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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 2015

FINANCIAL SUMMARY OF 2015 INTERIM RESULTS

- Revenue decreased by 9% to HK\$1,212 million
- Loss attributable to equity shareholders of HK\$87 million
- Loss per share of HK\$0.32

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 2015 together with comparative figures for 2014.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF PROFIT AND LOSS

For the six months ended 30 June 2015

		Unaudited six months ended 30 June	
	Note	2015 HK\$'000	2014 HK\$'000
Revenue	4	1,212,449	1,335,320
Cost of sales		(901,383)	(978,039)
Gross profit		311,066	357,281
Other income and other gains		11,441	4,909
Selling and distribution expenses		(133,887)	(174,237)
General and administrative expenses		(278,877)	(291,366)
Net gain on disposal of freehold land and building		–	30,172
Loss from operations	6	(90,257)	(73,241)
Finance income	7	8,834	8,999
Finance costs	7	(4,618)	(5,659)
Loss before income tax		(86,041)	(69,901)
Income tax expense	8	(1,126)	(9,393)
Loss for the period		(87,167)	(79,294)
Attributable to:			
Equity shareholders of the Company		(87,162)	(79,300)
Non-controlling interests		(5)	6
Loss for the period		(87,167)	(79,294)
Loss per share attributable to equity shareholders of the Company:			
Basic	9	(HK\$0.32)	(HK\$0.29)
Diluted	9	(HK\$0.32)	(HK\$0.29)
Interim dividend	10	–	–

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2015

	Unaudited six months ended 30 June	
	2015	2014
	HK\$'000	HK\$'000
Loss for the period	(87,167)	(79,294)
Other comprehensive income/(loss), after tax:		
<i>Items that may be reclassified subsequently to profit or loss</i>		
Fair value gains/(losses) on cash flow hedges		
Gains/(losses) arising during the period	14,264	(20,668)
Transferred to and included in the following line items in the condensed consolidated interim statement of profit and loss		
Cost of sales	(298)	634
General and administrative expenses	1,926	(31)
Exchange difference on translation of financial statements of overseas subsidiaries	(2,181)	(9,245)
Other comprehensive income/(loss), net of tax	13,711	(29,310)
Total comprehensive loss for the period	<u>(73,456)</u>	<u>(108,604)</u>
Attributable to:		
Equity shareholders of the Company	(73,451)	(108,610)
Non-controlling interests	<u>(5)</u>	<u>6</u>
	<u>(73,456)</u>	<u>(108,604)</u>

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION

As at 30 June 2015

		Unaudited As at 30 June 2015 HK\$'000	Audited As at 31 December 2014 HK\$'000
	Note		
NON-CURRENT ASSETS			
Property, plant and equipment		445,818	478,432
Leasehold land and land use rights		159,549	161,486
Intangible assets		56,896	94,528
Other long-term assets		19,123	24,240
Deferred income tax assets		29,374	33,777
Defined benefit plan assets		7,259	7,080
Forward foreign exchange contracts		8,949	3,389
Investment in an associate		—	—
		726,968	802,932
CURRENT ASSETS			
Inventories	11	438,055	580,122
Accounts receivable and bills receivable	12	328,024	456,164
Forward foreign exchange contracts		5,689	794
Prepayments and other receivables		295,758	280,836
Cash and bank balances		664,528	723,444
		1,732,054	2,041,360
CURRENT LIABILITIES			
Accounts payable and bills payable	13	125,091	174,832
Accruals and other payables	14	261,910	500,745
Forward foreign exchange contracts		2,702	5,370
Current income tax liabilities		8,446	50,943
Bank borrowings		508,931	443,800
		907,080	1,175,690
NET CURRENT ASSETS		824,974	865,670
TOTAL ASSETS LESS CURRENT LIABILITIES		1,551,942	1,668,602
NON-CURRENT LIABILITIES			
Retirement benefits and other post retirement obligations		19,877	19,998
License fees payable		4,022	24,380
Deferred income tax liabilities		54,087	58,780
Forward foreign exchange contracts		9,704	12,473
		87,690	115,631
NET ASSETS		1,464,252	1,552,971
CAPITAL AND RESERVES			
Share capital		27,161	27,119
Reserves		1,436,760	1,525,516
Total equity attributable to equity shareholders of the Company		1,463,921	1,552,635
Non-controlling interests		331	336
TOTAL EQUITY		1,464,252	1,552,971

Notes:

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

This unaudited Condensed Consolidated Interim Financial Information for the six months ended 30 June 2015 has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance 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 has been prepared in accordance with the same accounting policies adopted in the 2014 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2015 annual financial statements. Details of any changes in accounting policies are set out in Note 2.

This unaudited Condensed Consolidated Interim Financial Information contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2014 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

The financial information relating to the financial year ended 31 December 2014 that is included in the unaudited Condensed Consolidated Interim Financial Information as being previously reported information does not constitute the Company's statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2014 are available from the Company's head office and principal place of business in Hong Kong. The predecessor auditors have expressed an unqualified opinion on those financial statements in their report dated 30 March 2015.

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

In 2015, 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 2015 and are relevant to the Group's operations. The impact on the Group's accounting policies upon adoption is set out below:

Annual Improvements to HKFRSs 2010-2012 Cycle

Annual Improvements to HKFRSs 2011-2013 Cycle

None of these developments has had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented.

The Group has not early adopted any new standard or interpretation that is not yet effective for the financial year beginning 1 January 2015.

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 2014.

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.

The Group manages its business by business units, which are organised by business lines and geography. The Group has identified 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	
	2015	2014	2015	2014	2015	2014	2015	2014
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue	829,300	854,673	390,426	495,911	–	–	1,219,726	1,350,584
Less: Inter-segment revenue	(7,277)	(15,264)	–	–	–	–	(7,277)	(15,264)
Revenue	<u>822,023</u>	<u>839,409</u>	<u>390,426</u>	<u>495,911</u>	<u>–</u>	<u>–</u>	<u>1,212,449</u>	<u>1,335,320</u>
Reportable segment loss	(54,140)	(60,188)	(20,366)	(27,682)	(12,661)	(21,596)	(87,167)	(109,466)
Net gain on disposal of freehold land and building					–	30,172	–	30,172
Loss for the period							<u>(87,167)</u>	<u>(79,294)</u>

4. SEGMENT INFORMATION (Continued)

	Garment manufacturing		Branded product distribution, retail and trading		Unallocated (Note (1))		Total	
	Unaudited As at 30 June 2015 HK\$'000	Audited As at 31 December 2014 HK\$'000	Unaudited As at 30 June 2015 HK\$'000	Audited As at 31 December 2014 HK\$'000	Unaudited As at 30 June 2015 HK\$'000	Audited As at 31 December 2014 HK\$'000	Unaudited As at 30 June 2015 HK\$'000	Audited As at 31 December 2014 HK\$'000
Segment assets	1,097,713	976,513	485,029	759,882	876,280	1,107,897	2,459,022	2,844,292
Additions to non-current assets (Note (2))	7,392	33,710	1,289	14,341	708	6,119	9,389	54,170
Segment liabilities	325,827	353,593	160,013	476,928	508,930	460,800	994,770	1,291,321
Unaudited six months ended 30 June								
	Garment manufacturing		Branded product distribution, retail and trading		Unallocated		Total	
	2015 HK\$'000	2014 HK\$'000	2015 HK\$'000	2014 HK\$'000	2015 HK\$'000	2014 HK\$'000	2015 HK\$'000	2014 HK\$'000
Finance income	—	—	—	—	8,834	8,999	8,834	8,999
Finance costs	—	—	(919)	(2,267)	(3,699)	(3,392)	(4,618)	(5,659)
Income tax expense under reportable segment	(141)	(267)	(3,400)	(1,458)	2,415	(7,668)	(1,126)	(9,393)
Amortisation of leasehold land and land use rights	(116)	(272)	—	—	(1,877)	(1,873)	(1,993)	(2,145)
Amortisation of license rights and service right	—	—	(37,632)	(31,017)	—	—	(37,632)	(31,017)
Depreciation on property, plant and equipment	(19,624)	(18,885)	(5,143)	(4,634)	(15,150)	(15,162)	(39,917)	(38,681)
Reversal of impairment of receivables, net	1,138	205	—	—	—	—	1,138	205
Reversal of write-down/ (write-down) of inventories to net realisable value, net	(4,538)	(339)	6,794	(4,362)	—	—	2,256	(4,701)
Net (loss)/gain on disposals of property, plant and equipment	—	—	—	—	(467)	2,151	(467)	2,151
Net gain on disposal of freehold land and building	—	—	—	—	—	30,172	—	30,172

4. SEGMENT INFORMATION (Continued)

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		
2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Revenue	541,343	595,620	352,218	402,227	236,856	248,607	82,032	88,866	1,212,449	1,335,320

Included in revenue derived from the PRC was HK\$185,245,000 (2014: HK\$134,429,000) related to revenue generated in Hong Kong.

For the six months ended 30 June 2015, revenues from two customers in the garment manufacturing segment each accounted for more than 10% of the Group's total revenue and represented approximately 13% and 12% of the total revenue respectively (2014: two customers of the same segment exceeded 10% of total revenue and represented 12% and 11% respectively).

	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
	2015	2014	2015	2014	2015	2014	2015	2014
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Non-current assets								
(Note (2))	570,499	636,610	64,118	69,609	55,718	55,856	690,335	762,075

Included in non-current assets located in the PRC was HK\$89,924,000 (2014: HK\$127,205,000) 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. SEASONALITY OF OPERATIONS

The Group's business experiences higher sales revenue in the second half of the year as compared with the first half due to seasonality effect of Fall/Winter and holiday seasons shipment for both of its garment manufactured products and branded products.

6. LOSS FROM OPERATIONS

Loss from operations is stated after charging/(crediting):

	Unaudited six months ended 30 June	
	2015	2014
	HK\$'000	HK\$'000
Amortisation of leasehold land and land use rights	1,993	2,145
Amortisation of license rights and service right	37,632	31,017
Depreciation on property, plant and equipment	39,917	38,681
Reversal of impairment of receivables, net	(1,138)	(205)
(Reversal of write-down)/write-down of inventories to net realisable value, net	(2,256)	4,701
Employment expenses	408,194	410,404
Net loss/(gain) on disposals of property, plant and equipment	467	(2,151)
Net gain on disposal of freehold land and building	—	(30,172)

7. FINANCE INCOME/FINANCE COSTS

	Unaudited six months ended 30 June	
	2015	2014
	HK\$'000	HK\$'000
Finance income		
Interest income on bank deposits	8,834	8,999
Finance costs		
Interest on bank loans	3,699	3,392
Imputed interest on license fees payable	919	2,267
	4,618	5,659

8. INCOME TAX EXPENSE

	Unaudited six months ended 30 June	
	2015	2014
	HK\$'000	HK\$'000
Current income tax		
Hong Kong profits tax	(468)	(793)
Non-Hong Kong tax	(836)	(8,023)
Deferred taxation	178	(577)
	(1,126)	(9,393)

Hong Kong profits tax has been provided at the rate of 16.5% (2014: 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 in 2014.

9. LOSS PER SHARE

Basic loss per share is calculated by dividing the consolidated loss attributable to equity shareholders of the Company by the weighted average number of shares in issue for the half year.

	Unaudited six months ended 30 June	
	2015	2014
	HK\$'000	HK\$'000
Loss attributable to equity shareholders of the Company	(87,162)	(79,300)
Weighted average number of ordinary shares in issue	271,220,910	270,779,253
Basic loss per share	(HK\$0.32)	(HK\$0.29)

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 2015 and 30 June 2014, 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 2015 and 30 June 2014.

10. INTERIM DIVIDEND

The Board has resolved not to declare an interim dividend for the six months ended 30 June 2015 (2014: Nil).

11. INVENTORIES

	Unaudited	Audited
	As at	As at
	30 June	31 December
	2015	2014
	HK\$'000	HK\$'000
Raw materials	111,047	62,825
Work-in-progress	190,727	118,838
Finished goods	113,756	332,621
Goods in transit	22,525	65,838
	438,055	580,122

Increase in raw materials and work-in-progress reflect seasonal requirements for second half year shipment of garment manufacturing segment.

Decrease in finished goods is mainly due to transfer of garment goods at cost to Jack Wolfskin Trading (Shanghai) Co., Ltd. ("JW PRC Co") upon early termination of the license for the distribution of Jack Wolfskin products in the PRC. The receivable from JW PRC Co in relation to the inventory transfer is included under prepayments and other receivables.

12. ACCOUNTS RECEIVABLE AND BILLS RECEIVABLE

The aging of accounts receivable and bills receivable based on invoice date is as follows:

	Unaudited As at 30 June 2015 HK\$'000	Audited As at 31 December 2014 HK\$'000
Less than 3 months	325,560	450,774
3 months to 6 months	2,464	5,390
Over 6 months	608	2,052
	<u>328,632</u>	<u>458,216</u>
Less: Provision for impairment	(608)	(2,052)
	<u><u>328,024</u></u>	<u><u>456,164</u></u>

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.

13. ACCOUNTS PAYABLE AND BILLS PAYABLE

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

	Unaudited As at 30 June 2015 HK\$'000	Audited As at 31 December 2014 HK\$'000
Less than 3 months	119,810	167,296
3 months to 6 months	2,992	3,941
Over 6 months	2,289	3,595
	<u>125,091</u>	<u>174,832</u>

Majority of payment terms with suppliers are within 60 days.

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

14. ACCRUALS AND OTHER PAYABLES

Accruals and other payables mainly consist of the current portion of license fees payable, deferred income, accrued employee benefit expenses and other operating expenses. The decrease in accrual and other payables is mainly due to payment of royalty fees and 2014 staff bonus, as well as clearance of Jack Wolfskin related payables.

15. CAPITAL COMMITMENTS

The Group had no capital commitment as at 30 June 2015 (31 December 2014: 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 2015.

OVERVIEW

2015 remains a year of transition and challenge for the Group. Amid the complex macroeconomic environment and soft China retail market, the Group continues the brand building strategy path. We shall stay focused to identify and grow sustainable proprietary and licensed brands with the support of our strong capabilities on product design, fabric innovation and high-tech production. We have also strategic initiatives in place to exercise changes and improvements to our manufacturing business.

Total revenue of the Group for the first half of 2015 was HK\$1,212 million (2014: HK\$1,335 million), representing a decrease of 9% as compared with 2014.

For the six months ended 30 June 2015, the Group recorded a loss attributable to equity shareholders of HK\$87 million (2014: loss of HK\$79 million, after including a gain on disposal of Taiwan office of HK\$30 million). Apart from the seasonality effect that the Group's business skew towards the second half year, the loss in the first half was mainly attributable to (i) increased start-up costs for the Group's proprietary brands, Cissonne and EFM (Engineered for Motion), both of which were introduced in the second half of 2014; (ii) continued loss for HASKI, our proprietary outdoor brand on weak China retail market; (iii) loss incurred in our Myanmar factory which is still at the investment stage operation; and (iv) loss making in our Hefei factory during its production upgrade from producing tailoring products for national brands to outerwear products for global fashion brands, which included labour rationalisation cost of HK\$12 million. Despite the above, the Group has a reduced core operating loss in the first half of 2015 as compared with 2014 due to higher mix of global fashion brands customers, improved production efficiency and cost control.

As stated in the 2014 annual report, the early termination of the license granted to the Group for the distribution of Jack Wolfskin products in the PRC took effect on 27 March 2015. Upon the license termination, the Group ceased to distribute Jack Wolfskin products in the PRC, while Shanghai Tristate Enterprises Co., Ltd. ("Shanghai Tristate", a wholly-owned subsidiary of the Group) has started to provide consultancy services to Jack Wolfskin Trading (Shanghai) Co., Ltd. ("JW PRC Co") from the termination date until 31 December 2017. Shanghai Tristate shall receive consultancy fee amounting to substantially the entire pre-tax earnings of JW PRC Co for the period from the termination date to 31 December 2015, plus additional consultancy fees which will be determined based on certain agreed percentages of the gross profits of JW PRC Co in 2016 and 2017. In addition, Shanghai Tristate receives monthly fees for the provision of certain transitional services to JW PRC Co.

BUSINESS REVIEW

Revenue

Revenue of the branded product distribution, retail and trading segment was HK\$390 million in the first half of 2015 as compared with HK\$496 million in 2014. The decrease is mainly due to the early termination of Jack Wolfskin license and lower HASKI sales amid the challenging retail market in China.

The first half of 2015 is a continuation of the 2013 and 2014 story – a softening macro economy with shifting consumer behaviors set against a backdrop of a new normal on the political front. For Jack Wolfskin and Nautica, we have been able to adapt and sustain their competitiveness by increasing our e-commerce business and developing product lines and store concepts that meet various channel and consumer needs.

HASKI has yet to gain sufficient traction. The outdoor market started to soften in early 2014, while the sports market gained momentum. This trend is worldwide and especially evident in Korea, China, and Europe. In China, newer, smaller outdoor brands such as HASKI are losing “shelf space” to sports brands. In addition, low profitability and a heavy inventory burden for our distributors with their major outdoor brands dampen their appetite to continue investing in new points-of-sale (“POS”). The Group is focusing efforts on expanding our direct-to-consumer e-commerce business for HASKI.

During the six months ended 30 June 2015, the Group reduced 29 POS for HASKI and the total number of POS for the branded product distribution and retail business was 410 at end of June 2015.

Cissonne – our international flavour female brand receives positive feedbacks from both consumers and top tier mall operators since our launch of its showroom store in October 2014. In January 2015, we opened our first flagship store in Shanghai Kerry Centre, with another new store opened in Hangzhou in August 2015. Cissonne’s ladies wears are inspired by ballerina elegance. Cissonne conceived its flagship store as a unique space that combines the shop space with a real dance studio. Cissonne focuses greatly on using high-quality fabrics (such as natural fiber fabrics and high-tech innovation etc.). The use of simple and neat tailoring fits very closely to women – stretchy, flexible, lightweight and slim looking and stylish. Cissonne received much acclaim about its high-quality fabrics, special features and the popular mother-daughter costume collection.

EFM is continuing to refine its brand messaging, labeling and collateral since its launch in Fall 2014. We have positioned ourselves as innovators in the field of “Advanced Luxury”, which we define as luxury caliber goods with a truly functional element. EFM is establishing a presence through wholesale to some of the finest menswear shops in the US, direct to consumers in New York, on our web shop and through SPRING, a mobile app for luxury products. EFM continues to receive coverage in major lifestyle and fashion publications. Our “meet the designer” in-store event in May 2015 has also attracted attention. EFM was proud to be part of the inaugural July 2015 CFDA New York Fashion Week: Men’s. EFM presented its Spring/Summer 2016 Collection on the Emerging Designer platform, and the response was overwhelmingly positive and attracted substantial media coverage.

Revenue from the garment manufacturing segment was HK\$822 million as compared with HK\$839 million in 2014. In line with our strategy, revenue from higher margin global fashion brands customers (which cover mainly more complicated outerwear categories) grew by 5% in the first half of 2015 as compared with 2014, and accounted for 58% (2014: 54%) of the segment revenue. In general, the increase in sales of outerwear products shifted our peak production season to the second and third quarters while sales income are skewed towards Fall/Winter seasons. Sales to national brands customers decreased by 11% in 2015 as we have reduced our capacity for categories with challenging price.

Geographically, sales to the PRC, the US and the UK accounted for 45% (2014: 45%), 29% (2014: 30%) and 20% (2014: 19%) respectively of the Group’s total revenue.

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 that the pattern of a larger proportion of sales and earnings record in the second half of the year will continue in the future.

Gross Profit

During the period, the Group's overall gross profit recorded at HK\$311 million (2014: HK\$357 million), representing a gross profit margin of 26% (2014: 27%). The decrease in gross profit was mainly attributable to reduced turnover following the early termination of Jack Wolfskin license. Despite both garment manufacturing and branded product distribution business saw gross profit margin increase, the overall gross profit margin was impacted by the reduced mix of higher-margin distribution revenue following the license termination.

The gross profit margin of the branded product distribution, retail and trading business was slightly better as compared with 2014. In 2015, we have increased full-price wholesales at Nautica China, and saw a release of inventory provisions upon realisation of inventories of the various brands. These were partially offset by decreased HASKI full-price wholesales as we took actions to ensure our newest collections are in the stores by exchanging previous season items for in-season items.

The gross profit margin of the garment manufacturing segment was also better than the previous year. The continued increase of sales to higher margin global fashion brands customers and production process improvements have helped to offset the rise in wages and staff costs mainly in China and Vietnam during 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 and distribution expenses decreased as compared to 2014 mainly due to cost controls for HASKI and the Jack Wolfskin license termination in March this year. There were also less sample making costs for the garment manufacturing business.

General and Administrative Expenses

General and administrative expenses dropped by 4% to HK\$279 million (which included labour rationalisation cost of HK\$12 million for Hefei factory) as compared with HK\$291 million in the first half of 2014 mainly due to cost control and the Jack Wolfskin license termination.

Working Capital

Unlike previous years, the Group is no longer required to finance the peak seasonal working capital requirement – mainly inventories at the mid-year for the Jack Wolfskin PRC business.

There were no acquisitions or disposals of subsidiaries or associated companies during the first half of 2015 and up to the date of this announcement and no important events affecting the Group have occurred since 30 June 2015 and up to the date of this announcement.

FINANCIAL RESOURCES AND LIQUIDITY

As at 30 June 2015, cash and bank balances amounted to HK\$665 million (31 December 2014: HK\$723 million) which mainly represented Renminbi bank deposits in the PRC and US dollars bank balances. Short-term bank borrowings of the Group amounted to HK\$509 million as at 30 June 2015 (31 December 2014: HK\$444 million). Such borrowings were mainly denominated in US dollars and Hong Kong dollars. As at 30 June 2015, HK\$499 million (31 December 2014: HK\$434 million) and HK\$10 million (31 December 2014: HK\$10 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 2015. As at 30 June 2015, banking facilities extended to the Group were not secured with the Group's assets (31 December 2014: Nil). The gearing ratio of the Group is 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 30 June 2015 and 31 December 2014, and accordingly, no information on gearing ratio as at those dates 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 2015, 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. The recent volatility of the exchange rate of Renminbi has yet to stabilise. Management evaluates the Group's foreign currency exposure on a continuing basis and takes actions to minimise the Group's exposure whenever necessary.

CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

There were no material capital commitments or contingent liabilities as at 30 June 2015 which would require a substantial use of the Group's present cash resources or external funding.

HUMAN RESOURCES

The Group had about 11,960 employees as at 30 June 2015 (31 December 2014: 12,680). 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

Although the Group's income and earnings in the second half of 2015 are expected to be better than the first half, the uncertain global market, soft consumer sentiment and difficult retail conditions in China increase variability of the second half year performance. Despite these short-term volatilities, the Group will stay focused on our long-term goals.

For our branded product business, the Group will continue to develop our licensed global lifestyle brand Nautica and our proprietary brands HASKI, Cissonne and EFM. 2015 is a start-up year for Cissonne and EFM. With our knowledge and experience in running brands together with our strong fabric and product innovation capability, we believe our branded product business will have sustainable growth over the long term. The Group will continue to make strategic investments and build brand portfolios when opportunities arise.

In response to the growing importance of e-commerce, the Group has realigned its strategy for HASKI by focusing efforts on developing a direct-to-consumer e-commerce business. Our plan for the HASKI business for the near term is to maintain around 50 POS offline, expand our e-commerce business starting in the fourth quarter of 2015, as well as continue to control our operation expense and lower inventory positions. We are evolving our design efforts, retail price architecture, and organisation structure to support e-commerce growth to achieve scale in 2016 and a sustainable distribution model.

The creation of Cissonne was inspired by ballet. The brand incorporates elements of ballet in its collections, and at the same time promotes the arts of ballet and the body aesthetics and beauty. The essence of Cissonne's Fall/Winter 2015 Collection embodies the elements of clean updated classics, elegant colour, a mixture of advanced fabrics and high-tech production techniques, expressing a graceful and perfect light luxury style. Cissonne plans to enter into top tier malls and popular department stores in major commercial cities to pursue its presence.

EFM's Autumn/Winter 2015 Collection has been very well received. EFM is currently positioned to capitalise on this momentum into 2016. The Spring/Summer 2016 Collection was inspired by the art of fencing, and focused on the concept of Advanced Luxury. Early sales appointments have gone very well for this collection, fueled in part by the strong showing at New York Fashion Week. We expect the Spring/Summer 2016 Collection to open new doors, drive sales, and continue to generate editorial positions.

On the garment manufacturing business, the US economy shows ongoing soft growth, but the economic data are still on the mixed side. Europe and China are facing economic headwinds and are struggling for growth momentum. Under this backdrop, we have been working closely with our customers to create greater value to their business. We shall continue to improve profitability by expanding our business with higher margin global fashion brands customers. This growth strategy meets our product strength and capabilities in manufacturing complicated outerwear products. Our strategic plan is to have outerwear products produced in our China factories (Panyu and Hefei factories) while dress up business for mass market at competitive pricing focus in low cost Indochina production base – Vietnam and Myanmar. For outerwear production, we shall continue our production floor automation and standardisation project to improve production efficiency. We shall also improve resources allocation, workforce productivity and production cost effectiveness. Greater effort has been put forth to further improve the production output and efficiency of our Hefei factory. We continue to introduce premium outerwear customers to our Hefei factory with success. The factory has ceased all tailoring production in April 2015. To cope with this change of focus to outerwear products, Hefei factory has rationalised production headcount in June 2015. With all these measures, we aim to significantly reduce the factory's operating loss in 2016. For dress up tailoring business, we shall expand the business by ramping up the capacity of our Myanmar factory. We consolidate our dress up expertise from sales, sample development and production in order to closely monitor and manage the Indochina operation. Together with these strategic initiatives, the Group will continue to exercise tight cost control and drive operating efficiency and productivity in our operations. We believe our directions and actions are on track to improve profitability of our manufacturing business.

CORPORATE GOVERNANCE CODE

During the six months ended 30 June 2015, 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 2014.

- 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 8 June 2015 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 2015. 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 2015 (2014: 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 2015 in conjunction with the management of the Group.

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

Hong Kong, 31 August 2015

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.