

The Group had unutilized banking facilities of HK\$631 million as at 30th June 2004. Save as disclosed in the unaudited interim accounts, the Group did not create any charges on its assets to secure the banking facilities during the period.

During the period, the Group entered into a number of forward exchange contracts to hedge its foreign currency denominated operating expenses for overseas manufacturing facilities against the fluctuation of exchange rates.

Contingent Liabilities and Capital Commitments

There were no material capital commitments or contingent liabilities as at 30th June 2004 which would require a substantial use of the Group's present cash resources or external funding.

Human Resources

The Group has about 15,700 (2003: 19,800) employees. Fair remuneration packages and benefits are offered to competent staff. Discretionary bonus will be granted to eligible employees with outstanding performance. In addition, a share option scheme has been established since 1997 for the granting of options to full-time employees of the Group for subscribing for shares in the Company.

OUTLOOK

The market conditions for the second half of 2004 and beyond remain challenging. After the elimination of quota system in 2005, it is anticipated that the business environment for garment manufacturing will become more volatile and uncertain. Mainland China as a production base has a competitive advantage because of its low cost base and supply of skilled labor. With its network of modern manufacturing facilities in Mainland China, the Group is well positioned to capitalize on this new development. At the same time, the Group's matured production sites in the Philippines, Thailand and Vietnam will enable key customers to diversify their procurement requirements geographically during a time of uncertainty as a safeguard against the development of new restraints on China exports.

Tristate will continue serving its core customers across Ladies Career, Related Separates, Moderate and Men's and Ladies' Outerwear segments. As customers are consolidating their suppliers in favor of larger manufacturers, Tristate is winning market share in several areas. However, high quality complex manufacturing operations are a challenge in the face of price compression.

Going forward, the Group is committed to focusing on core customers. Product offerings will focus on core competencies and value added services will continue to be tailored to individual customer needs. At the same time, the Group will continue to improve its production efficiency and exercise effective controls over direct and indirect costs. In this regard, a special management initiative has been launched to aggressively drive down selling, general and administrative expenses.

Looking ahead, with the continuous improvement in worldwide economic conditions and the strong backup of Mainland China to Hong Kong, management is confident that Tristate is well positioned to meet the challenges that lie ahead.

INTERIM DIVIDEND

The Directors have resolved not to declare an interim dividend for the six months ended 30th June 2004 (2003: Nil).