Tristate Holdings Limited

(Incorporated in Bermuda with limited liability)

(Stock Code: 458)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2014

FINANCIAL SUMMARY OF 2014 INTERIM RESULTS

- Revenue decreased by 8.6% to HK$1,335 million
- Loss attributable to equity holders of HK$79 million
- Loss per share of HK$0.29

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 2014 together with comparative figures for 2013.

CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT

For the six months ended 30 June 2014

		Unaudited six months ended 30 June	
		2014	2013
	Note	***HK$'000***	*HK$'000*
Revenue	4	**1,335,320**	1,461,302
Cost of sales		**(978,039)**	(1,052,715)
Gross profit		**357,281**	408,587
Other income and other gains		**4,909**	1,725
Selling and distribution expenses		**(174,237)**	(173,455)
General and administrative expenses		**(291,366)**	(274,630)
Net gain on disposal of freehold land and building	5	**30,172**	–
Loss from operations	6	**(73,241)**	(37,773)
Finance income	7	**8,999**	5,770
Finance costs	7	**(5,659)**	(5,444)
Loss before income tax		**(69,901)**	(37,447)
Income tax expense	8	**(9,393)**	(4,584)
Loss for the half year		**(79,294)**	(42,031)
Attributable to:			
Equity holders of the Company		**(79,300)**	(42,003)
Non-controlling interests		**6**	(28)
		(79,294)	(42,031)
Loss per share attributable to equity holders of the Company:			
Basic	9	**(HK$0.29)**	(HK$0.16)
Diluted	9	**(HK$0.29)**	(HK$0.16)
Interim dividend	10	**–**	–

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2014

	Unaudited six months ended 30 June	
	2014	2013
	HK$'000	*HK$'000*
Loss for the half year	**(79,294)**	(42,031)
Other comprehensive (loss)/income:		
Items that may be reclassified subsequently to profit or loss		
Fair value (losses)/gains on cash flow hedges		
(Losses)/gains arising during the half year	**(20,668)**	1,589
Transferred to and included in the following line items in the condensed consolidated interim income statement		
Cost of sales	**634**	(391)
General and administrative expenses	**(31)**	1,335
Currency translation differences		
(Losses)/gains arising during the half year	**(9,245)**	13,031
Other comprehensive (loss)/income, net of tax	**(29,310)**	15,564
Total comprehensive loss for the half year	**(108,604)**	(26,467)
Attributable to:		
Equity holders of the Company	**(108,610)**	(26,439)
Non-controlling interests	**6**	(28)
	(108,604)	(26,467)

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION

As at 30 June 2014

	Note	**Unaudited As at 30 June 2014 *HK$'000***	Audited As at 31 December 2013 *HK$'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**513,138**	526,115
Leasehold land and land use rights		**169,340**	173,096
Intangible assets		**148,386**	178,678
Other long-term assets		**27,846**	28,260
Deferred income tax assets		**48,683**	45,118
Defined benefit plan assets		**12,077**	12,211
Forward foreign exchange contracts		**7,897**	12,188
Investment in an associate		**–**	–
		927,367	975,666
CURRENT ASSETS			
Inventories		**857,104**	498,540
Accounts receivable and bills receivable	11	**308,986**	416,822
Forward foreign exchange contracts		**572**	2,836
Prepayments and other receivables		**267,205**	150,473
Cash and bank balances		**546,809**	692,927
		1,980,676	1,761,598
CURRENT LIABILITIES			
Accounts payable and bills payable	12	**255,347**	170,497
Accruals and other payables		**466,141**	491,210
Forward foreign exchange contracts		**2,730**	–
Current income tax liabilities		**13,278**	43,664
Bank borrowings		**684,615**	403,753
		1,422,111	1,109,124
NET CURRENT ASSETS		**558,565**	652,474
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,485,932**	1,628,140
NON-CURRENT LIABILITIES			
Retirement benefits and other post retirement obligations		**21,718**	21,313
License fees payable		**60,909**	93,729
Deferred income tax liabilities		**60,577**	56,316
Forward foreign exchange contracts		**10,551**	–
		153,755	171,358
NET ASSETS		**1,332,177**	1,456,782
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital		**27,078**	27,078
Reserves		**1,304,778**	1,429,389
		1,331,856	1,456,467
Non-controlling interests		**321**	315
TOTAL EQUITY		**1,332,177**	1,456,782

Notes:

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

This unaudited Condensed Consolidated Interim Financial Information for the six months ended 30 June 2014 has been prepared in accordance with Hong Kong Accounting Standard 34, 'Interim Financial Reporting'.

It should be read in conjunction with the consolidated financial statements for the year ended 31 December 2013, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS").

The accounting policies applied in preparing the unaudited Condensed Consolidated Interim Financial Information for the six months ended 30 June 2014 are consistent with those used in the preparation of the consolidated financial statements for the year ended 31 December 2013, except as described in Note 2 below.

2. IMPACT OF ADOPTING NEW STANDARDS AND AMENDMENTS TO EXISTING STANDARDS

Amendments to existing standards effective in 2014

In 2014, the Group has adopted the following amendments to existing standards that are effective for the first time for the Group's financial year beginning 1 January 2014 and are relevant to the Group's operations. The impact on the Group's accounting policies upon adoption is set out below:

Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011), 'Investment Entities' introduce an exception to the principle that all subsidiaries shall be consolidated. The amendments define an investment entity and require a parent that is an investment entity to measure its investments in particular subsidiaries at fair value through profit or loss in accordance with HKFRS 9, 'Financial Instruments' instead of consolidating those subsidiaries in its consolidated and separate financial statements. In addition, the amendments introduce new disclosure requirements related to investment entities in HKFRS 12 and HKAS 27 (2011). These amendments mean that many funds and similar entities will be exempt from consolidating most of their subsidiaries. The adoption of these amendments has had no impact on the unaudited Condensed Consolidated Interim Financial Information.

HKAS 32 (Amendment), 'Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities'. This amendment is to the application guidance in HKAS 32 and clarify some of the requirements for offsetting financial assets and financial liabilities on the statement of financial position. The adoption of this amendment has had no impact on the unaudited Condensed Consolidated Interim Financial Information.

HKAS 36 (Amendment), 'Impairment of Assets – Recoverable Amount Disclosures for Non-Financial Assets'. This amendment addresses the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal. The adoption of this amendment has had no impact on the unaudited Condensed Consolidated Interim Financial Information.

HKAS 39 (Amendment), 'Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting'. This amendment provides relief from discontinuing hedge accounting when novation of a hedging instrument to a central counterparty meets specified criteria. The adoption of this amendment has had no impact on the unaudited Condensed Consolidated Interim Financial Information.

2. IMPACT OF ADOPTING NEW STANDARDS AND AMENDMENTS TO EXISTING STANDARDS (Continued)

New standards and amendments to existing standards that are not effective and have not been early adopted by the Group

The following new standards and amendments to existing standards relevant to the Group have been issued, but are not effective for the financial year beginning 1 January 2014 and have not been early adopted by the Group:

Amendments to HKAS 16, 'Property, Plant and Equipment' and HKAS 38, 'Intangible Assets' on Clarification of Acceptable Methods of Depreciation and Amortisation (effective for annual period starting from 1 January 2016).

Amendment to HKAS 19 (2011), 'Employee Benefits – Defined Benefit Plans: Employee Contributions' (effective for annual period starting from 1 July 2014).

HKFRS 9, 'Financial Instruments' (mandatory effective date not yet determined).

HKFRS 15, 'Revenue from Contracts with Customers' (effective for annual period starting from 1 January 2017).

Annual Improvements Project 2012 (effective for annual period starting from 1 July 2014).

Annual Improvements Project 2013 (effective for annual period starting from 1 July 2014).

The Group is in the process of making an assessment on the impact of these new standards and amendments to existing standards. The Group intends to adopt the above new standards and amendments to existing standards when they become effective.

3. ESTIMATES

The preparation of the unaudited Condensed Consolidated Interim Financial Information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates. In preparing this unaudited Condensed Consolidated Interim Financial Information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty are the same as those that applied to the consolidated financial statements for the year ended 31 December 2013.

4. SEGMENT INFORMATION

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

4. **SEGMENT INFORMATION (Continued)**

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**		**Unallocated**		**Total**	
	2014	2013	**2014**	2013	**2014**	2013	**2014**	2013
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue	**854,673**	944,338	**495,911**	530,951	**–**	–	**1,350,584**	1,475,289
Less: Revenue from intersegment	**(15,264)**	(13,987)	**–**	–	**–**	–	**(15,264)**	(13,987)
Revenue from external customers	**839,409**	930,351	**495,911**	530,951	**–**	–	**1,335,320**	1,461,302
Reportable segment (loss)/profit	**(60,188)**	(54,772)	**(27,682)**	19,226	**(21,596)**	(6,485)	**(109,466)**	(42,031)
Net gain on disposal of freehold land and building					**30,172**	–	**30,172**	–
Loss for the half year							**(79,294)**	(42,031)

	Garment manufacturing		**Branded product distribution, retail and trading**		**Unallocated** *(Note (1))*		**Total**	
	Unaudited As at 30 June 2014	Audited As at 31 December 2013	**Unaudited As at 30 June 2014**	Audited As at 31 December 2013	**Unaudited As at 30 June 2014**	Audited As at 31 December 2013	**Unaudited As at 30 June 2014**	Audited As at 31 December 2013
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment assets including:	**1,256,320**	1,068,273	**877,527**	746,718	**774,196**	922,273	**2,908,043**	2,737,264
Investment in an associate	**–**	–	**–**	–	**–**	–	**–**	–
Additions to non-current assets *(Note (2))*	**18,080**	59,907	**10,904**	1,678	**1,637**	13,723	**30,621**	75,308
Segment liabilities	**380,320**	368,129	**510,931**	508,600	**684,615**	403,753	**1,575,866**	1,280,482

4. SEGMENT INFORMATION (Continued)

	Unaudited six months ended 30 June							
	Garment manufacturing		Branded product distribution, retail and trading		Unallocated		Total	
	2014	2013	**2014**	2013	**2014**	2013	**2014**	2013
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Finance income	**–**	–	**–**	–	**8,999**	5,770	**8,999**	5,770
Finance costs	**–**	–	**(2,267)**	(2,920)	**(3,392)**	(2,524)	**(5,659)**	(5,444)
Income tax expense	**(267)**	6,336	**(1,458)**	(12,985)	**(7,668)**	2,065	**(9,393)**	(4,584)
Amortisation of leasehold land and land use rights	**(272)**	(256)	**–**	–	**(1,873)**	(1,838)	**(2,145)**	(2,094)
Amortisation of license rights	**–**	–	**(31,017)**	(25,391)	**–**	–	**(31,017)**	(25,391)
Depreciation on property, plant and equipment	**(18,885)**	(17,838)	**(4,634)**	(3,411)	**(15,162)**	(14,155)	**(38,681)**	(35,404)
Reversal of/ (provision for) impairment of receivables, net	**205**	(13)	**–**	–	**–**	–	**205**	(13)
Write-down of inventories to net realisable value, net	**(339)**	(863)	**(4,362)**	(2,451)	**–**	–	**(4,701)**	(3,314)
Net gain on disposal of freehold land and building	**–**	–	**–**	–	**30,172**	–	**30,172**	–
Net gain on disposals of property, plant and equipment	**–**	–	**–**	–	**2,151**	202	**2,151**	202

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

	Unaudited six months ended 30 June									
	PRC		US		UK		Other countries		Total	
	2014	2013	**2014**	2013	**2014**	2013	**2014**	2013	**2014**	2013
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Revenue	**595,620**	595,564	**402,227**	472,114	**248,607**	290,757	**88,866**	102,867	**1,335,320**	1,461,302

Included in revenue derived from the PRC was HK$134,429,000 (2013: HK$87,611,000) related to revenue generated in Hong Kong.

4. SEGMENT INFORMATION (Continued)

For the six months ended 30 June 2014, revenues from two customers in the garment manufacturing segment each accounted for more than 10% of the Group's total revenue and represented approximately 12% and 11% of the total revenue respectively (2013: three customers of the same segment exceeded 10% of total revenue and represented 11%, 11% and 10% respectively).

	PRC		Thailand		Other locations		Total	
	Unaudited As at 30 June 2014	Audited As at 31 December 2013	**Unaudited As at 30 June 2014**	Audited As at 31 December 2013	**Unaudited As at 30 June 2014**	Audited As at 31 December 2013	**Unaudited As at 30 June 2014**	Audited As at 31 December 2013
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Non-current assets *(Note (2))*	**719,816**	766,653	**67,763**	69,847	**79,028**	81,837	**866,607**	918,337

Included in non-current assets located in the PRC was HK$166,783,000 (2013: HK$197,249,000) related to assets located in Hong Kong.

Notes:

(1) Unallocated assets and liabilities mainly include centrally-managed cash and bank balances, bank borrowings, land use rights and buildings for corporate purposes.

(2) Non-current assets exclude deferred income tax assets and defined benefit plan assets.

5. NET GAIN ON DISPOSAL OF FREEHOLD LAND AND BUILDING

During the six months ended 30 June 2014, the Group disposed of an office property in Taiwan at New Taiwan Dollars 123,215,000 (equivalent to HK$32,032,000) and realised a net pre-tax gain on disposal of HK$30,172,000.

6. LOSS FROM OPERATIONS

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

	Unaudited six months ended 30 June	
	2014	2013
	HK$'000	*HK$'000*
Crediting		
Net gain on disposals of property, plant and equipment	**2,151**	202
Net gain on disposal of freehold land and building	**30,172**	–
Reversal of impairment of receivables	**205**	–
Charging		
Depreciation on property, plant and equipment	**38,681**	35,404
Amortisation of leasehold land and land use rights	**2,145**	2,094
Amortisation of license rights	**31,017**	25,391
Provision for impairment of receivables	**–**	13
Write-down of inventories to net realisable value, net	**4,701**	3,314
Employment expenses	**410,404**	408,872

7. FINANCE INCOME/FINANCE COSTS

	Unaudited six months ended 30 June	
	2014	2013
	HK$'000	*HK$'000*
Finance income		
Interest income on bank deposits	**8,999**	5,770
Finance costs		
Interest on bank loans	**3,392**	2,524
Imputed interest on license fees payable	**2,267**	2,920
	5,659	5,444

8. INCOME TAX EXPENSE

	Unaudited six months ended 30 June	
	2014	2013
	HK$'000	*HK$'000*
Current income tax		
Hong Kong profits tax	**(793)**	(76)
Non-Hong Kong tax	**(8,023)**	(7,714)
Deferred income tax	**(577)**	3,206
	(9,393)	(4,584)

Hong Kong profits tax has been provided at the rate of 16.5% (2013: 16.5%) on the estimated assessable profits for the half year. Income tax on non-Hong Kong profits 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.

Included in income tax expense for the period ended 30 June 2014 was HK$7,896,000 related to the disposal of freehold land and building mentioned in Note 5 above.

9. LOSS PER SHARE

Basic loss per share is calculated by dividing the consolidated 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	
	2014	2013
	HK$'000	*HK$'000*
Loss attributable to equity holders of the Company	**(79,300)**	(42,003)
Weighted average number of ordinary shares in issue	**270,779,253**	270,443,745
Basic loss per share	**(HK$0.29)**	(HK$0.16)

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

During the six months ended 30 June 2014 and 30 June 2013, the conversion of all potential ordinary shares outstanding would have an anti-dilutive effect on the loss per share. Hence, there was no dilutive effect on calculation of the diluted loss per share for the six months ended 30 June 2014 and 30 June 2013.

10. INTERIM DIVIDEND

The Board has resolved not to declare an interim dividend for the six months ended 30 June 2014 (2013: Nil).

11. ACCOUNTS RECEIVABLE AND BILLS RECEIVABLE

These are aged as follows:

	Unaudited As at 30 June 2014	Audited As at 31 December 2013
	HK$'000	*HK$'000*
Less than 3 months	**306,152**	415,902
3 months to 6 months	**2,834**	920
Over 6 months	**1,635**	1,840
	310,621	418,662
Less: Provision for impairment	**(1,635)**	(1,840)
	308,986	416,822

Majority of trade receivables are with customers having an appropriate credit history and are on open account with customers. The Group grants its customers credit terms mainly ranging from 30 to 60 days.

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

12. ACCOUNTS PAYABLE AND BILLS PAYABLE

These are aged as follows:

	Unaudited As at 30 June 2014	Audited As at 31 December 2013
	HK$'000	*HK$'000*
Less than 3 months	**248,659**	164,294
3 months to 6 months	**3,132**	3,014
Over 6 months	**3,556**	3,189
	255,347	170,497

Majority of payment terms with suppliers are within 60 days.

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

13. CAPITAL COMMITMENTS

The Group had no capital commitment as at 30 June 2014 (31 December 2013: Nil).

In this Management Discussion and Analysis, we present the business review and a discussion on the financial performance of the Group for the six months ended 30 June 2014.

OVERVIEW

Total revenue of the Group for the first half of 2014 was HK$1,335 million (2013: HK$1,461 million), representing a decrease of 9% as compared with 2013.

For the six months ended 30 June 2014, the Group recorded a loss attributable to equity holders of HK$79 million (2013 loss: HK$42 million). The increase in loss was mainly attributable to (i) reduction in revenue and contribution from our two licensed brands under branded product business as the China retail market remained challenging during the first six months of 2014; (ii) increase in selling expenses of HASKI, our proprietary brand, as majority of its 2014 planned advertising and promotion costs were spent in the first half year; and (iii) increased loss for our garment manufacturing business as our Myanmar factory is still at the investment stage operation. The current period loss was partially offset by a non-recurring profit on disposal of a property in Taiwan.

BUSINESS REVIEW

Revenue

Revenue of the branded product distribution, retail and trading segment decreased by 7% to HK$496 million in the first half of 2014 as compared with HK$531 million in 2013. The revenue of our licensed brands Jack Wolfskin and Nautica both dropped by 8% as compared with 2013 mainly due to the softened retail market in China. The overall policy-induced slowdown and weakened public sentiment has led to the reduced consumer spending. Additional downward pressure came from reduced “group sales” and gift purchasing. Set against the backdrop of muted organic growth, the landscape continues to evolve in the China branded retail market. The shopping mall, outlet mall, and e-commerce continue to emerge as important sales channels for premium branded products. The main format of retail – the premium department store – however has been especially challenged. The main drivers for the negative growth in this channel are reduced foot traffic and less per capita spend, partially driven by the proliferation of new sales channels.

The outdoor segment of the premium branded retail market in China was one of the last segments impacted by the slowdown due to ongoing economic reforms and austerity measures. For the first time in over a decade, leading outdoor brands across the board saw negative same-store-sales-growth and high inventory levels. In order to maintain sufficient cash flow for our Jack Wolfskin franchisees as well as create capacity for our franchisees to execute the important Fall/Winter seasons, the Group was not able to achieve its sales plan for first half 2014 with a reduction in follow-up and closeout orders. For Nautica, the process of deleveraging stock levels at both retail and wholesale in China began earlier in the past 18 to 24 months. Though the trend has been more stable, this has continued to impact our wholesales sales of the brand in first half 2014. Whilst there was a drop in our wholesale revenue in the period under review, on the retail level, our franchisees has been able to achieve overall retail sales growth for each of our brands in first half 2014 via increased penetration and productivity in new sales channels, though same-store-sales have been decreasing due to weakened market condition.

Our proprietary brand HASKI has experienced positive start-up growth over the past year. Retail sales growth has come from both expansion efforts and organic growth. Acceptance of our seasonal collections continues to improve as evidenced by improved sell-through rates and increased future orders that the trade is willing to commit.

During the six months ended 30 June 2014, 63 new Jack Wolfskin stores and 17 new points-of-sale ("POS") for HASKI were opened. The total number of POS of the whole branded product distribution and retail business reached 1,150, up from 1,070 at the end of 2013.

Revenue from the garment manufacturing segment decreased to HK$839 million as compared with HK$930 million in 2013. In line with our strategy, revenue from higher margin global fashion brands customers (which cover mainly more complicated outerwear categories) grew by 9% in the first half of 2014 as compared with 2013, and accounted for 54% (2013: 47%) of the segment revenue. In general, the increase in sales of outerwear products shifted our peak production season to the second and third quarter while sales income are skewed towards Fall/Winter seasons. Sales to national brands customers decreased by 23% in first half 2014 as we have reduced our capacity for categories with challenging price.

Geographically, sales to the PRC, the US and the UK accounted for 45% (2013: 41%), 30% (2013: 32%) and 19% (2013: 20%) respectively of the Group's total revenue.

As discussed in the 2013 annual report, the Group's business has been increasingly skewed towards the second half year mainly due to the seasonality effect of Fall/Winter and holiday seasons shipment and wholesale sales. The Group expects a larger proportion of sales and earnings will be recorded in the second half year of 2014.

Gross Profit

During the period, the Group's overall gross profit decreased to HK$357 million (2013: HK$409 million), representing a gross profit margin of 27% (2013: 28%) as a result of decreased revenue.

On the branded product distribution, retail and trading business, gross profit margin of Jack Wolfskin has been stable as compared with 2013 while the gross profit margin of Nautica was impacted by an increased proportion of off-season close out sales.

Gross profit margin of the garment manufacturing segment has maintained relatively stable. The continued increase of sales to higher margin global fashion brands customers and production process improvement have helped to offset the rise in wages and staff costs mainly in China during the period. The increase in loss for this segment was mainly due to our Myanmar factory is still at the investment stage operation. The factory employed around 770 headcount and has commenced labour training, trial production and site visits by customers. The factory has successfully received orders and shipped garments to new customers in Europe and Asia in the period under review.

Selling and Distribution Expenses

Selling and distribution expenses comprise mainly advertising and promotion, royalty and shop expenses of the branded product distribution, retail and trading business. Selling expenses for HASKI increased as compared with 2013 as marketing expenses in relation to a major TV commercial signed up in 2013 were spent in the first half of 2014. Such increase has been partially offset by less sample making costs for the garment manufacturing business in the first half.

General and Administrative Expenses

General and administrative expenses rose by 6% to HK$291 million as compared with first half 2013 mainly due to general pay rise and the effect of those HASKI headcount increase during the second half of 2013.

Disposal of freehold land and building

During the period, the Group disposed of a Taiwan office property which used to house our former Taipei liaison office.

There were no acquisitions or disposals of subsidiaries or associated companies during the first half of 2014 and up to the date of this announcement and no important events affecting the Group have occurred since 30 June 2014 and up to the date of this announcement.

FINANCIAL RESOURCES AND LIQUIDITY

As at 30 June 2014, cash and bank balances amounted to HK$547 million (31 December 2013: HK$693 million) which were mainly denominated in Renminbi and US dollars. Short-term bank borrowings of the Group amounted to HK$685 million as at 30 June 2014 (31 December 2013: HK$404 million). Such borrowings were mainly denominated in US dollars and Hong Kong dollars. The increase in bank borrowings reflected the seasonal borrowing requirement for financing working capital, in particular raw materials for our manufacturing business and finished garments for our branded product business. The increase in raw materials and work-in-progress for our manufacturing business reflected seasonal requirements for the second half year shipments with firm orders from customers. The increase in inventories of our branded product business represented operating and seasonal requirements for our business in China. As at 30 June 2014, HK$550 million (31 December 2013: HK$286 million) and HK$135 million (31 December 2013: HK$118 million) 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 2014. As at 30 June 2014, banking facilities extended to the Group were not secured with the Group's assets (31 December 2013: Nil). The gearing ratio of the Group as at 30 June 2014 was 9%, calculated as net borrowings divided by total capital. Net borrowings were calculated as total bank borrowings less cash and bank balances, while total capital comprised total equity plus net borrowings. The Group did not have net borrowings as at 31 December 2013, and, accordingly, no information on gearing ratio as at that date is provided.

Most of the Group's receipts and payments are denominated in US dollars, Hong Kong dollars, Renminbi and Euro. Management monitors the related foreign exchange risk exposure by entering into forward foreign exchange contracts. During the six months ended 30 June 2014, 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 and Euro for royalty payments to a licensor.

CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

There were no material capital commitments or contingent liabilities as at 30 June 2014 which would require a substantial use of the Group's present cash resources or external funding.

HUMAN RESOURCES

The Group had about 13,400 employees as at 30 June 2014 (31 December 2013: 12,500). Fair and competitive remuneration packages and benefits are offered to employees. Those employees with outstanding performance were also awarded discretionary bonuses and share options.

OUTLOOK

With the Group's business increasingly skewed towards the second half year, we expect the Group's revenue and earnings in the second half of 2014 will be better than the first half.

The slowdown in domestic demand as a result of continued austerity measures has been the reality for the China retail market in the past 18 to 24 months. We believe that we will see a floor established in the second half of 2014 which, in turn, will enable us to see a return to same-store-sales-growth in 2015. This floor will provide a base for our branded product business to return to healthy wholesales and profit growth – which is subsequent to improved cash flow and profitability for our franchisees.

On the China outdoor market, despite the slowdown, it still has a lot of room to grow. We believe that both Jack Wolfskin and HASKI have distinct competitive advantages on the distribution, marketing, and management fronts, so we are focusing our investments into this space. This coming winter is an exciting season for HASKI based on the momentum that we have gained at retail over first half of 2014. We will continue to expand our product offerings for HASKI and are confident that our collections will support our business objectives. Heading into Spring 2015, we have also taken the initiative to bolster HASKI's productivity by introducing a footwear collection.

The trend for Nautica has become more stable over the course of first half 2014, especially in the second quarter where strong retail growth was achieved. We are therefore, closer to reaching a floor for this brand as evidenced by year-on-year profit rate increases for our franchisees. We expect to see a return to wholesale growth in 2015.

To further expand our branded business portfolio, the Group in collaboration with a renowned designer has launched a new menswear brand EFM (Engineered for Motion). EFM has been created to develop high end consumer products with a unique approach to garment engineering based on function and mobility. Using proprietary fabrics from Italy, China and Japan, the garments include innovative performance features. The first collection to launch is in Fall/Winter 2014, introducing in top wholesales showrooms in New York, London and Germany.

On the garment manufacturing business, leading indicators in advanced economies point to stronger growth. However, labour and operating cost in Asia, especially China will continue to increase. To improve profitability, we will continue to expand our business with higher margin global fashion brands customers. This growth strategy meets our product strength and extensive capabilities in manufacturing complicated outerwear products. Our efforts have been rewarding and we have gained new global fashion brands customers and also see year-on-year business growth with existing customers. We continue to expand this strategic market by providing value-added services to the customers through the collaboration of our strengths in product design, fabric innovation and advanced manufacturing research and development. While our two Panyu factories have been fully integrated to better serve the global fashion brands customers, our Hefei compound has also increased its production for these higher margin customers. The factory compound's in-house R&D, garment dying and washing plus other technological capabilities are well equipped to serve a wide range of products of our customers. We have also rolled out projects on improving our production and quality control systems, smoothening production cycle and utilization of automated machines. While our China factories will continue to focus on serving global fashion brands customers with complex products, our overseas factories will focus on customer orders with voluminous quantity at competitive price. We are able to expand our overseas production capacity when our Myanmar factory becomes more mature. Our directions and actions are on track in order to improve profitability of this business. We shall continue to diversify our customer base, further build our design and development strength, improve our operating efficiency and implement stringent cost control.

The Board has resolved not to declare an interim dividend for the first half of 2014. The Group is confident of an improving second half year performance and will consider dividend payout for the full year.

CORPORATE GOVERNANCE CODE

During the six months ended 30 June 2014 the Company has complied with all the code provisions set out in the Corporate Governance 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 provisions A.2.1, A.5 and A.6.7 as explained below.

- Code provision A.2.1 stipulates that the roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same individual.

- Code provision A.5 stipulates that every listed company should establish a nomination committee.

  Considered reasons for the deviation from code provisions A.2.1 and A.5 were set out in the Corporate Governance Report of the Company's Annual Report for the year ended 31 December 2013.

- Code provision A.6.7 stipulates that Independent Non-Executive Directors and other Non-Executive Directors should attend general meetings.

  A Non-Executive Director and two Independent Non-Executive Directors have not attended the annual general meeting of the Company held on 9 June 2014 due to their other prior engagements.

PURCHASE, SALE OR REDEMPTION OF SHARES

The Company did not redeem any of its shares during the six months ended 30 June 2014. 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 not to declare an interim dividend for the six months ended 30 June 2014 (2013: Nil).

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 2014 in conjunction with the management of the Group.

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

Hong Kong, 25 August 2014

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 Mr. Peter TAN.