

CHAIRMAN'S STATEMENT

WANG Kin Chung, Peter
Chairman and Chief Executive Officer



In 2006, Tristate Holdings Limited (the “Company” or “Tristate”) and its subsidiaries (together, the “Group”) faced challenges arising from the globalisation of business activities. The severe price pressure in the market place and the continual currency and wage appreciation in emerging markets where our production facilities are located hampered the profit margin of the Group. Fulfilling the diversified and complicated needs of our customers inevitably increased the operating costs of the Group. We have constantly reviewed the market situation and have fine-tuned our strategies to tackle these challenges. At the same time, we continue to search for new business opportunities in the global market to open up new sources of income to the Group.

RESULTS

For the year ended 31 December 2006, the revenue of the Group grew by about 6% from approximately HK\$2,694 million in 2005 to approximately HK\$2,858 million in 2006. The increase in revenue was due mainly to the consolidation of the 2006 full year results of Hua Thai Manufacturing Public Company Limited (“Hua Thai”), which became a subsidiary of the Company towards the end of 2005.

Profit from operations increased from approximately HK\$133 million (as restated) in 2005 to approximately HK\$147 million in 2006. Profit attributable to equity holders was approximately HK\$115 million when compared to the profit of approximately HK\$168 million (as restated) for the last corresponding year, representing a decrease of 31%.

To share the results of the Group with our shareholders, the board of directors of the Company recommends the payment of a final dividend of HK\$0.11 per share in addition to the 2006 interim dividend of HK\$0.07 per share.

KEY AREAS OF FOCUS

The performance of the Group is mainly derived from our focus on the following key areas in our garment manufacturing and trading division:

Broad Product Range

The Group offers a wide range of fashion garment products, including categories generally known as ladies career dressing, suiting, sportswear, related separates, men’s and ladies’ casual and lifestyle clothes, as well as, men’s and ladies’ outerwear. We carry the entire range of Bridge, Better, Casual and Moderate lines. We have extensive capabilities in pattern and sample making, as well as, the ability to innovate to meet our customers’ needs through strong manufacturing engineering efforts. We compete in the upper range of fashion brands and specialised products with complexity and requiring high levels of quality production.

Broad Geographic Reach and Scale

With ten factories in four countries, we offer unparalleled geographic diversification and a competitive cost base to our customers.

We continue to expand the Group's factories to sites which have low operating costs and efficient workforce. In late 2006, the Group commenced the establishment of a new factory in the Hefei Economic and Technological Development Area in Anhui Province, Mainland China. Anhui Province is an integral part of the Chinese Government's "Rise of Central China" strategic economic plan. It is expected that the Group will benefit from the low costs and preferential policies available there. On the other hand, due to the sharp increase in staff costs and the difficulty in hiring skilled workers in Macau, the factory in Macau was closed in October 2006.

The factories in Mainland China as well as factories in the Philippines, Thailand and Vietnam offer a broad geographic footprint. We have the scale required to handle large orders and to cater to reorders, line infusions and quick turn orders.

Strong Customer Relationships

We have excellent capabilities in product design, fabric and accessories development and sourcing, pattern and sample creation, and quick response and replenishment program execution to complement our traditional manufacturing capabilities.

The Company adopts a strategy of key account management and has developed multi-product and multi-country relationships with our core customers. This strategy has broadened and strengthened relationships with several existing clients and opened up opportunities with new accounts. The Group gained various awards from its valuable customers on recognition of the business relationship and performance of the Group. In 2006, the Group was recognised with the "Strategic Supplier Award" from Nordstrom, Inc.

Cost Control

We continue to work on productivity enhancement at our factories, as well as, better managing materials and logistics costs. To minimise the negative impact from the recent increase in staff costs, we have developed innovative production technology and production processes to reduce the reliance on manpower in order to maintain the Group's competitiveness.

Corporate Social Responsibility

Corporate Social Responsibility ("CSR") continues to be important for our customers, as they respond to the demands of the market place relative to promoting workers' rights around the world. Total CSR compliance is a prerequisite for being a supplier, and each year the requirements have become more stringent. We will continue to make social compliance a strategic priority.

All manufacturing sites have taken actions to implement a consistent auditing and accountability process encompassing health, safety and environmental compliance in addition to meeting the social responsibility requirements of our customers.

Human Resources

We are fortunate to have many talented, experienced and dedicated professionals in our Group. Our aim is to continue to focus on enhancing teamwork across functions and geographies. We will drive to adopt best practices at an even faster pace, so that we can be the leader in our industry in delivering speed, flexibility and service to our customers.

We have been fortunate to have Ms. Eleni WANG ("Ms. Wang") as our President and Chief Operating Officer from 2003 to 2006. Ms. Wang has been instrumental in bringing and implementing the key account management methodology that led the Group to record profitability and lifted the skill of the management to the next level. Ms. Wang became a consultant to the Group from early 2007.

OUTLOOK

To most of the garment manufacturers, the year 2006 is a year of business consolidation following quota liberalisation. The garment manufacturers that survive will face an even tougher business environment in 2007. The price pressure as well as the currency appreciation and wage inflation in countries where our production facilities are located, are likely to continue as negative factors.

As a leading manufacturer of a wide range of apparel products, the Group has a decisive advantage with reference to its efficient, low cost and large-scale production facilities. We will continue to focus on maintaining high quality and high value-added products for our customers, while keeping tight control over production costs.

The new factory in Hefei is scheduled to be ready for full scale operation during the second half of 2007. It is expected that the operating costs will be further lowered with economies of scale.

Recently, an increasing number of economic indicators shows that the economy of the United States of America ("USA") may slow down in the near future. To reduce the Group's reliance on revenue from the USA market, the Group will expand its branded product distribution and trading activities in Mainland China to benefit from the long-term economic growth potential there.

Taking into consideration the existing business environment and our business strategies, we are cautiously optimistic about the business future of the Group.

APPRECIATION

I would like to thank all our customers for their confidence, business and continued support for us and it is our pleasure to have all of you as our business partners. To the entire family of Tristate employees, we could not have achieved these results without you. Thank you for your dedication, professionalism and team spirit. Finally, we would like to express our appreciation to our shareholders.

WANG Kin Chung, Peter

Chairman and Chief Executive Officer

Hong Kong, 2 April 2007