

REPORT OF THE DIRECTORS

The board of directors (the “Board”) of Tristate Holdings Limited (the “Company”) presents its report together with the audited financial statements of the Company and its subsidiaries (together, the “Group”) for the year ended 31 December 2006.

PRINCIPAL ACTIVITIES AND ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. The principal activities of the Company’s subsidiaries are (i) garment manufacturing and trading, and (ii) branded product distribution and trading.

An analysis of the Group’s revenue and contribution to operating profit for the year by business and geographical segments is set out in Note 5 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2006 are set out in the consolidated income statement on page 31.

An interim dividend of HK\$0.07 per share amounting to HK\$18,811,000 was paid on 19 October 2006 (2005: HK\$0.09 per share, totaling HK\$24,186,000).

The Board recommends the payment of a final dividend of HK\$0.11 per share, totaling HK\$29,561,000 for the year ended 31 December 2006 (2005: HK\$0.15 per share, totaling HK\$40,310,000).

The proposed final dividend, if approved at the forthcoming annual general meeting of the Company to be held on 6 June 2007, is expected to be paid on 11 June 2007 to the shareholders of the Company whose names appear on the register of members of the Company on 6 June 2007, and for the purpose of determining the entitlements of the shareholders, the register of members of the Company will be closed from 31 May 2007 to 6 June 2007, both days inclusive.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years ended 31 December 2006 is set out on page 3.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group are set out in Note 16 to the consolidated financial statements.

SUBSIDIARIES

Particulars of the Company’s principal subsidiaries as at 31 December 2006 are set out in Note 19 to the consolidated financial statements.

SHARE CAPITAL

Details of the share capital of the Company are set out in Note 31 to the consolidated financial statements.

RESERVES

Movements in the reserves of the Group and of the Company during the year are set out in Note 32 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2006, the reserves of the Company amounted to HK\$431,020,000 (2005: HK\$431,020,000) and retained earnings amounted to HK\$84,966,000 (2005: HK\$71,377,000), both of which were available for distribution to equity holders of the Company as calculated in accordance with the Companies Act 1981 of Bermuda (as amended).

SHARE OPTIONS

The Company's current share option scheme was adopted by the shareholders of the Company at the special general meeting held on 28 November 1997, and pursuant to which options may be granted to full-time employees (including executive directors) of the Company and/or its subsidiaries to subscribe for shares in the Company (the "Share Option Scheme"). The purposes of the Share Option Scheme are to provide employees with the opportunity of participating in the growth of the Group by acquiring shares in the Company and to assist in the attraction and retention of high quality employees. A summary of certain details of the Share Option Scheme (as restricted by the operation of certain provisions of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") which came into effect after the adoption of the Share Option Scheme) is set out as follows:

Participants	:	Full-time employees (including executive directors) of the Company and/or any of its subsidiaries
Total number of shares available for issue and the percentage of the issued share capital that it represents as at the date of this report	:	20,994,025 shares representing 7.81% of the issued share capital of the Company
Maximum entitlement of each participant	:	Not exceeding 25% of the aggregate number of shares issued and issuable under the Share Option Scheme (<i>Note a</i>)
Period within which the securities must be taken up under an option	:	Not exceeding three years from the earlier of (i) the last day of the three years period commencing on the date on which the relevant option is accepted and (ii) the date falling on the expiry of ten years from 28 November 1997
Minimum period for which an option must be held before it can be exercised	:	An option may be exercised at any time during a period to be notified by the Board to each grantee. The Board may also provide restrictions on the exercise of an option during such period.
Amount payable on acceptance of the option and the period within which payments or calls must or may be made or loans for such purposes must be repaid	:	HK\$1 within 28 days of offer
Basis of determining the exercise price	:	The subscription price shall be determined by the Board and not less than the higher of (i) the nominal value of a share of the Company and (ii) 80% of the average of the closing price of the Company's shares on the Hong Kong Stock Exchange on the five trading days immediately preceding the date of grant of the options on which there were dealings in the shares on the Hong Kong Stock Exchange (<i>Note b</i>).
Remaining life of the Share Option Scheme	:	The Share Option Scheme remains in force for a period of ten years from 28 November 1997.

REPORT OF THE DIRECTORS (Continued)

Notes:

- a. Under the requirements of the Listing Rules in force as from 1 September 2001, the maximum entitlement (being securities issued and issuable under option) of each participant under the Share Option Scheme in any 12-month period shall not exceed 1% of the issued capital of the relevant class.
- b. With effect from 1 September 2001, the Hong Kong Stock Exchange requires that the exercise price of options should be at least the higher of: (i) the closing price of the shares of the Company on the Hong Kong Stock Exchange on the date of grant; and (ii) the average closing prices of the shares of the Company on the Hong Kong Stock Exchange for the five trading days immediately preceding the date of grant. Up to the date of this report, the Company has not granted any options on or after 1 September 2001.

No share options under the Share Option Scheme were outstanding at the beginning and at the end of the year. No share options were granted, exercised, cancelled or lapsed during the year.

No share options were granted during the year and, accordingly, no valuation of share options granted was necessary.

Details of the share options of the Company are also set out in Note 33 to the consolidated financial statements.

RETIREMENT BENEFIT SCHEMES

Details of the retirement benefit schemes of the Group are set out in Note 28 to the consolidated financial statements.

BANK BORROWINGS

Details of the bank borrowings of the Group are set out in Note 27 to the consolidated financial statements.

DONATIONS

Charitable and other donations made by the Group during the year amounted to HK\$187,000.

DIRECTORS

The directors of the Company (the "Directors") who held office during the year and up to the date of this report are:

Executive Director:

Mr. WANG Kin Chung, Peter (*Chairman and Chief Executive Officer*)

Non-Executive Directors:

Ms. WANG KOO Yik Chun (*Honorary Chairlady*)

Ms. Leslie TANG SCHILLING

Ms. MAK WANG Wing Yee, Winnie

Dr. WANG Shui Chung, Patrick

Independent Non-Executive Directors:

Mr. YUAN Ching Man, James

Mr. LO Kai Yiu, Anthony

Mr. James Christopher KRALIK

In accordance with Bye-Laws 85 and 86 of the Company's Bye-Laws and Code Provision A.4.2 set out in Appendix 14 of the Listing Rules, Ms. MAK WANG Wing Yee, Winnie and Mr. James Christopher KRALIK will retire by rotation, and being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company.

The Company confirms that it has received from each of its Independent Non-Executive Directors an annual confirmation of his independence pursuant to rule 3.13 of the Listing Rules and the Company considers that such Independent Non-Executive Directors are still independent.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical details of the Directors and the senior management of the Group as at the date of this report are set out on pages 19 to 21.

DIRECTORS' SERVICE CONTRACTS

None of the Directors offering themselves for re-election at the forthcoming annual general meeting of the Company has a service contract with the Company or any of its subsidiaries, which is not determinable within one year without payment of compensation (other than statutory compensation).

DIRECTORS' EMOLUMENTS

The emoluments payable to the Directors are determined at arm's length on the basis of the responsibilities involved, time devoted, financial position of the Company and prevailing market conditions.

Details of the emoluments of the Directors for the year ended 31 December 2006 are set out in Note 14 to the consolidated financial statements.

ARRANGEMENT TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the "Share options" section in this report and in Note 33 to the consolidated financial statements, at no time during the year was the Company, its subsidiaries, its holding company or the subsidiaries of its holding company, a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

On 26 January 2005, Hwa Fuh Manufacturing Company (Hong Kong) Limited ("Hwa Fuh"), a wholly-owned subsidiary of the Company, entered into a tenancy agreement with TDB Company Limited ("TDB"), relating to the premises at Ground and 2nd to 11th Floors, Tak Dah Industrial Building, 66-72 Lei Muk Road, Kwai Chung, New Territories, Hong Kong for a term of two years from 1 April 2005 to 31 March 2007 (the "Tenancy Agreement"). As at the date of the Tenancy Agreement, the entire issued share capital of TDB was held by a discretionary trust of which Mr. WANG Kin Chung, Peter ("Mr. Peter WANG") and Ms. WANG KOO Yik Chun ("Madam Koo"), being Directors, were eligible beneficiaries.

The Tenancy Agreement was a contract of significance which subsisted during the year and/or at the end of the year pursuant to paragraphs 15 and 16 in Appendix 16 of the Listing Rules. Further particulars of the said agreement are set out in the "Continuing connected transaction" section of this report.

Save for the above, no contract of significance in relation to the Company's business subsisted during or at the end of the year in which a Director was materially interested either directly or indirectly; nor was there any contract of significance between the Company or any of its subsidiaries and a controlling shareholder or any of its subsidiaries during or at the end of the year.

During the year, no contract of significance for the provision of services to the Group by a controlling shareholder or any of its subsidiaries has been made.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

During the year ended 31 December 2006, none of the Directors have any interest in business apart from the Group's businesses, which competes or is likely to compete, either directly or indirectly, with the Group's businesses under rule 8.10 of the Listing Rules.

DIRECTORS' INTERESTS IN SECURITIES

As at 31 December 2006, the interests and short positions of the Directors and the chief executive of the Company in shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were (i) recorded in the register kept by the Company pursuant to Section 352 of the SFO; or (ii) notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code") under Appendix 10 of the Listing Rules, were as follows:

Interests in shares of the Company

Name of Director	Long/short position	Number of shares held				Total	Approximate percentage of issued share capital
		Directly beneficially owned	Through spouse or minor children	Through controlled corporation(s)	Through discretionary trust(s)/as beneficiary or trustee of trust(s)		
Mr. Peter WANG	Long position	—	3,000,000 <i>(Note a)</i>	178,427,000 <i>(Note b)</i>	—	181,427,000	67.51%
Madam Koo	Long position	—	—	—	1,537,000 <i>(Note c)</i>	1,537,000	0.57%

Interests in shares of Hua Thai Manufacturing Public Company Limited ("Hua Thai")

Name of Director	Long/short position	Class	Number of shares held		Total	Approximate percentage of issued share capital
			Directly beneficially owned	Through spouse or minor children		
Madam Koo	Long position	Ordinary share	—	2,500 <i>(Note d)</i>	2,500	0.03%

Save as disclosed above, as at 31 December 2006, none of the Directors or the chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be (i) recorded in the register kept by the Company pursuant to Section 352 of the SFO; or (ii) notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS

The register of substantial shareholders maintained under Section 336 of the SFO shows that, as at 31 December 2006, the Company had been notified that the following persons (not being a Director or the chief executive of the Company) were interested in the following interests and/or short positions in the shares or underlying shares of the Company:

Name of shareholder	Long/short position	Number of shares held				Total	Approximate percentage of issued share capital
		Directly beneficially owned	Through spouse or minor children	Through controlled corporation(s)	Through discretionary trust(s)/as beneficiary or trustee of trust(s)		
Ms. Daisy TING	Long position	3,000,000	178,427,000 (Note e)	—	—	181,427,000	67.51%
Silver Tree Holdings Inc.	Long position	178,427,000 (Note b)	—	—	—	178,427,000	66.40%
Mr. TANG Yue Nien, Martin	Long position	—	—	—	23,860,000 (Note f)	23,860,000	8.88%
HSBC International Trustee (New Zealand) Limited	Long position	—	—	—	29,206,000 (Notes f and g)	29,206,000	10.87%
HSBC International Trustee Limited	Long position	—	—	29,206,000 (Note h)	10,000 (Note h)	29,216,000	10.87%

Save as disclosed above, as at 31 December 2006, no other person (other than a Director or the chief executive of the Company) known to any Director or the chief executive of the Company had an interest or short position in the shares or underlying shares which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

Notes to "Directors' interests in securities" and "Substantial shareholders" sections above (per information as at 31 December 2006):

- 3,000,000 shares were beneficially owned by Ms. Daisy TING, the spouse of Mr. Peter WANG.
- 178,427,000 shares were beneficially owned by Silver Tree Holdings Inc., a company wholly-owned by Mr. Peter WANG.
- 1,379,000 shares were held by Euroworld Investment Holding Corporation (under the registered name of HKSCC Nominees Limited) as trustee of a unit trust (the "Unit Trust"). Another 158,000 shares were held by Main World Investment Limited, the entire issued share capital of which was beneficially owned by the Unit Trust. Madam Koo had interest in one unit in the Unit Trust.
- 2,500 shares in Hua Thai were held by the late Mr. WANG Seng Liang, the spouse of Madam Koo.
- 178,427,000 shares were beneficially owned by Silver Tree Holdings Inc., a company wholly-owned by Mr. Peter WANG (see Note b), the spouse of Ms. Daisy TING.
- HSBC International Trustee (New Zealand) Limited held 23,860,000 shares as trustee of a trust of which Mr. TANG Yue Nien, Martin was a discretionary beneficiary.
- HSBC International Trustee (New Zealand) Limited held 29,206,000 shares as trustee for various trusts and all the shares were registered in the name of HSBC International Trustee Limited.
- 29,206,000 shares were held by HSBC International Trustee (New Zealand) Limited (see Notes f and g), a company accustomed/obliged to act in accordance with the directions or instructions of HSBC International Trustee Limited. Another 10,000 shares were held by HSBC International Trustee Limited as trustee (other than a bare trustee).

PUBLIC FLOAT

On the basis of information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained sufficient public float as at the latest practicable date prior to the issue of this report.

PURCHASE, SALE OR REDEMPTION OF SHARES

The Company did not redeem any of its shares during the year. Neither the Company nor any of its subsidiaries purchased or sold any of the Company's shares during the year.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-Laws and there are no restrictions against such rights under the laws of Bermuda (being the jurisdiction in which the Company was incorporated).

MANAGEMENT CONTRACT

No contract concerning the management and administration of the whole or any substantial part of the business of the Group was entered into or existed during the year.

MAJOR CUSTOMERS AND SUPPLIERS

The percentage of sales attributable to the Group's largest customer and the five largest customers combined were 23% and 53%, respectively.

The aggregate purchases attributable to the Group's five largest suppliers taken together were less than 30% of the Group's total purchases for the year.

None of the Directors, their associates, or any shareholder (which to the knowledge of the Board owns more than 5% of the Company's share capital) had, at any time during the year, a beneficial interest in any of the Group's five largest customers.

CONTINUING CONNECTED TRANSACTION

On 26 January 2005, Hwa Fuh, a wholly-owned subsidiary of the Company, entered into the Tenancy Agreement with TDB, in relation to the premises at Ground and 2nd to 11th Floors, Tak Dah Industrial Building, 66-72 Lei Muk Road, Kwai Chung, New Territories, Hong Kong. As at the date of the Tenancy Agreement, the entire issued share capital of TDB was held by a discretionary trust of which Mr. Peter WANG and Madam Koo, being Directors, were eligible beneficiaries. TDB was therefore a connected person of the Company and the Tenancy Agreement constituted a continuing connected transaction for the Company under Chapter 14A of the Listing Rules (the "Continuing Connected Transaction").

Details of the Tenancy Agreement were as follows:

Term	:	Two years from 1 April 2005 to 31 March 2007
Monthly rental	:	HK\$371,435 (excluding management fee, government rates and government rent)
Use of the Premises	:	As factory, office and warehouse premises by the Company and certain of its subsidiaries

The terms of the Tenancy Agreement were arrived at after arm's length negotiations between Hwa Fuh and TDB and on the basis of the valuation made by DTZ Debenham Tie Leung Limited, a firm of professional property valuer, in its letter dated 26 January 2005 that the terms (including the rental) of the Tenancy Agreement were fair and reasonable by reference to the then prevailing market rentals for comparable properties. The Board (including the Independent Non-Executive Directors) considered that the terms of the Tenancy Agreement were normal commercial terms and were fair and reasonable and in the interests of the Company and its shareholders as a whole.

The annual rental payable by Hwa Fuh under the Tenancy Agreement for each of the three financial years ending 31 December 2007 is as follows:

Term	Amount of Rental (HK\$)
1 April 2005 to 31 December 2005	3,342,915
1 January 2006 to 31 December 2006	4,457,220
1 January 2007 to 31 March 2007	1,114,305

As the applicable percentage ratios for the rental payable by Hwa Fuh to TDB under the Tenancy Agreement on an annual basis represented less than 2.5% as at the date of the Tenancy Agreement, the Company was only subject to the reporting and announcement requirements and no approval from the independent shareholders of the Company was required for the entering into of the Tenancy Agreement.

Further details of the Tenancy Agreement were set out in the announcement of the Company dated 28 January 2005.

The Independent Non-Executive Directors have reviewed the transaction under the Tenancy Agreement and confirmed that the transaction has been carried out on normal commercial terms, in the ordinary and usual course of business of the Group, and in accordance with the relevant agreement governing such transaction on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

In connection with the compliance with requirements of the Listing Rules in respect of the Continuing Connected Transaction between Hwa Fuh and TDB, PricewaterhouseCoopers, the auditor of the Company, have performed agreed-upon procedures and have issued a report to the Board stating the factual findings resulting from their work:

- (a) the Continuing Connected Transaction have been approved by the respective Board of Directors of the Company and Hwa Fuh;
- (b) the Continuing Connected Transaction have been entered into on terms in accordance with the Tenancy Agreement; and
- (c) the annual rent arising from the Continuing Connected Transaction did not exceed the annual monetary cap as disclosed in the Company's announcement dated 28 January 2005.

AUDITOR

The financial statements have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

WANG Kin Chung, Peter

Chairman and Chief Executive Officer

Hong Kong, 2 April 2007