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Tristate Holdings Limited

(Incorporated in Bermuda with limited liability)

(Stock Code: 458)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2010

FINANCIAL SUMMARY OF 2010 INTERIM RESULTS

- Profit attributable to equity holders of HK\$38 million
- Excluding the 2009 restructuring costs of HK\$166 million, operating profit increased by 69% to HK\$49 million
- Earnings per share of HK\$0.14
- Interim dividend of HK\$0.06 per share

INTERIM RESULTS

The board of directors (the “Board”) of Tristate Holdings Limited (the “Company”) presents the unaudited interim results of the Company and its subsidiaries (together, the “Group”) for the six months ended 30 June 2010 together with comparative figures for 2009.

CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT

For the six months ended 30 June 2010

	Note	Unaudited six months ended 30 June	
		2010 HK\$'000	As restated 2009 HK\$'000
Revenue	3	1,333,613	1,339,249
Cost of sales		(1,005,513)	(1,049,558)
Gross profit		328,100	289,691
Other income and other gains		6,564	2,679
Selling and distribution expenses		(101,148)	(77,273)
General and administrative expenses		(184,365)	(185,960)
Restructuring costs	4	—	(166,445)
Profit/(loss) from operations	5	49,151	(137,308)
Finance income	6	2,179	1,478
Finance costs	6	(4,207)	(4,870)
Share of losses of associates		—	(142)
Provision for impairment in an associate		—	(592)
Profit/(loss) before income tax		47,123	(141,434)
Income tax (expense)/credit	7	(8,819)	4,101
Profit/(loss) for the half year		38,304	(137,333)
Attributable to:			
Equity holders of the Company		38,307	(137,305)
Non-controlling interests		(3)	(28)
		38,304	(137,333)
Interim dividend	8	16,124	—
Earnings/(loss) per share attributable to equity holders of the Company:			
Basic	9	HK\$0.14	(HK\$0.51)
Diluted	9	HK\$0.14	(HK\$0.51)

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2010

	Unaudited six months ended 30 June	
	2010	As restated
	HK\$'000	2009
		HK\$'000
Profit/(loss) for the half year	<u>38,304</u>	<u>(137,333)</u>
Other comprehensive income:		
Fair value gains/(losses) on cash flow hedges		
Gains/(losses) arising during the half year	4,445	(25,708)
Transfer to the consolidated income statement	(6,109)	(9,903)
Income tax effect	38	19
Fair value gain/(loss) on net investment hedge	921	(14,268)
Currency translation differences		
Gain arising during the half year	5,799	10,973
Transfer from translation reserve to the consolidated income statement	<u>—</u>	<u>138,928</u>
Other comprehensive income, net of tax	<u>5,094</u>	<u>100,041</u>
Total comprehensive income/(loss) for the half year	<u>43,398</u>	<u>(37,292)</u>
Attributable to:		
Equity holders of the Company	43,401	(37,264)
Non-controlling interests	<u>(3)</u>	<u>(28)</u>
	<u>43,398</u>	<u>(37,292)</u>

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION

As at 30 June 2010

		Unaudited As at 30 June 2010 HK\$'000	As restated As at 31 December 2009 HK\$'000	As restated As at 1 January 2009 HK\$'000
	Note			
NON-CURRENT ASSETS				
Property, plant and equipment		530,977	524,371	502,551
Investment properties		1,357	1,375	3,259
Leasehold land and land use rights		169,780	33,574	23,481
Intangible assets		132,414	140,074	159,738
Other long-term assets		16,143	18,454	19,627
Deferred income tax assets		8,217	9,071	6,676
Defined benefit plan assets		4,338	4,211	—
Investments in associates		—	—	4,991
		<u>863,226</u>	<u>731,130</u>	<u>720,323</u>
CURRENT ASSETS				
Inventories		319,141	271,970	343,472
Accounts receivable and bills receivable	10	366,610	293,327	384,874
Forward foreign exchange contracts		808	1,639	45,621
Prepayments and other receivables		98,431	130,232	73,445
Cash and bank balances		<u>336,417</u>	<u>401,403</u>	<u>300,349</u>
		1,121,407	1,098,571	1,147,761
Non-current assets held for sale		—	3,237	5,599
		<u>1,121,407</u>	<u>1,101,808</u>	<u>1,153,360</u>
CURRENT LIABILITIES				
Accounts payable and bills payable	11	173,144	165,195	185,269
Accruals and other payables		246,724	260,921	205,633
Forward foreign exchange contracts		1,091	10,084	—
Current income tax liabilities		48,493	48,648	43,674
Bank borrowings		<u>335,389</u>	<u>170,343</u>	<u>210,842</u>
		804,841	655,191	645,418
NET CURRENT ASSETS		<u>316,566</u>	<u>446,617</u>	<u>507,942</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>1,179,792</u>	<u>1,177,747</u>	<u>1,228,265</u>
NON-CURRENT LIABILITIES				
Retirement benefits and other post retirement obligations		14,898	15,205	33,694
License fees payable		100,173	111,308	124,247
Deferred income tax liabilities		58,317	59,435	73,131
Other long-term liabilities		<u>2,731</u>	<u>5,054</u>	<u>6,589</u>
		176,119	191,002	237,661
NET ASSETS		<u>1,003,673</u>	<u>986,745</u>	<u>990,604</u>
EQUITY				
Capital and reserves attributable to equity holders of the Company				
Share capital		26,874	26,874	26,874
Reserves		<u>976,401</u>	<u>959,470</u>	<u>963,288</u>
		1,003,275	986,344	990,162
Non-controlling interests		<u>398</u>	<u>401</u>	<u>442</u>
TOTAL EQUITY		<u>1,003,673</u>	<u>986,745</u>	<u>990,604</u>

Notes:

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

This unaudited Condensed Consolidated Interim Financial Information for the six months ended 30 June 2010 has been prepared in accordance with Hong Kong Accounting Standard 34, 'Interim Financial Reporting'.

It should be read in conjunction with the annual financial statements for the year ended 31 December 2009, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

The accounting policies applied in preparing the unaudited Condensed Consolidated Interim Financial Information for the six months ended 30 June 2010 are consistent with those used in the preparation of the annual financial statements for the year ended 31 December 2009, except as described in Note 2 below.

2. IMPACT OF ADOPTING NEW/REVISED HKFRSs AND CHANGE IN ACCOUNTING POLICY

Adoption of new/revised HKFRSs

In 2010, the Group has adopted the following revised standards and amendments to existing standards which are mandatory for the first time for the Group's financial year beginning 1 January 2010 and are relevant to the Group's operations. The impact on the Group's accounting policies upon adoption is set out below:

HKFRS 2 (Amendment), 'Group Cash-settled Share-based Payment Transactions'. In addition to incorporating HK(IFRIC*) — Interpretation 8, 'Scope of HKFRS 2' and HK(IFRIC) — Interpretation 11, 'HKFRS 2 — Group and Treasury Share Transactions', the amendment expands on the guidance in HK(IFRIC) — Interpretation 11 to address the classification of group arrangements that were not covered by the interpretation. The new guidance has no impact on the unaudited Condensed Consolidated Interim Financial Information.

* IFRIC: International Financial Reporting Interpretations Committee

HKFRS 3 (Revised), 'Business Combinations', and consequential amendments to HKAS 27, 'Consolidated and Separate Financial Statements' and HKAS 28, 'Investments in Associates'. The revised standard continues to apply the acquisition method to business combinations, with some significant changes in relation to contingent payments, measurement of non-controlling interests in the acquiree and acquisition-related costs. HKAS 27 (Revised) requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in income statement. The revised standard and consequential amendments have no impact on the unaudited Condensed Consolidated Interim Financial Information.

HKAS 17 (Amendment), 'Leases', deletes specific guidance regarding classification of leases of land, so as to eliminate inconsistency with the general guidance on lease classification. As a result, leases of land should be classified as either finance or operating lease using the general principles of HKAS 17, i.e. whether the lease transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee. Prior to the amendment, land interest which title is not expected to pass to the Group by the end of the lease term was classified as operating lease under "Leasehold land and land use rights", and amortised over the lease term. The Group has reassessed the classification of unexpired leasehold land as at 1 January 2010 on the basis of information existing at the inception of those leases, and recognised the leasehold land in Hong Kong as finance lease retrospectively. As a result of the reassessment, the Group has reclassified certain leasehold land from operating lease to finance lease as below:

- If the property interest is held for own use, that land interest is accounted for as property, plant and equipment and is depreciated from the land interest available for its intended use over the shorter of the useful life of the asset and the lease term.
- If the property interest is held to earn rentals and/or for capital appreciation, that land interest is accounted for as investment property.

The effect of adoption of this amendment is analysed on pages 5 and 6.

The following new and revised standards relevant to the Group have been issued, but are not effective for the financial year beginning 1 January 2010 and the Group has not early adopted them:

HKFRS 9, 'Financial Instruments' (effective for annual period starting from 1 January 2013).

HKAS 24 (Revised), 'Related Party Disclosures' (effective for annual period starting from 1 January 2011).

2. IMPACT OF ADOPTING NEW/REVISED HKFRSs AND CHANGE IN ACCOUNTING POLICY (continued)

Change in accounting policy

In previous years, the Group's freehold land and buildings held for own use as factories and offices were carried in the consolidated statement of financial position at revalued amounts less subsequent depreciation for buildings and impairment losses (the "Revaluation Model"). With effect from 1 January 2010, the Group changed its accounting policy for own-use freehold land and buildings to the cost model under HKAS 16 (the "Cost Model"). The change was made to increase the relevance of financial data to the users of the financial statements by taking into consideration the following factors:

- With the restructuring of the Group's operations in 2009 (Note 4), the construction of a major manufacturing facility in the People's Republic of China (the "PRC") which was completed in 2009 as well as the acquisition of an office building in the PRC during the current period, the majority of the Group's properties are now located in the PRC whereby a significant portion are accounted for as leasehold land at cost. Management considers that it is more consistent and appropriate to use the Cost Model for its freehold land and buildings.
- The market values of freehold land and buildings are volatile and are influenced by various factors which are seldom associated with the underlying operation and performance of the Group. Adoption of the Cost Model will avoid fluctuations in the Group's financial statements resulting from the cyclical volatility associated with the Revaluation Model and the Group's financial performance could be more comparable on a year-on-year basis.
- A majority of comparable companies within the garment manufacturing and retail industry adopt the Cost Model. Therefore, using the Cost Model can align the Group's accounting policy with industry peers. Management considers that the Cost Model improve comparability of the Group's financial performance with industry peers.
- Management considers that the Revaluation Model involves expense out of proportion to the benefit to the shareholders of the Company.

The effect of adoption of HKAS 17 (Amendment) and change in accounting policy on the condensed consolidated interim income statement is as follows:

	Unaudited six months ended 30 June 2010		Unaudited six months ended 30 June 2009	
	HKAS 17 (Amendment) HK\$'000	Change to Cost Model for freehold land and buildings HK\$'000	HKAS 17 (Amendment) HK\$'000	Change to Cost Model for freehold land and buildings HK\$'000
Decrease in depreciation under cost of sales	—	818	—	824
(Increase)/decrease in depreciation under general and administrative expenses	(12)	1,085	(59)	1,022
Decrease in amortisation of leasehold land and land use rights under general and administrative expenses	12	—	59	—
Decrease in net gain on disposals of non-current assets held for sale	—	(350)	—	—
Increase in deferred income tax expense	—	(373)	—	(380)
Total increase in profit for the half year	—	1,180	—	1,466
Attributable to:				
Equity holders of the Company	—	1,180	—	1,466
Non-controlling interests	—	—	—	—
Increase in basic earnings per share	—	HK\$0.004	—	HK\$0.005
Increase in diluted earnings per share	—	HK\$0.004	—	HK\$0.005

2. IMPACT OF ADOPTING NEW/REVISED HKFRSs AND CHANGE IN ACCOUNTING POLICY (continued)

The effect of adoption of HKAS 17 (Amendment) and change in accounting policy on the condensed consolidated interim statement of financial position is as follows:

	As at 30 June 2010		As at 31 December 2009		As at 1 January 2009	
	HKAS 17 (Amendment) HK\$'000	Change to Cost Model for freehold land and buildings HK\$'000	HKAS 17 (Amendment) HK\$'000	Change to Cost Model for freehold land and buildings HK\$'000	HKAS 17 (Amendment) HK\$'000	Change to Cost Model for freehold land and buildings HK\$'000
(Decrease)/increase in property, plant and equipment	—	(69,751)	—	(69,542)	2,149	(70,936)
Decrease in leasehold land and land use rights	(882)	—	(894)	—	(4,343)	—
Increase in investment properties	882	—	894	—	2,194	—
Increase in non-current assets held for sale	—	—	—	350	—	—
Decrease in deferred income tax liabilities	—	9,533	—	9,610	—	10,498
Decrease in assets revaluation reserve	—	(68,628)	—	(68,720)	—	(69,848)
Decrease in translation reserve	—	(6,579)	—	(4,671)	—	(2,264)
Increase in retained earnings	—	14,989	—	13,809	—	11,674

3. SEGMENT INFORMATION

Reportable segments are identified and reported in the manner consistent with internal reports of the Group that are regularly reviewed by the chief operating decision makers (the Chief Executive Officer and Senior Management) in order to assess performance and allocate resources. The chief operating decision makers assess the performance of the reportable segments based on the profit and loss generated.

The Group has two reportable segments: (i) garment manufacturing, and (ii) branded product distribution, retail and trading. The segment information is as follows:

	Unaudited six months ended 30 June					
	Garment manufacturing		Branded product distribution, retail and trading		Total	
	As restated 2010 HK\$'000	As restated 2009 HK\$'000	As restated 2010 HK\$'000	As restated 2009 HK\$'000	As restated 2010 HK\$'000	As restated 2009 HK\$'000
Revenue	1,063,139	1,125,504	270,474	213,745	1,333,613	1,339,249
Profit/(loss) for the half year	15,548	(138,919)	22,756	1,586	38,304	(137,333)

With effect from 1 January 2010, certain corporate expenses were charged to the branded product distribution, retail and trading segment to arrive at the segment profit. The relevant amounts of corporate expenses in 2009 have also been reallocated among the two reportable segments to conform to the current period's charging basis.

3. SEGMENT INFORMATION (continued)

	Garment manufacturing			Branded product distribution, retail and trading			Total		
	Unaudited	As restated	As restated	Unaudited	As restated	As restated	Unaudited	As restated	As restated
	As at	As at	As at	As at	As at	As at	As at	As at	As at
	30 June 2010 HK\$'000	31 December 2009 HK\$'000	1 January 2009 HK\$'000	30 June 2010 HK\$'000	31 December 2009 HK\$'000	1 January 2009 HK\$'000	30 June 2010 HK\$'000	31 December 2009 HK\$'000	1 January 2009 HK\$'000
Total assets including:	1,684,717	1,482,463	1,596,929	299,916	350,475	276,754	1,984,633	1,832,938	1,873,683
Investments in associates	—	—	4,991	—	—	—	—	—	4,991
Additions to non-current assets (<i>Note</i>)	21,578	101,776	201,043	147,029	4,934	135,119	168,607	106,710	336,162
Total liabilities	762,390	633,279	702,804	218,570	212,914	180,275	980,960	846,193	883,079

	Unaudited six months ended 30 June					
	Garment manufacturing		Branded product distribution, retail and trading		Total	
	As restated		As restated		As restated	
	2010	2009	2010	2009	2010	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Finance income	1,383	1,219	796	259	2,179	1,478
Finance costs	(2,089)	(2,465)	(2,118)	(2,405)	(4,207)	(4,870)
Share of losses of associates	—	(142)	—	—	—	(142)
Provision for impairment in an associate	—	(592)	—	—	—	(592)
Income tax (expense)/credit	(2,986)	7,137	(5,833)	(3,036)	(8,819)	4,101
Amortisation of leasehold land and land use rights	(509)	(397)	(756)	—	(1,265)	(397)
Amortisation of license rights	—	—	(6,097)	(4,885)	(6,097)	(4,885)
Depreciation on property, plant and equipment	(27,894)	(23,917)	(2,694)	(2,313)	(30,588)	(26,230)
Depreciation on investment properties	(18)	(43)	—	—	(18)	(43)
Write back of provision/ (provision) for impairment of receivables, net	2,435	(4,610)	(128)	(195)	2,307	(4,805)
Write-down of inventories to net realisable value, net	(3,120)	(4,708)	(219)	(2,234)	(3,339)	(6,942)
Net gain on disposals of non-current assets held for sale	3,693	—	—	—	3,693	—
Net gain/(loss) on disposals of property, plant and equipment	1,579	263	(2)	—	1,577	263
Restructuring costs	—	(166,445)	—	—	—	(166,445)

3. SEGMENT INFORMATION (continued)

The Group's revenue is mainly derived from customers located in the United States of America, the United Kingdom (the "UK") and the PRC, while the Group's production facilities and other assets are located predominantly in the PRC and Thailand. The PRC includes the mainland of the PRC, Hong Kong and Macau. An analysis of the Group's revenue by location of customers and an analysis of the Group's non-current assets by location of assets are as follows:

Unaudited six months ended 30 June										
The United States of America			UK		PRC		Other countries		Total	
2010	2009		2010	2009	2010	2009	2010	2009	2010	2009
HK\$'000	HK\$'000		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue	639,569	750,993	276,341	263,185	284,049	211,494	133,654	113,577	1,333,613	1,339,249

Included in revenue derived from the PRC was HK\$67,647,000 (2009: HK\$61,815,000) related to revenue generated in Hong Kong.

For the six months ended 30 June 2010, revenues from two customers in the garment manufacturing segment each accounted for more than 10% of the Group's total revenue and represented approximately 23% and 12% (2009: 29% and 15%) of the total revenue respectively.

	PRC			Thailand			Other locations			Total		
	Unaudited	As restated	As restated	Unaudited	As restated	As restated	Unaudited	As restated	As restated	Unaudited	As restated	As restated
	As at	As at	As at	As at	As at	As at	As at	As at	As at	As at	As at	As at
	30 June	31 December	1 January	30 June	31 December	1 January	30 June	31 December	1 January	30 June	31 December	1 January
	2010	2009	2009	2010	2009	2009	2010	2009	2009	2010	2009	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Non-current assets (Note)	672,693	528,818	501,494	100,677	111,343	117,540	77,301	77,687	94,613	850,671	717,848	713,647

Included in non-current assets located in the PRC was HK\$149,028,000 (2009 as restated: HK\$155,328,000) related to assets located in Hong Kong.

Note: Non-current assets exclude deferred income tax assets and defined benefit plan assets.

4. RESTRUCTURING COSTS

Restructuring costs comprise the following:

		Unaudited six months ended 30 June	
		2010	2009
		HK\$'000	HK\$'000
Redundancy costs		—	25,715
Impairment of property, plant and equipment		—	1,802
Realisation of accumulated translation reserve		—	138,928
		—	166,445

In the first half of 2009, the Group has restructured its overseas operations, including closing down/scaling down factories in the Philippines and Thailand, and has implemented plans to liquidate certain subsidiaries. In this connection, redundancy costs were incurred and the related portion of the accumulated translation reserve was transferred from translation reserve to the consolidated income statement.

5. PROFIT/(LOSS) FROM OPERATIONS

Profit/(loss) from operations is stated after crediting and charging the following:

	Unaudited six months ended 30 June	
	2010	As restated 2009
	HK\$'000	HK\$'000
<i>Crediting</i>		
Net gain on disposals of property, plant and equipment	1,577	263
Net gain on disposals of non-current assets held for sale	3,693	—
Write back of provision for impairment of receivables, net	2,307	—
<i>Charging</i>		
Depreciation on property, plant and equipment	30,588	26,230
Depreciation on investment properties	18	43
Amortisation of leasehold land and land use rights	1,265	397
Amortisation of license rights	6,097	4,885
Provision for impairment of receivables, net	—	4,805
Write-down of inventories to net realisable value, net	3,339	6,942
Employment expenses	283,486	324,468

6. FINANCE INCOME/FINANCE COSTS

	Unaudited six months ended 30 June	
	2010	2009
	HK\$'000	HK\$'000
Finance income		
Interest income on bank deposits	2,179	1,478
Finance costs		
Interest on bank loans and overdrafts	1,845	2,233
Imputed interest on license fees payable	2,117	2,405
Imputed interest on other long-term liabilities	245	232
	4,207	4,870

7. INCOME TAX (EXPENSE)/CREDIT

	Unaudited six months ended 30 June	
	2010	As restated 2009
	HK\$'000	HK\$'000
Current income tax		
Hong Kong profits tax	(2,523)	(2,086)
Non-Hong Kong tax	(7,669)	(6,402)
Deferred income tax	1,373	12,589
	(8,819)	4,101

Hong Kong profits tax has been provided at the rate of 16.5% (2009: 16.5%) on the estimated assessable profits for the half year. Income tax on non-Hong Kong profit has been calculated on the estimated assessable profits for the half year at the applicable income tax rates prevailing in the countries/places in which the Group operates.

7. INCOME TAX (EXPENSE)/CREDIT (continued)

In early 2006, the Hong Kong Inland Revenue Department (the “HK IRD”) initiated a tax audit on certain companies within 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 to 2003/2004 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 ongoing, its outcome cannot be readily ascertained. Management 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 had received.

8. INTERIM DIVIDEND

Unaudited six months ended 30 June	
2010	2009
HK\$'000	HK\$'000

HK\$0.06 (2009: Nil) per share

16,124	—
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9. EARNINGS/(LOSS) PER SHARE

Basic earnings/(loss) per share is calculated by dividing the consolidated profit/(loss) attributable to equity holders of the Company by the weighted average number of shares in issue for the half year.

Unaudited six months ended 30 June	
2010	As restated 2009
HK\$'000	HK\$'000

Profit/(loss) attributable to equity holders of the Company

38,307	(137,305)
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Weighted average number of ordinary shares in issue

268,735,253	268,735,253
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Basic earnings/(loss) per share

HK\$0.14	(HK\$0.51)
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Diluted earnings/(loss) per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares granted under the Company's share option scheme.

Unaudited six months ended 30 June	
2010	As restated 2009
HK\$'000	HK\$'000

Profit/(loss) attributable to equity holders of the Company

38,307	(137,305)
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Weighted average number of ordinary shares in issue

268,735,253	268,735,253
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Effect of share options

59,487	—
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Weighted average number of ordinary shares for
diluted earnings/(loss) per share

268,794,740	268,735,253
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Diluted earnings/(loss) per share

HK\$0.14	(HK\$0.51)
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10. ACCOUNTS RECEIVABLE AND BILLS RECEIVABLE

The aging analysis is as follows:

	Unaudited As at 30 June 2010 HK\$'000	As at 31 December 2009 HK\$'000	As at 1 January 2009 HK\$'000
Less than 3 months	365,287	292,172	380,352
3 months to 6 months	1,323	1,155	4,522
Over 6 months	<u>2,032</u>	<u>4,427</u>	<u>3,954</u>
	368,642	297,754	388,828
Less: Provision for impairment	<u>(2,032)</u>	<u>(4,427)</u>	<u>(3,954)</u>
	<u><u>366,610</u></u>	<u><u>293,327</u></u>	<u><u>384,874</u></u>

Majority of trade receivables are with customers having an appropriate credit history. The Group grants its customers credit terms ranging from 30 to 45 days. Most of the trade receivables are on open account which are 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

	Unaudited As at 30 June 2010 HK\$'000	As at 31 December 2009 HK\$'000	As at 1 January 2009 HK\$'000
Third parties	173,144	164,426	180,828
Associates	<u>—</u>	<u>769</u>	<u>4,441</u>
	<u><u>173,144</u></u>	<u><u>165,195</u></u>	<u><u>185,269</u></u>

The aging analysis based on invoice date is as follows:

Less than 3 months	162,808	155,841	171,284
3 months to 6 months	6,000	4,157	10,418
Over 6 months	<u>4,336</u>	<u>5,197</u>	<u>3,567</u>
	<u><u>173,144</u></u>	<u><u>165,195</u></u>	<u><u>185,269</u></u>

Majority of payment terms with suppliers are within 60 days.

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

12. CAPITAL COMMITMENTS

The Group had capital commitments in relation to acquisition of office building, construction of production facilities and purchase of equipment, as follows:

	Unaudited As at 30 June 2010 HK\$'000	As at 31 December 2009 HK\$'000
Contracted but not provided for	6,358	83,730
Authorised but not contracted for	<u>459</u>	<u>26,519</u>
	<u><u>6,817</u></u>	<u><u>110,249</u></u>

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 2010.

BUSINESS REVIEW

For the six months ended 30 June 2010, the Group recorded a profit attributable to equity holders of HK\$38,307,000 as compared with a loss of HK\$137,305,000 for the corresponding period in 2009. Excluding the 2009 restructuring costs of HK\$166,445,000, the Group’s operating profit increased by 69% as compared with 2009. Amid challenges in our garment manufacturing business, the encouraging operating results is attributable to the strong growth in the branded product distribution, retail and trading business where the top line increased by 27% and bottom line by 13 times.

Total revenue of the Group for the first half of 2010 was HK\$1,333,613,000 (2009: HK\$1,339,249,000), representing a slight decrease of 0.4% as compared with the corresponding period in 2009.

Revenue from the branded product distribution, retail and trading segment was HK\$270,474,000 when compared with HK\$213,745,000 in 2009, representing a growth of 27%. The growth was attributable to increase in the number of point of sales (“POS”) in the People’s Republic of China (the “PRC”) and more promotional activities. During the first half of 2010, number of POS managed by the Group increased by 77, mainly in tier 1 and tier 2 cities of the PRC, bringing the total number of POS to 350 in the Mainland China, Hong Kong and Macau.

Revenue generated from the garment manufacturing segment was HK\$1,063,139,000, a 6% decrease as compared with HK\$1,125,504,000 in 2009. It was mainly due to reduction in capacity following the restructuring of overseas factories in 2009, we plan to build up more capacity in our new factory in Hefei gradually.

Geographically, sales in the first half of 2010 to the United States of America (the “US”), the United Kingdom and the PRC accounted for 48% (2009: 56%), 21% (2009: 20%) and 21% (2009: 16%) respectively of the Group’s total revenue. This was the result of the Group’s strategy in reducing reliance on the US market and the increasing our footprint in the branded product distribution in the Greater China region. The Group’s garment manufacturing business is generally subject to seasonality and management seeks to minimise the impact of seasonality by partnering with key customers in smoothing out the seasonality effect.

Gross profit of the Group increased to HK\$328,100,000 (2009: HK\$289,691,000) while gross profit margin increased to 24.6% from 21.6% in 2009. This was mainly attributable to the increase in the Group’s revenue mix from branded product distribution segment which yielded higher gross profit margin. Growth of the branded product distribution segment in the first half of 2010 was largely through increasing number of franchised POS. Selling and distribution expenses for the Group increased by 31% due to increase in export freight charges within the garment manufacturing business and increase in promotion and royalty expenses of the branded product distribution segment. General and administrative expenses decreased by 1% as a result of cost control measures and reduction in doubtful debt provision.

In early 2006, the Hong Kong Inland Revenue Department (the “HK IRD”) initiated a tax audit on certain companies within 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 to 2003/2004 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 ongoing, its outcome cannot be readily ascertained. Management 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 had received.

COMPLETION OF ACQUISITION OF COMMERCIAL PROPERTY IN SHANGHAI

On 21 December 2009, the Group successfully bid the purchase of a commercial property (the “Shanghai Property”) in Shanghai for HK\$144,890,000 (equivalent to RMB126,416,000), including purchase price of HK\$120,489,000 (equivalent to RMB105,127,000) and incidental expenses of HK\$24,401,000 (equivalent to RMB21,289,000). The acquisition was completed on 22 March 2010.

The Shanghai Property comprises two adjoining 7-storey and 2-storey buildings located at 上海靜安區鎮寧路162號6幢號、7幢號 (Blocks 6 and 7, No. 162 Zhenning Road, Jing'an Qu, Shanghai), the PRC, with an aggregate gross floor area of approximately 4,120 square meter. The Group is going to renovate the Shanghai Property and to accommodate the Group's sourcing and branded product distribution departments.

CHANGE OF ACCOUNTING POLICY FOR FREEHOLD LAND AND BUILDINGS

From 2010 onward, the Group has changed its accounting policy for freehold land and buildings from revalued amounts less subsequent depreciation for buildings and impairment losses (the “Revaluation Model”) to cost less accumulated depreciation and impairment losses (the “Cost Model”). The change in accounting policy will result in the financial statements being more relevant to the users as the market values of freehold land and buildings as required by the Revaluation Model are volatile and are influenced by various factors which are seldom associated with the underlying operations and performance of the Group. Adoption of the Cost Model will avoid fluctuations in the Group's financial statements resulting from the cyclical volatility associated with the Revaluation Model. In addition, the Group's major properties, such as the newly acquired Shanghai Property and the self-constructed factories at Hefei, are now located in the PRC with a significant portion accounted for as leasehold land at cost. It will be more consistent and appropriate to use the Cost Model for the Group's freehold land and buildings. Further, a majority of comparable companies within the garment manufacturing and retail industry adopt the Cost Model. Adopting the Cost Model can align with and improve comparability with industry peers. Detailed rationale and impact on the change in accounting policy has been included in Note 2.

There were no material acquisitions or disposals of subsidiaries or associated companies during the first half of 2010 and up to the date of this announcement and no important events affecting the Group have occurred since 30 June 2010 and up to the date of this announcement.

FINANCIAL RESOURCES AND LIQUIDITY

Despite the acquisition of the Shanghai Property, the Group continued to maintain a healthy balance sheet and liquidity position. As at 30 June 2010, cash and bank balances amounted to HK\$336,417,000 (31 December 2009: HK\$401,403,000) which were mainly denominated in US dollars and Renminbi. The short-term bank borrowings of the Group amounted to HK\$335,389,000 as at 30 June 2010 (31 December 2009: HK\$170,343,000). Such borrowings were mainly denominated in US dollars and Hong Kong dollars. As at 30 June 2010, HK\$259,236,000 (31 December 2009: HK\$134,401,000) and HK\$76,153,000 (31 December 2009: HK\$35,942,000) 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 2010. Apart from the pledging of HK\$3,564,000 (31 December 2009: HK\$18,906,000) bank deposits as collateral for certain foreign exchange facilities, facilities extended to the Group were not secured with the Group's assets. As the Group did not have net borrowings as at 30 June 2010 and 31 December 2009, no information on gearing ratio as at these two dates is applicable.

Most of the Group's receipts and payments were denominated in US dollars, Hong Kong dollars, Renminbi, Euro and Pound Sterling. Management monitors the related foreign exchange risk exposure by entering into forward foreign exchange contracts. During the six months ended 30 June 2010, the Group had forward foreign exchange contracts to hedge against the foreign exchange exposures arising from US dollars denominated processing income for factories in the PRC, Vietnam and the Philippines; Pound Sterling for sales receipts from customers and Euro for payments to suppliers.

CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

Except for the capital commitments described in Note 12, there were no material capital commitments or contingent liabilities as at 30 June 2010 which would require a substantial use of the Group's present cash resources or external funding.

HUMAN RESOURCES

The Group had about 14,000 employees as at 30 June 2010 (31 December 2009: 15,000). Fair and competitive remuneration packages and benefits are offered to competent employees. Discretionary bonuses are granted to eligible employees with outstanding performance. In addition, the Company has a share option scheme for granting of options to eligible persons to subscribe for shares in the Company.

OUTLOOK

Recent economic data indicated that the outlook for international markets remains uncertain. Manufacturing business of the Group will continue to face challenges in view of the economic uncertainty, rising labour cost and currency appreciation in the countries where our production facilities are located.

Amid the uncertain international markets, the China economy is expected to continue its growth and we expect that our branded product distribution business in the PRC will continue to grow steadily and healthily.

The Group will continue focusing on its core customers and product offerings and implementing stringent cost control. Taking into consideration of the present economic environment, the Group remains cautiously optimistic about its overall performance for the year 2010.

CODE ON CORPORATE GOVERNANCE PRACTICES

During the six months ended 30 June 2010, the Company has complied with all the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, save for the deviation from code provision A.2.1 which states that the roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same individual.

Considered reasons for the deviation from code provision A.2.1 were set out in the Corporate Governance Report of the Company's Annual Report for the year ended 31 December 2009 published in April 2010.

PURCHASE, SALE OR REDEMPTION OF SHARES

The Company did not redeem any of its shares during the six months ended 30 June 2010. 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 2010, totalling HK\$16,124,000 (2009: Nil). The interim dividend is expected to be paid on Tuesday, 5 October 2010 to shareholders whose names appear on the register of members of the Company on Friday, 24 September 2010.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Wednesday, 22 September 2010 to Friday, 24 September 2010, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the interim dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch registrar and transfer office, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Tuesday, 21 September 2010.

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 2010 in conjunction with the management of the Group.

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

Hong Kong, 30 August 2010

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