the impact on the Group’s accounting policies is set out below:

HK(IFRIC*) – Interpretation 14

HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

HK(IFRIC) – Interpretation 14 provides guidance on assessing the limit in HKAS 19 on the amount of the surplus that can be recognised as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. The adoption of HK(IFRIC) – Interpretation 14 has no impact on the unaudited Condensed Consolidated Interim Financial Information for the six months ended 30 June 2008.

* IFRIC: International Financial Reporting Interpretations Committee

The following new Hong Kong Financial Reporting Standards (“HKFRSs”), amendments to existing Hong Kong Accounting Standards (“HKASs”) and interpretations have been issued which are relevant to the Group but are not yet effective for the financial year beginning 1 January 2008 and have not been early adopted:

- HKAS 1 (Revised), ‘Presentation of Financial Statements’ (effective from 1 January 2009). The Group will apply the revised disclosure requirements of HKAS 1 (Revised) from 1 January 2009.
- HKAS 23 (Revised), ‘Borrowing Costs’ (effective from 1 January 2009). The Group will apply HKAS 23 (Revised) from 1 January 2009. The amendment has no material impact on the Group’s accounting policies as the Group’s existing accounting policy on borrowing costs complies with the amended requirements.
- HKAS 27 (Revised), ‘Consolidated and Separate Financial Statements’ (effective for annual reporting periods beginning on or after 1 July 2009). The Group will apply the new requirements of HKAS 27 (Revised) from 1 January 2010 regarding non-controlling interests and changes in ownership interest or control in subsidiaries.
- HKFRS 3 (Revised), ‘Business Combinations’ and consequential amendments to HKAS 27, ‘Consolidated and Separate Financial Statements’, HKAS 28, ‘Investments in Associates’ and HKAS 31, ‘Interests in Joint Ventures’ (effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009). The Group will apply the amendments prospectively from 1 January 2010. Management is assessing the impact of the new requirements regarding acquisition accounting, consolidation and associates on the Group. The Group does not have any joint ventures.
- HKFRS 8, ‘Operating Segments’ (effective from 1 January 2009). The Group will apply HKFRS 8 from 1 January 2009. The expected impact is still being assessed in detail by the management, but it appears that the manner in which the segments are reported will not change significantly.
- HK(IFRIC) – Interpretation 13, ‘Customer Loyalty Programmes’ (effective from 1 July 2008). The Group will apply HK(IFRIC) – Interpretation 13 from 1 July 2008 but it is not expected to have any material impact on the Group’s financial statements.

The following interpretations and amendments to existing standards are mandatory for the financial year beginning on or after 1 March 2007 but are not currently relevant for the Group’s operations:

- HK(IFRIC) – Interpretation 11, ‘HKFRS 2 – Group and Treasury Share Transactions’ (effective from 1 March 2007).
- HK(IFRIC) – Interpretation 12, ‘Service Concession Arrangements’ (effective from 1 January 2008).
- HKFRS 2 (Amendment), ‘Share-based Payment – Vesting Conditions and Cancellations’ (effective from 1 January 2009).
- HKAS 32 and HKAS 1 (Amendment), ‘Puttable Financial Instruments and Obligations Arising on Liquidation’ (effective from 1 January 2009).

3. SEGMENT INFORMATION

(a) Primary reporting format — Business segments

The Group conducts the majority of its business activities in two segments: (i) garment manufacturing and trading, and (ii) branded product distribution and trading. The segment results are as follows:

	Unaudited six months ended 30 June					
	Garment manufacturing and trading		Branded product distribution and trading		Total	
	2008	2007	2008	2007	2008	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue	1,373,130	1,097,615	143,234	142,395	1,516,364	1,240,010
Segment results	12,316	51,923	6,745	7,502	19,061	59,425
Gain on disposal of non-current assets held for sale					15,125	—
Net rental income from investment properties					339	426
Finance income	3,443	5,640	535	650	3,978	6,290
Finance costs	(4,360)	(3,769)	(650)	(1,390)	(5,010)	(5,159)
Share of results of associates	13	—	—	—	13	—
Profit before income tax					33,506	60,982
Income tax credit/(expense)					159	(9,101)
Profit for the half year					33,665	51,881

	Garment manufacturing and trading		Branded product distribution and trading		Unallocated ^(Note)		Total	
	Unaudited	Audited	Unaudited	Audited	Unaudited	Audited	Unaudited	Audited
	As at	As at	As at	As at	As at	As at	As at	As at
	30 June	31 December	30 June	31 December	30 June	31 December	30 June	31 December
	2008	2007	2008	2007	2008	2007	2008	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment assets	1,680,879	1,553,360	190,741	145,199	59,817	46,175	1,931,437	1,744,734
Segment liabilities	700,266	571,654	97,669	52,775	130,536	136,831	928,471	761,260
Net assets							1,002,966	983,474

	Unaudited six months ended 30 June							
	Garment manufacturing and trading		Branded product distribution and trading		Unallocated ^(Note)		Total	
	2008	2007	2008	2007	2008	2007	2008	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Capital expenditure	46,753	32,171	49,775	3,216	—	—	96,528	35,387
Amortisation of leasehold land and land use rights	423	444	—	—	—	—	423	444
Amortisation of license rights	—	—	2,198	5,605	—	—	2,198	5,605
Depreciation on property, plant and equipment	25,496	22,686	2,461	1,273	217	285	28,174	24,244
Depreciation on investment properties	—	—	—	—	21	107	21	107
Gain on disposal of non-current assets held for sale	—	—	—	—	15,125	—	15,125	—

Note: Unallocated assets mainly include land and buildings not in use, investment properties and income tax assets. Unallocated liabilities mainly include income tax liabilities.

(b) Secondary reporting format — Geographical segments

The Group's revenue is mainly derived from customers located in the United States of America, Europe and Asia, while the Group's business activities are conducted predominantly in the People's Republic of China (the "PRC") and Thailand. The PRC includes the mainland of the PRC, Hong Kong and Macau. An analysis of the Group's external revenue by location of customers and an analysis of the Group's assets and capital expenditure by location of assets are as follows:

Unaudited six months ended 30 June								
	The United States of America		Europe		Asia		Total	
	2008	2007	2008	2007	2008	2007	2008	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue	<u>981,477</u>	<u>914,967</u>	<u>300,966</u>	<u>133,871</u>	<u>233,921</u>	<u>191,172</u>	<u>1,516,364</u>	<u>1,240,010</u>
	PRC		Thailand		Other locations		Total	
	Unaudited	Audited	Unaudited	Audited	Unaudited	Audited	Unaudited	Audited
	As at	As at	As at	As at	As at	As at	As at	As at
	30 June	31 December	30 June	31 December	30 June	31 December	30 June	31 December
	2008	2007	2008	2007	2008	2007	2008	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment assets	<u>1,248,817</u>	<u>1,285,594</u>	<u>220,468</u>	<u>226,401</u>	<u>402,335</u>	<u>186,564</u>	<u>1,871,620</u>	<u>1,698,559</u>
Unallocated assets	<u>30,272</u>	<u>29,361</u>	<u>277</u>	<u>1,927</u>	<u>29,268</u>	<u>14,887</u>	<u>59,817</u>	<u>46,175</u>
							<u>1,931,437</u>	<u>1,744,734</u>

Unaudited six months ended 30 June								
	PRC		Thailand		Other locations		Total	
	2008	2007	2008	2007	2008	2007	2008	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Capital expenditure	<u>75,423</u>	<u>30,022</u>	<u>589</u>	<u>909</u>	<u>20,516</u>	<u>4,456</u>	<u>96,528</u>	<u>35,387</u>

4. GAIN ON DISPOSAL OF NON-CURRENT ASSETS HELD FOR SALE

In April 2008, the Group completed its disposal of an investment property (which was presented as non-current assets held for sale as at 31 December 2007) located in Hong Kong for HK\$21,000,000 and recognised a net gain of HK\$15,125,000.

5. PROFIT FROM OPERATIONS

Profit from operations is stated after crediting and charging the following:

	Unaudited six months ended 30 June	
	2008	2007
	HK\$'000	HK\$'000
<i>Crediting</i>		
Reversal of provision for impairment of receivables	—	356
<i>Charging</i>		
Amortisation of leasehold land and land use rights	423	444
Depreciation on property, plant and equipment	28,174	24,244
Depreciation on investment properties	21	107
Net loss on disposals of property, plant and equipment	383	548
Amortisation of license rights	2,198	5,605
Provision for impairment of receivables	1,034	—
Write-down of inventories to net realisable value	9,161	9,061
Employment expenses	<u>339,074</u>	<u>280,510</u>

6. FINANCE INCOME/FINANCE COSTS

	Unaudited six months ended 30 June	
	2008	2007
	HK\$'000	HK\$'000
Finance income		
Interest income on bank deposits	<u>3,978</u>	<u>6,290</u>
Finance costs		
Interest on bank loans and overdrafts	4,360	3,769
Imputed interest on license fees payable	<u>650</u>	<u>1,390</u>
	<u>5,010</u>	<u>5,159</u>

7. INCOME TAX CREDIT/(EXPENSE)

	Unaudited six months ended 30 June	
	2008	2007
	HK\$'000	HK\$'000
Current income tax		
Hong Kong profits tax	(3,299)	(7,293)
Non-Hong Kong tax	(4,825)	(2,214)
Deferred income tax	<u>8,283</u>	<u>406</u>
	<u>159</u>	<u>(9,101)</u>

Hong Kong profits tax has been provided at the rate of 16.5% (2007: 17.5%) on the estimated assessable profit for the half year. Income tax on non-Hong Kong profit has been calculated on the relevant estimated assessable profit for the half year at the income tax rates prevailing in the countries/places in which the Group operates.

In early 2006, the Hong Kong Inland Revenue Department (the "HK IRD") initiated a tax audit on certain companies of the Group for the years of assessment from 1999/2000 (financial year ended 31 December 1999) to 2004/2005 (financial year ended 31 December 2004). The HK IRD has issued protective assessments to some of these companies for the years of assessment 1999/2000, 2000/2001 and 2001/2002 in view of the statutory time bar. During the course of the tax audit, further protective assessments for subsequent years may be raised by the HK IRD with respect to these companies. Since the tax audit is still at a fact-finding stage, its outcome cannot be readily ascertained with any degree of accuracy. The management of the Group has reviewed the situation and, after seeking necessary professional advice, considers that sufficient tax related provisions have been made in the Condensed Consolidated Interim Financial Information in respect of the protective assessments which the Group has received.

8. INTERIM DIVIDEND

	Unaudited six months ended 30 June	
	2008	2007
	HK\$'000	HK\$'000
HK\$0.06 (2007: HK\$0.08) per share	<u>16,124</u>	<u>21,499</u>

9. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the consolidated profit attributable to equity holders of the Company for the six months ended 30 June 2008 of HK\$33,684,000 (2007: HK\$49,732,000) by the weighted average number of shares in issue during the six months ended 30 June 2008 of 268,735,253 (2007: 268,735,253).

As there was no potential dilutive share, diluted earnings per share equal to the basic earnings per share.

10. ACCOUNTS RECEIVABLE AND BILLS RECEIVABLE

The aging analysis is as follows:

	Unaudited As at 30 June 2008 HK\$'000	Audited As at 31 December 2007 HK\$'000
Less than 3 months	411,962	355,402
3 months to 6 months	7,811	5,284
Over 6 months	<u>3,956</u>	<u>2,616</u>
	423,729	363,302
Less: provision for impairment of receivables	<u>(3,956)</u>	<u>(2,616)</u>
	<u><u>419,773</u></u>	<u><u>360,686</u></u>

Majority of the accounts receivable and bills receivable are covered by letters of credit with bills payable at sight. The remaining portion is on open account with credit term of approximately 30 days and is substantially covered by credit insurance.

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

11. ACCOUNTS PAYABLE AND BILLS PAYABLE

Accounts payable and bills payable comprise:

	Unaudited As at 30 June 2008 HK\$'000	Audited As at 31 December 2007 HK\$'000
Third parties	275,311	184,029
Associates	<u>3,391</u>	<u>—</u>
	<u><u>278,702</u></u>	<u><u>184,029</u></u>

The aging analysis is as follows:

Less than 3 months	267,727	176,164
3 months to 6 months	8,340	6,665
Over 6 months	<u>2,635</u>	<u>1,200</u>
	<u><u>278,702</u></u>	<u><u>184,029</u></u>

Majority of payment terms with suppliers are on letters of credit. The remaining portion is granted with credit periods ranging from 30 to 60 days.

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

12. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current period's presentation.

In this Management Discussion and Analysis, we present the business review and a discussion on the financial performance of Tristate Holdings Limited (the “Company”) and its subsidiaries (together, the “Group”) over the six months ended 30 June 2008.

Business Review

For the first half of 2008, the total revenue of the Group was HK\$1,516,364,000 (2007: HK\$1,240,010,000), representing an increase of approximately 22% as compared with the corresponding period in 2007.

Revenue generated from the garment manufacturing and trading segment increased by approximately 25% as compared with the corresponding period in 2007. Such increase was mainly due to the revenue contribution from the Velmore Group (as defined below) since its acquisition by the Group on 14 March 2008 as well as the growth in sales orders from existing and new customers during the first half of 2008.

Revenue from the branded product distribution and trading segment increased by approximately 1% when compared with the corresponding period in 2007. Such increase was mainly due to the revenue contribution from the Group’s distribution business in China.

Geographically, the United States of America continued to be the major export market for the Group, contributing approximately 65% (2007: 74%) of the total revenue. During the first half of 2008, sales to Europe increased to approximately 20% (2007: 11%) of the Group’s total revenue due to the Group’s gaining further access to the United Kingdom market following the acquisition of the Velmore Group. Sales to Asia recorded satisfactory growth and remained stable at approximately 15% of the total revenue of the Group. The Group’s garment manufacturing revenue is generally subject to seasonality. The management of the Group seeks to minimise the impact of seasonality by focusing on key customers with relatively even year-round orders.

Gross profit of the Group was HK\$295,956,000 (2007: HK\$269,892,000) during the period while gross profit margin was approximately 20% (2007: 22%). The decrease in gross profit margin was mainly due to the increase in labour and subcontracting costs, appreciation of currencies, high inflation and increase in fuel costs in the countries where the Group operates. Selling and distribution expenses surged by approximately 46% mainly due to the increase in export freight of the garment manufacturing segment, and the increase in shop rental and running expenses which was in line with the expansion of the branded product distribution business. General and administrative expenses increased by approximately 27% during the first half of 2008 as compared with prior period. Such increase was mainly due to our consolidation of the results of the Velmore Group.

The Group continued to dispose of its non-core assets. In December 2007, the Group entered into a provisional agreement with an independent third party to dispose of an industrial property at a consideration of HK\$21,000,000. The transaction was completed in April 2008 and a gain on disposal amounting to HK\$15,125,000 was recognised in the first half of 2008.

The increase in production and freight costs affected the profitability of the garment manufacturing and trading segment and caused the profit attributable to equity holders of the Company for the first half of 2008 to decrease by approximately 32% to HK\$33,684,000 (2007: HK\$49,732,000).

In early 2006, the Hong Kong Inland Revenue Department (the “HK IRD”) initiated a tax audit on certain companies of the Group for the years of assessment from 1999/2000 (financial year ended 31 December 1999) to 2004/2005 (financial year ended 31 December 2004). The HK IRD has issued protective assessments to some of these companies for the years of assessment 1999/2000, 2000/2001 and 2001/2002 in view of the statutory time bar. During the course of the tax audit, further protective assessments for subsequent years may be raised by the HK IRD with respect to these companies. Since the tax audit is still at a fact-finding stage, its outcome cannot be readily ascertained with any degree of accuracy. The management of the Group has reviewed the situation and, after seeking necessary professional advice, considers that sufficient tax related provisions have been made in the Condensed Consolidated Interim Financial Information in respect of the protective assessments which the Group has received.

The first and second production facilities of the Group located in the Hefei Economic & Technological Development Area in Anhui Province, with a total factory space of about 17,000 square meters and a total production capacity of 200,000 pieces per month, commenced operation in 2007. After the completion of the first and second production facilities and further evaluation of our business plan and opportunities, the Group commenced construction of another production facility in 2008, which is expected to be in full scale operation in 2009.

Acquisition of Velmore Group

On 25 January 2008, Sharp Hero International Limited (“Sharp Hero”), a wholly-owned subsidiary of the Company, and Mr. Derek Anthony MORTON and Ms. Stephanie Vera MORTON (the “Vendors”) entered into a share purchase agreement, pursuant to which Sharp Hero conditionally agreed to purchase from the Vendors the entire issued share capital of Velmore Holdings Limited (“Velmore”). The acquisition was completed on 14 March 2008 for a cash consideration of HK\$156,469,000 (equivalent to GBP9,920,000), subject to adjustments as stated in the share purchase agreement.

Velmore is an investment holding company incorporated in England with limited liability. Its principal subsidiary, Velmore Limited, is a full service vendor to a renowned retail chain in the United Kingdom. Services provided by Velmore and its subsidiaries (the “Velmore Group”) include garment design, fabric development and testing, sample making, raw materials procurement, manufacture subcontracting and quality inspection. Velmore holds equity interests in two garment manufacturers in Morocco. Further details of the acquisition were set out in the announcement and the circular of the Company dated 29 January 2008 and 31 March 2008, respectively.

Save as disclosed above, there were no material acquisitions or disposals of subsidiaries or associated companies during the first half of 2008 and up to the date of this announcement and no important events affecting the Group have occurred since 30 June 2008 and up to the date of this announcement.

Financial Resources and Liquidity

During the first half of 2008, the Group continued to maintain a healthy financial position. As at 30 June 2008, cash and cash equivalents amounted to HK\$226,000,000 (31 December 2007: HK\$389,398,000) which were mainly denominated in Renminbi and United States dollars. The short-term bank borrowings of the Group amounted to HK\$256,678,000 as at 30 June 2008 (31 December 2007: HK\$227,092,000). Such borrowings were mainly denominated in United States dollars and Thai Bahts. As at 30 June 2008, HK\$70,906,000 (31 December 2007: HK\$54,731,000) and HK\$185,772,000 (31 December 2007: HK\$172,361,000) of the short-term bank borrowings were interest bearing at fixed rates and floating rates respectively. The Group maintained sufficient banking facilities and did not have any long-term bank borrowings outstanding as at 30 June 2008. Facilities extended to the subsidiaries were not charged with the Group’s assets. As at 30 June 2008, the gearing ratio of the Group was approximately 3%, calculated as net borrowings divided by total capital. Net borrowings were calculated as total bank borrowings less cash and cash equivalents, while total capital comprised total equity plus net borrowings. The Group did not have net borrowings as at 31 December 2007, and, accordingly, no information on gearing ratio as at that date is provided.

Most of the Group’s receipts and payments were denominated in Hong Kong dollars, Renminbi, United States dollars, Euro and Pound Sterling. The management of the Group monitors the related foreign exchange risk exposure closely and manages significant foreign exchange risk with foreign exchange forward contracts.

Human Resources

The Group had about 19,000 employees as at 30 June 2008 (31 December 2007: 20,000). Fair and competitive remuneration packages and benefits are offered to competent employees. Discretionary bonuses are granted to eligible employees with outstanding performance. In addition, a new share option scheme was adopted by the Company in 2007 for granting of options to eligible persons to subscribe for shares in the Company.

Future Development

The global economy has been adversely affected by the United States' sub-prime mortgage related credit crisis and the global inflation caused by the increase in commodity prices. The profit margin of the garment manufacturing and trading business of the Group is likely to be affected by the economic slowdown in the major markets as well as the increase in production costs owing to inflation and the appreciation of Asian currencies in countries where the Group operates. The Group will strive to improve profit margin by offering a variety of value added services to its customers and implementation of stringent cost control. The strong design and sales team of the Velmore Group based in the United Kingdom will allow the Group to extend its scope of services and products offered which include garment design, fabric development and testing, and in particular, complete apparel solutions to customers in the United Kingdom. The Group plans to extend similar services to its customers in the United States of America. The Group has started the integration process with respect to the operations of the Velmore Group, and the Velmore Group is expected to have a positive impact on the earnings of the Group in the medium term. Current sales orders on hand of the Group are consistent with that of the last comparable period.

The Group intends to continue its expansion of branded product distribution and trading business in China. We will also continue to look for branded product distribution opportunities in order to broaden our brand portfolio.

Going forward, the Group will continue focusing on its core customers and product offerings. With the gloomy global economic outlook, the Group maintains a cautious view on its overall performance for the year 2008.

CODE ON CORPORATE GOVERNANCE PRACTICES

During the six months ended 30 June 2008, the Company complied with code provisions set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, except for the deviation from code provision A.2.1.

During the six months ended 30 June 2008 and up to the date of this announcement, Mr. WANG Kin Chung, Peter is the Chairman and the Chief Executive Officer (the "CEO") of the Company, and that the functions of the Chairman and the CEO in the Company's strategic planning and development process overlap. This constitutes a deviation from code provision A.2.1 of the Code which stipulates that the roles of the Chairman and the CEO should be separate and should not be performed by the same individual. However, the board of directors of the Company (the "Board") considers that it is beneficial to the Company that the Chairman and the CEO both take part in the Company's strategic planning and development process. The Board also considers that it would be appropriate and in the best interests of the Company and its shareholders as a whole that Mr. WANG Kin Chung, Peter holds both the offices of the Chairman and the CEO given the current size of the Group and its present stage of development.

PURCHASE, SALE OR REDEMPTION OF SHARES

The Company did not redeem any of its shares during the six months ended 30 June 2008. Neither the Company nor any of its subsidiaries purchased or sold any of the Company's shares during the said period.

INTERIM DIVIDEND

The Board has resolved to declare an interim dividend of HK\$0.06 per share for the six months ended 30 June 2008, totalling HK\$16,124,000 (2007: HK\$0.08 per share, totalling HK\$21,499,000). The interim dividend will be payable on Monday, 6 October 2008 to shareholders whose names appear on the Register of Members of the Company on Friday, 26 September 2008.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed for the period from Wednesday, 24 September 2008 to Friday, 26 September 2008, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the interim dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's branch registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Tuesday, 23 September 2008.

PUBLICATION OF INTERIM REPORT

The Interim Report 2008 of the Company will be dispatched to the shareholders of the Company and available for viewing on the website of Hong Kong Exchanges and Clearing Limited at <http://www.hkexnews.hk> and on the website of the Company at <http://www.tristateww.com/investor/index.asp> under “*Annual/Interim Reports*” on or about 17 September 2008.

AUDIT COMMITTEE

The Audit Committee has reviewed the unaudited Condensed Consolidated Interim Financial Information and the Interim Report of the Group for the six months ended 30 June 2008 in conjunction with the management of the Group.

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

Hong Kong, 3 September 2008

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