

In this Management Discussion and Analysis, we present the business review and explain the financial performance of Tristate Holdings Limited (the "Company") and its subsidiaries (together, the "Group") over the six months ended 30 June 2006.

### BUSINESS REVIEW

For the six months ended 30 June 2006, the total turnover of the Group was approximately HK\$1,167 million (2005: HK\$1,168 million) which was only slightly less than that of the corresponding period last year.

Turnover for garment manufacturing segment increased by 26% as compared with that of the corresponding period in 2005. This was due to the consolidation of sales revenue from Hua Thai Manufacturing Public Company Limited ("Hua Thai"), which had become a subsidiary of the Company towards the end of 2005. On a like for like basis, that is, if Hua Thai were a subsidiary of the Company last year, the garment manufacturing sales in the six months ended 30 June 2006 would have dropped by about 10% as compared with that of the corresponding period last year. The decrease in garment manufacturing turnover was mainly due to severe market competition and a decline in selling price.

As for garment trading segment, the decrease in external sales turnover by 75% as compared with that of the corresponding period in 2005 was mainly attributable to the fact that the trading of garments manufactured by Hua Thai became the Group's garment manufacturing turnover since 28 October 2005.

Turnover for branded product distribution segment increased by 19% when compared with that of the corresponding period in 2005. The commencement of distribution of Fila products by the Group in Mainland China since late 2005 contributed to the increase in turnover of this segment of business.

During the half year, the contribution of both the net profit and the turnover by Hua Thai and its subsidiaries was lower than expected because of price pressure from competing manufacturers in other countries and the adverse impact to production costs caused by the increasingly inflationary environment in Thailand.

Geographically, the United States of America continued to be the major export market for the Group contributing 80% (2005: 81%) of the total turnover while export sales to Asia and Europe accounted for 14% (2005: 13%) and 6% (2005: 6%) of the Group's total turnover respectively. The Group's manufacturing turnover is generally subject to seasonality. Management of the Company seeks to minimise the impact of seasonality by focusing on key customers with year-round orders.

The increase in gross profit of the Group by 3% to approximately HK\$256 million in 2006 (2005: HK\$249 million) and the increase in selling, general and administrative expenses during the half year were mainly due to the consolidation of Hua Thai into the Group.

The severe price pressure from our customers coupled with the increase in factory costs resulted in the drop of profit attributable to equity holders of the Company from approximately HK\$60 million for the six months ended 30 June 2005 to approximately HK\$42 million for the same period in 2006.

During the half year and up to the date of this Interim Report, there were no material acquisitions or disposals of subsidiaries or associated companies or investment in associated companies.

Save as disclosed herein, no important events affecting the Group have occurred since the end of 30 June 2006 up to the date of this Interim Report.

### **FINANCIAL RESOURCES AND LIQUIDITY**

During the half year, the Group continued to maintain a healthy liquidity position. As at 30 June 2006, cash and cash equivalents amounted to approximately HK\$285 million (31 December 2005: HK\$318 million) which were mainly denominated in United States Dollars and Renminbi. The short-term bank borrowings of the Group amounted to approximately HK\$180 million as at 30 June 2006 (31 December 2005: HK\$79 million). The borrowings were denominated in United States Dollars and Thai Bahts and were at floating interest rates. The Group maintained sufficient banking facilities and did not have any long-term bank borrowings outstanding as at 30 June 2006. Facilities extended to the subsidiaries were not charged with the Group's assets. As the Group did not have net bank borrowings as at 30 June 2006 and 31 December 2005, no information on gearing ratio as at 30 June 2006 and 31 December 2005 is stated or relevant.

Most of the Group's receipts and payments were denominated in Hong Kong Dollars or in United States Dollars. The risk exposure to foreign exchange rate fluctuations was not significant. Nevertheless, forward foreign exchange contracts to hedge foreign currency denominated operating expenses for certain overseas manufacturing facilities and accounts receivable were entered into from time to time.

### **CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS**

There were no material capital commitments or contingent liabilities as at 30 June 2006 which would require a substantial use of the Group's present cash resources or external funding.

### **HUMAN RESOURCES**

The Group has about 20,000 (31 December 2005: 19,000) employees. Fair remuneration packages and benefits are offered to competent employees. Discretionary bonuses are 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.

### **PROSPECTS**

The business environment for the second half of 2006 will remain challenging in view of price compression in the market place. In addition, the rise in labour, energy and materials costs and the strengthening of foreign currencies against Hong Kong Dollars in certain overseas production sites increases the cost of sales of the Group. Nevertheless, we will continue to strive to maintain our position as a leading manufacturer of a wide range of garments including ladies' suits and tailored related separates for women and casual and lifestyle clothes for men. The Group's current sales orders on hand are consistent with that of the last period.

Going forward, the Group will continue focusing on its core customers and product offerings. The Group will also continue to improve its production efficiency and to exercise stringent controls over direct and indirect costs.