# Tristate Holdings Limited

(Incorporated in Bermuda with limited liability)

# Interim Report 2015

Stock Code : 458

# CONTENTS

# CORPORATE INFORMATION

## BOARD OF DIRECTORS
**Executive Director:**
WANG Kin Chung, Peter,
*Chairman and Chief Executive Officer*

**Non-Executive Directors:**
WANG KOO Yik Chun, *Honorary Chairlady*
MAK WANG Wing Yee, Winnie
WANG Shui Chung, Patrick

**Independent Non-Executive Directors:**
LO Kai Yiu, Anthony
James Christopher KRALIK
Peter TAN

## AUDIT COMMITTEE
LO Kai Yiu, Anthony,
*Chairman of the Audit Committee*
MAK WANG Wing Yee, Winnie
James Christopher KRALIK

## REMUNERATION COMMITTEE
James Christopher KRALIK,
*Chairman of the Remuneration Committee*
MAK WANG Wing Yee, Winnie
LO Kai Yiu, Anthony
Peter TAN

## SHARE OPTION COMMITTEE
WANG Kin Chung, Peter,
*Chairman of the Share Option Committee*
MAK WANG Wing Yee, Winnie

## CHIEF FINANCIAL OFFICER AND COMPANY SECRETARY
AU King Lun, Paulina

## AUDITOR
KPMG, *Certified Public Accountants*

## LEGAL ADVISORS
On Hong Kong Law : Reed Smith Richards Butler
On Bermuda Law : Appleby

## PRINCIPAL BANKERS
The Hongkong and Shanghai Banking Corporation Limited
Standard Chartered Bank (Hong Kong) Limited
Citibank, N.A.
The Bank of Tokyo-Mitsubishi UFJ, Ltd.
The Bank of East Asia, Limited

## REGISTERED OFFICE
Canon's Court
22 Victoria Street
Hamilton HM12
Bermuda

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG
5th Floor, 66–72 Lei Muk Road
Kwai Chung
New Territories
Hong Kong
Tel : (852) 2279-3888
Fax : (852) 2480-4676
Website : http://www.tristateww.com

## CORPORATE COMMUNICATIONS
The Company Secretary
Tristate Holdings Limited
5th Floor, 66–72 Lei Muk Road
Kwai Chung
New Territories
Hong Kong
Tel : (852) 2279-3888
Fax : (852) 2423-5576
Email : cosec@tristateww.com

## LISTING INFORMATION
The shares of the Company have been listed on the Main Board of The Stock Exchange of Hong Kong Limited since 1988.
Stock short name : Tristate Hold
Stock code : 458
Board lot : 1,000 shares

## PRINCIPAL REGISTRAR AND TRANSFER OFFICE
MUFG Fund Services (Bermuda) Limited
The Belvedere Building
69 Pitts Bay Road
Pembroke HM08
Bermuda
Tel : (441) 299-3882
Fax : (441) 295-6759

## BRANCH REGISTRAR AND TRANSFER OFFICE
Computershare Hong Kong Investor Services Limited
Shops 1712–1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong
Tel : (852) 2862-8555
Fax : (852) 2865-0990

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 | |
|---|---|---|---|
| | | **2015** | 2014 |
| | *Note* | ***HK$'000*** | *HK$'000* |
| Revenue | 5 | **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 | 7 | **(90,257)** | (73,241) |
| Finance income | 8 | **8,834** | 8,999 |
| Finance costs | 8 | **(4,618)** | (5,659) |
| Loss before income tax | | **(86,041)** | (69,901) |
| Income tax expense | 9 | **(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 | 10 | **(HK$0.32)** | (HK$0.29) |
| Diluted | 10 | **(HK$0.32)** | (HK$0.29) |

The accompanying notes form an integral part of the Condensed Consolidated Interim Financial Information.

| | | ***HK$'000*** | *HK$'000* |
|---|---|---|---|
| Interim dividend | 11 | **–** | – |

## 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: | | |
| *Items that may be reclassified subsequently to profit or loss* | | |
| 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 | **(73,456)** | (108,604) |
| Attributable to: | | |
| Equity shareholders of the Company | **(73,451)** | (108,610) |
| Non-controlling interests | **(5)** | 6 |
| | **(73,456)** | (108,604) |

The accompanying notes form an integral part of the Condensed Consolidated Interim Financial Information.

## CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION

*As at 30 June 2015*

| | Note | **Unaudited As at 30 June 2015 HK$'000** | Audited As at 31 December 2014 HK$'000 |
|---|---|---|---|
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | 12 | **445,818** | 478,432 |
| Leasehold land and land use rights | 13 | **159,549** | 161,486 |
| Intangible assets | 14 | **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 | 15 | **438,055** | 580,122 |
| Accounts receivable and bills receivable | 16 | **328,024** | 456,164 |
| Forward foreign exchange contracts | | **5,689** | 794 |
| Prepayments and other receivables | | **295,758** | 280,836 |
| Cash and bank balances | 17 | **664,528** | 723,444 |
| | | **1,732,054** | 2,041,360 |
| CURRENT LIABILITIES | | | |
| Accounts payable and bills payable | 18 | **125,091** | 174,832 |
| Accruals and other payables | 19 | **261,910** | 500,745 |
| Forward foreign exchange contracts | | **2,702** | 5,370 |
| Current income tax liabilities | | **8,446** | 50,943 |
| Bank borrowings | 20 | **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 | 21 | **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 |

The accompanying notes form an integral part of the Condensed Consolidated Interim Financial Information.

## CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

*For the six months ended 30 June 2015*

| | Unaudited | | | | |
|---|---|---|---|---|---|
| | Attributable to equity shareholders of the Company | | | | |
| | Share capital *HK$'000* | Reserves *HK$'000* | Total *HK$'000* | Non-controlling interests *HK$'000* | Total equity *HK$'000* |
| As at 1 January 2015 | **27,119** | **1,525,516** | **1,552,635** | **336** | **1,552,971** |
| Total comprehensive loss for the period | **–** | **(73,451)** | **(73,451)** | **(5)** | **(73,456)** |
| Shares issued during the period | **42** | **749** | **791** | **–** | **791** |
| Share option scheme – value of employee services | **–** | **217** | **217** | **–** | **217** |
| Dividends paid to equity shareholders of the Company | **–** | **(16,271)** | **(16,271)** | **–** | **(16,271)** |
| As at 30 June 2015 | **27,161** | **1,436,760** | **1,463,921** | **331** | **1,464,252** |

| | Unaudited | | | | |
|---|---|---|---|---|---|
| | Attributable to equity shareholders of the Company | | | | |
| | Share capital *HK$'000* | Reserves *HK$'000* | Total *HK$'000* | Non-controlling interests *HK$'000* | Total equity *HK$'000* |
| As at 1 January 2014 | 27,078 | 1,429,389 | 1,456,467 | 315 | 1,456,782 |
| Total comprehensive loss for the period | – | (108,610) | (108,610) | 6 | (108,604) |
| Share option scheme – value of employee services | – | 246 | 246 | – | 246 |
| Dividends paid to equity shareholders of the Company | – | (16,247) | (16,247) | – | (16,247) |
| As at 30 June 2014 | 27,078 | 1,304,778 | 1,331,856 | 321 | 1,332,177 |

The accompanying notes form an integral part of the Condensed Consolidated Interim Financial Information.

## CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS

*For the six months ended 30 June 2015*

| | Note | Unaudited six months ended 30 June | |
|---|---|---|---|
| | | **2015** | 2014 |
| | | ***HK$'000*** | *HK$'000* |
| Operating activities | | | |
| Cash used in operations | | **(190,448)** | (347,342) |
| Income tax paid | | **(47,087)** | (38,878) |
| Net cash used in operating activities | | **(237,535)** | (386,220) |
| Investing activities | | | |
| Interest received | | **8,834** | 8,999 |
| Payment of license fees | | **(25,291)** | (30,038) |
| Purchases of property, plant and equipment | | **(9,389)** | (30,621) |
| Net proceeds received from disposal of a subsidiary in the previous year | | **157,620** | – |
| Proceeds from disposals of property, plant and equipment | | **926** | 2,888 |
| Proceeds from disposal of freehold land and building | | **–** | 32,032 |
| Decrease in short-term deposits, with maturities over 3 months | | **61,626** | 40 |
| Decrease in bank structured deposits | | **8,852** | 12,625 |
| Net cash generated from/(used in) investing activities | | **203,178** | (4,075) |
| Financing activities | | | |
| Interest paid | | **(3,699)** | (3,392) |
| Dividends paid to equity shareholders of the Company | | **(16,271)** | (16,247) |
| New bank borrowings | | **769,756** | 1,138,559 |
| Repayment of bank borrowings | | **(704,625)** | (857,697) |
| Proceeds from shares issued upon exercise of share options | | **791** | – |
| Net cash generated from financing activities | | **45,952** | 261,223 |
| Increase/(decrease) in cash and cash equivalents | | **11,595** | (129,072) |
| Cash and cash equivalents at beginning of the period | 17 | **453,159** | 623,573 |
| Effect on foreign exchange rate changes | | **(33)** | (4,381) |
| Cash and cash equivalents at end of the period | 17 | **464,721** | 490,120 |

The accompanying notes form an integral part of the Condensed Consolidated Interim Financial Information.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

*For the six months ended 30 June 2015*

### 1. GENERAL INFORMATION

The Company is a limited liability company incorporated in Bermuda. The address of its registered office is Canon's Court, 22 Victoria Street, Hamilton HM12, Bermuda. The address of its head office and principal place of business in Hong Kong is 5th Floor, 66–72 Lei Muk Road, Kwai Chung, New Territories, Hong Kong.

The principal activities of the Group are (i) garment manufacturing, and (ii) branded product distribution, retail and trading.

The Company's shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited since 1988.

As stated in the Group's 2014 annual financial statements, the early termination of the license granted to the Group for the distribution of Jack Wolfskin products in the People's Republic of China (the "PRC") took effect on 27 March 2015. Upon the license termination, the Group ceased to distribute Jack Wolfskin products in the PRC. The Jack Wolfskin PRC distribution business has been a steady income contributor to the Group, with revenue totalling HK$204 million in the first half of 2015 up to the termination date (six months ended 30 June 2014: HK$303 million). 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 to 31 December 2017, to advise and assist JW PRC Co on the development, procurement, sale and marketing of the Jack Wolfskin products in the PRC, as well as in relation to the management of the Jack Wolfskin PRC business of JW PRC Co. 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 to facilitate the transition of the Jack Wolfskin PRC business. In relation to working capital, after the license termination, 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.

The unaudited Condensed Consolidated Interim Financial Information is presented in Hong Kong dollars ("HK$"), unless otherwise stated. The unaudited Condensed Consolidated Interim Financial Information for the six months ended 30 June 2015 was approved for issue by the Board on 31 August 2015.

This Condensed Consolidated Interim Financial Information has not been audited.

### 2. 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 3.

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.

### 3. 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.

### 4. 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.

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)**
*For the six months ended 30 June 2015*

## 5. 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 | **822,023** | 839,409 | **390,426** | 495,911 | **–** | – | **1,212,449** | 1,335,320 |
| 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 | | | | | | | **(87,167)** | (79,294) |

| | Garment manufacturing | | Branded product distribution, retail and trading | | Unallocated *(Note (1))* | | Total | |
|---|---|---|---|---|---|---|---|---|
| | **Unaudited As at 30 June 2015** | Audited As at 31 December 2014 | **Unaudited As at 30 June 2015** | Audited As at 31 December 2014 | **Unaudited As at 30 June 2015** | Audited As at 31 December 2014 | **Unaudited As at 30 June 2015** | Audited As at 31 December 2014 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'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 |

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)**
*For the six months ended 30 June 2015*

## 5. SEGMENT INFORMATION (continued)

| | 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 |

The Group's revenue is mainly derived from customers located in 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 HK$'000** | 2014 HK$'000 | **2015 HK$'000** | 2014 HK$'000 | **2015 HK$'000** | 2014 HK$'000 | **2015 HK$'000** | 2014 HK$'000 | **2015 HK$'000** | 2014 HK$'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.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)
*For the six months ended 30 June 2015*

### 5. SEGMENT INFORMATION (continued)

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 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* |
| 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.

### 6. 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.

### 7. 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) |

### 8. 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 |

### 9. 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) |

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

*For the six months ended 30 June 2015*

### 9. INCOME TAX EXPENSE (continued)

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.

### 10. 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.

### 11. INTERIM DIVIDEND

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

### 12. PROPERTY, PLANT AND EQUIPMENT

| | **Unaudited As at 30 June 2015** | Audited As at 31 December 2014 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Opening net book amount | **478,432** | 526,115 |
| Additions | **9,389** | 54,170 |
| Disposal of a subsidiary | **–** | (18,923) |
| Disposals | **(1,393)** | (3,286) |
| Depreciation | **(39,917)** | (78,533) |
| Exchange differences | **(693)** | (1,111) |
| Closing net book amount | **445,818** | 478,432 |

### 13. LEASEHOLD LAND AND LAND USE RIGHTS

| | **Unaudited As at 30 June 2015** | Audited As at 31 December 2014 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Opening net book amount | **161,486** | 173,096 |
| Amortisation | **(1,993)** | (4,170) |
| Disposal of a subsidiary | **–** | (6,826) |
| Exchange differences | **56** | (614) |
| Closing net book amount | **159,549** | 161,486 |

### 14. INTANGIBLE ASSETS

| | **Unaudited As at 30 June 2015** | Audited As at 31 December 2014 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| License rights and service right *(Note (a))* | | |
| Opening net book amount | **94,528** | 156,561 |
| Amortisation | **(37,632)** | (62,033) |
| Closing net book amount | **56,896** | 94,528 |
| Goodwill | | |
| Opening net book amount | **–** | 22,117 |
| Impairment *(Note (b))* | **–** | (20,893) |
| Exchange differences | **–** | (1,224) |
| Closing net book amount | **–** | – |
| Total intangible assets | **56,896** | 94,528 |

*Notes:*

(a) License rights and service right

License rights represent capitalisation of the minimum contractual obligation at the time of inception of the license of the Group's licensed brands, Nautica and Jack Wolfskin. They are recognised based on discount rates equal to the Group's weighted average borrowing rates of approximately 3.0% to 5.0% per annum at the dates of inception.

Service right represents the contractual right recognised for the provision of consultancy and transitional services to JW PRC Co after the early termination of the Jack Wolfskin license. The service right was inherited from the original license and is amortised over the original remaining term of the license agreement up to 31 December 2015.

(b) Impairment of goodwill

As at 31 December 2014, due to the foreseeable difficult operating environment and unsatisfactory results of a business unit under the garment manufacturing segment, management performed an impairment assessment of the goodwill acquired in the prior years in relation to the business unit and full impairment has been made in 2014.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

*For the six months ended 30 June 2015*

### 15. INVENTORIES

| | **Unaudited As at 30 June 2015** | Audited As at 31 December 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 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.

### 16. 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** | Audited As at 31 December 2014 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Less than 3 months | **325,560** | 450,774 |
| 3 months to 6 months | **2,464** | 5,390 |
| Over 6 months | **608** | 2,052 |
| | **328,632** | 458,216 |
| Less: Provision for impairment | **(608)** | (2,052) |
| | **328,024** | 456,164 |

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.

### 17. CASH AND BANK BALANCES

| | **Unaudited As at 30 June 2015** | Audited As at 31 December 2014 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Cash and cash equivalents in the condensed consolidated interim statement of cash flows | **464,721** | 453,159 |
| Short-term bank deposits, with maturities over 3 months | **143,378** | 205,004 |
| Bank structured deposits | **56,429** | 65,281 |
| Cash and bank balances in the condensed consolidated interim statement of financial position | **664,528** | 723,444 |

### 18. 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** | Audited As at 31 December 2014 |
|---|---|---|
| | ***HK$'000*** | *HK$'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 |
| | **125,091** | 174,832 |

Majority of payment terms with suppliers are within 60 days.

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

### 19. 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.

### 20. BANK BORROWINGS

| | **Unaudited As at 30 June 2015** | Audited As at 31 December 2014 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Unsecured short-term bank loans | **508,931** | 443,800 |

The carrying amounts of bank borrowings approximate their fair values.

Increase in bank loans reflects the seasonal borrowing requirements for financing working capital.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

*For the six months ended 30 June 2015*

### 21. SHARE CAPITAL

| | **Unaudited As at 30 June 2015** | Audited As at 31 December 2014 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Authorised: | | |
| 500,000,000 (2014: 500,000,000) shares of HK$0.10 each | **50,000** | 50,000 |

Issued and fully paid:

| | **Unaudited As at 30 June 2015** | | Audited As at 31 December 2014 | |
|---|---|---|---|---|
| | **Number of shares** | ***HK$'000*** | Number of shares | *HK$'000* |
| Opening balance | **271,191,253** | **27,119** | 270,779,253 | 27,078 |
| Shares issued during the period/year | **416,000** | **42** | 412,000 | 41 |
| Closing balance | **271,607,253** | **27,161** | 271,191,253 | 27,119 |

### 22. COMMITMENTS

#### (a) Operating lease commitments

The Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings, as follows:

| | **Unaudited As at 30 June 2015** | Audited As at 31 December 2014 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Within 1 year | **79,158** | 61,733 |
| After 1 year but within 5 years | **49,129** | 54,619 |
| After 5 years | **5,372** | 6,973 |
| | **133,659** | 123,325 |

#### (b) Capital commitments

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

### 23. RELATED PARTY TRANSACTIONS

The following is a summary of significant related party transactions which were carried out in the normal course of the Group's business:

| | **Unaudited six months ended 30 June** | |
|---|---|---|
| | **2015** | 2014 |
| | ***HK$'000*** | *HK$'000* |
| **(a) A related company** | | |
| Rental expense | **3,903** | 3,600 |
| **(b) Key management compensation** | | |
| Salaries, allowances and bonuses | **8,405** | 6,624 |
| Defined contribution plans | **180** | 161 |
| Share-based compensation expense – share options granted | **164** | 152 |
| | **8,749** | 6,937 |

In June 2012, a subsidiary of the Group made a cash advance of HK$12,000,000 to a key management employee of the Group. Pursuant to the agreement, the cash advance is unsecured and bears interest at the Group's cost of borrowing. The short-term portion of the cash advance of HK$3,500,000 plus related interest was repayable within one year. The remaining long-term portion of HK$8,500,000 was to be waived by the subsidiary in equal amount semi-annually over a period of ten years commencing from the third year while the individual remains as an employee of the Group. Any unwaived principal plus related accrued interest will be repayable upon cessation of employment of the employee. The short-term portion of the cash advance is included in prepayments and other receivables. The long-term portion regarded as prepaid staff benefit is included in other long-term assets and is amortised over twelve years from the date of the advance. In June 2013 and June 2014, the subsidiary and the individual entered into amendment agreements to change the repayment date of the short-term cash advance of HK$3,500,000. Pursuant to the 2014 amendment agreement, such cash advance is repayable by HK$1,000,000 each on or before 30 June 2014 and 30 June 2015 respectively, with the remaining balance of HK$1,500,000 plus accrued interest repayable on or before 30 June 2016.

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)**
*For the six months ended 30 June 2015*

## 24. FAIR VALUE OF FINANCIAL INSTRUMENTS

### (a) Fair value estimation

The carrying values of cash and bank balances, accounts receivable and bills receivable, other receivables, accounts payable and bills payable, accruals and other payables and bank borrowings are reasonable approximations of their fair values due to their short-term maturities. The fair value of derivative financial instruments (forward foreign exchange contracts) is determined using forward exchange market rates at the end of each reporting period. The fair value of financial assets and liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

The following table presents the fair value of the Group's derivative financial instruments measured at the period ended 30 June 2015 and year ended 31 December 2014 on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, 'Fair value measurement'. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

Level 1 valuations: Fair value measured using only Level 1 inputs, i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.

Level 2 valuations: Fair value measured using Level 2 inputs, i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.

Level 3 valuations: Fair value measured using significant unobservable inputs.

The Group has an established control framework with respect to the measurement of fair values. The management has overall responsibility for overseeing all significant fair value measurements.

| **At 30 June 2015** | **Level 1** *HK$'000* | **Level 2** *HK$'000* | **Level 3** *HK$'000* | **Total** *HK$'000* |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Forward foreign exchange contracts | | | | |
| – Non-current | – | 8,949 | – | 8,949 |
| – Current | – | 5,689 | – | 5,689 |
| **Total assets** | – | 14,638 | – | 14,638 |
| **Financial liabilities** | | | | |
| Forward foreign exchange contracts | | | | |
| – Non-current | – | (9,704) | – | (9,704) |
| – Current | – | (2,702) | – | (2,702) |
| **Total liabilities** | – | (12,406) | – | (12,406) |

| At 31 December 2014 | Level 1 *HK$'000* | Level 2 *HK$'000* | Level 3 *HK$'000* | Total *HK$'000* |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Forward foreign exchange contracts | | | | |
| – Non-current | – | 3,389 | – | 3,389 |
| – Current | – | 794 | – | 794 |
| **Total assets** | – | 4,183 | – | 4,183 |
| **Financial liabilities** | | | | |
| Forward foreign exchange contracts | | | | |
| – Non-current | – | (12,473) | – | (12,473) |
| – Current | – | (5,370) | – | (5,370) |
| **Total liabilities** | – | (17,843) | – | (17,843) |

There was no transfer of financial assets and liabilities in the fair value hierarchy classifications for the period ended 30 June 2015 and year ended 31 December 2014. The Group's policy is to recognise transfer between levels of fair value hierarchy as at the end of the reporting period in which they occur.

### (b) Valuation techniques used to derive Level 2 fair values

Level 2 derivative financial instruments comprise forward foreign exchange contracts. These forward foreign exchange contracts have been fair valued using forward exchange rates that are quoted in an active market. The effects of discounting are generally insignificant for Level 2 derivatives. There was no change in valuation techniques during the period.

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 Interim Report and no important events affecting the Group have occurred since 30 June 2015 and up to the date of this Interim Report.

## 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.

## DISCLOSURE OF INTERESTS

### Directors' interests in securities

As at 30 June 2015, the interests and short positions of the directors (the "Board" or the "Directors") and the chief executive of Tristate Holdings Limited (the "Company") in the 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 Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") under Appendix 10 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), were as follows:

Interests in shares of the Company

| | | Number of shares held | | | |
|---|---|---|---|---|---|
| **Name of Director** | **Long/short position** | **Through spouse or minor children** | **Through controlled corporation(s)** | **Total** | **Approximate percentage of issued share capital** |
| Mr. WANG Kin Chung, Peter | Long position | 3,212,000 *(Note 1)* | 182,442,000 *(Note 2)* | 185,654,000 | 68.35% |

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

| | | | Number of shares held | | |
|---|---|---|---|---|---|
| **Name of Director** | **Long/short position** | **Class** | **Through spouse or minor children** | **Total** | **Approximate percentage of issued share capital** |
| Ms. WANG KOO Yik Chun | Long position | Ordinary share | 2,500 *(Note 3)* | 2,500 | 0.03% |

*Notes:*

1. 3,212,000 shares were beneficially owned by Ms. Daisy TING, the spouse of Mr. WANG Kin Chung, Peter.

2. 182,442,000 shares were beneficially owned by Silver Tree Holdings Inc., a company wholly owned by Mr. WANG Kin Chung, Peter.

3. 2,500 shares in Hua Thai were held by the late Mr. WANG Seng Liang, the spouse of Ms. WANG KOO Yik Chun.

Save as disclosed above, as at 30 June 2015, 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 (i) recorded in the register kept by the Company pursuant to Section 352 of the SFO; or (ii) notified to the Company and the Stock Exchange pursuant to the Model Code.

## DISCLOSURE OF INTERESTS (continued)

### Substantial shareholders

As at 30 June 2015, the following persons (other than the Directors or the chief executive of the Company) had interests or short positions in the shares and underlying shares of the Company as recorded in the register kept by the Company pursuant to Section 336 of the SFO:

| | | Number of shares held | | | |
|---|---|---|---|---|---|
| **Name of shareholder** | **Long/short position** | **Directly beneficially owned** | **Through spouse or minor children** | **Total** | **Approximate percentage of issued share capital** |
| Ms. Daisy TING | Long position | 3,212,000 | 182,442,000 *(Note)* | 185,654,000 | 68.35% |
| Silver Tree Holdings Inc. | Long position | 182,442,000 *(Note)* | – | 182,442,000 | 67.17% |

*Note:*

182,442,000 shares were beneficially owned by Silver Tree Holdings Inc., a company wholly owned by Mr. WANG Kin Chung, Peter. Since Ms. Daisy TING is the spouse of Mr. WANG Kin Chung, Peter, she is deemed to be interested in the shares controlled by Mr. WANG Kin Chung, Peter under Part XV of the SFO.

Save as disclosed above, as at 30 June 2015, no other person (other than a Director or the chief executive of the Company) had an interest or short position in the shares or underlying shares of the Company which were recorded in the register kept by the Company pursuant to Section 336 of the SFO.

## SHARE OPTIONS

Movement in the share options granted under the share option scheme of the Company during the period and outstanding as at 30 June 2015 were as follows:

| | | Number of share options | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Date of grant** | **Participant** | **At 01/01/2015** | **Granted during the period** | **Exercised during the period** | **Lapsed during the period** | **At 30/06/2015** | **Exercise price per share** | **Exercisable period** |
| 21/06/2010 | Employees (in aggregate) | 66,000 | – | (66,000) *(Note 5)* | – | **–** | HK$1.90 | 21/06/2010 – 20/06/2015 |
| | | 66,000 | – | (66,000) *(Note 5)* | – | **–** | HK$1.90 | 21/06/2011 – 20/06/2015 |
| | | 122,000 | – | (122,000) *(Note 5)* | – | **–** | HK$1.90 | 21/06/2012 – 20/06/2015 |
| | | 162,000 | – | (162,000) *(Note 5)* | – | **–** | HK$1.90 | 21/06/2013 – 20/06/2015 |
| 13/06/2011 | Employees (in aggregate) | 105,000 | – | – | – | **105,000** | HK$4.01 | 13/06/2011 – 12/06/2016 |
| | | 105,000 | – | – | – | **105,000** | HK$4.01 | 13/06/2012 – 12/06/2016 |
| | | 105,000 | – | – | – | **105,000** | HK$4.01 | 13/06/2013 – 12/06/2016 |
| | | 105,000 | – | – | – | **105,000** | HK$4.01 | 13/06/2014 – 12/06/2016 |
| 18/06/2012 | Employees (in aggregate) | 80,000 | – | – | – | **80,000** | HK$5.06 | 18/06/2012 – 17/06/2017 |
| | | 80,000 | – | – | – | **80,000** | HK$5.06 | 18/06/2013 – 17/06/2017 |
| | | 80,000 | – | – | – | **80,000** | HK$5.06 | 18/06/2014 – 17/06/2017 |
| | | 80,000 | – | – | – | **80,000** | HK$5.06 | 18/06/2015 – 17/06/2017 |

## SHARE OPTIONS (continued)

| | | Number of share options | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Date of grant** | **Participant** | **At 01/01/2015** | **Granted during the period** | **Exercised during the period** | **Lapsed during the period** | **At 30/06/2015** | **Exercise price per share** | **Exercisable period** |
| 03/06/2013 | Employees (in aggregate) | 127,000 | – | – | (23,000) | **104,000** | HK$3.92 | 03/06/2013 – 02/06/2018 |
| | | 127,000 | – | – | (23,000) | **104,000** | HK$3.92 | 03/06/2014 – 02/06/2018 |
| | | 127,000 | – | – | (23,000) | **104,000** | HK$3.92 | 03/06/2015 – 02/06/2018 |
| | | 127,000 | – | – | (23,000) | **104,000** | HK$3.92 | 03/06/2016 – 02/06/2018 |
| 09/06/2014 | Employees (in aggregate) | 144,000 | – | – | (38,000) | **106,000** | HK$3.10 | 09/06/2014 – 08/06/2019 |
| | | 144,000 | – | – | (38,000) | **106,000** | HK$3.10 | 09/06/2015 – 08/06/2019 |
| | | 144,000 | – | – | (38,000) | **106,000** | HK$3.10 | 09/06/2016 – 08/06/2019 |
| | | 144,000 | – | – | (38,000) | **106,000** | HK$3.10 | 09/06/2017 – 08/06/2019 |
| 08/06/2015 *(Notes 2 & 3)* | Employees (in aggregate) | – | 135,000 | – | – | **135,000** | HK$2.97 | 08/06/2015 – 07/06/2020 |
| | | – | 135,000 | – | – | **135,000** | HK$2.97 | 08/06/2016 – 07/06/2020 |
| | | – | 135,000 | – | – | **135,000** | HK$2.97 | 08/06/2017 – 07/06/2020 |
| | | – | 135,000 | – | – | **135,000** | HK$2.97 | 08/06/2018 – 07/06/2020 |
| | Total | 2,240,000 | 540,000 | (416,000) | (244,000) | **2,120,000** | | |

*Notes:*

1. The above options vest in four equal tranches over a period of three years from the relevant date of grant.
2. The Company received a total consideration of HK$3.00 from the grantees for the options granted during the period.
3. The closing price of the shares of the Company on 5 June 2015, i.e. the business day immediately before the date on which the options were granted during the period, as quoted on the Stock Exchange, was HK$2.97.
4. No options had been cancelled during the period.
5. The weighted average closing price of the shares immediately before the dates on which the options were exercised was HK$2.91.
6. The fair value of the options granted during the period determined using the Trinomial valuation model was HK$0.74 per option. The significant inputs into the model are as follows:

| | |
|---|---|
| Share price at the grant date | HK$2.97 |
| Exercise price | HK$2.97 |
| Dividend yield | 2% |
| Volatility | 33% |
| Annual risk-free interest rate | 1.3% |

The volatility at the grant date, which measured the standard deviation of expected share price returns, is based on statistics of 260-week historical volatilities of comparable companies within the industry.

The aggregate fair value of the options granted during the period amounted to HK$402,000 is to be recognised as employment expense over the vesting periods together with a corresponding increase in equity. Such fair value is subject to a number of assumptions and with regard to the limitation of the Trinomial valuation model.

## 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 Listing Rules, 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 (the "2014 Annual Report").

- 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.

## MODEL CODE

The Company has adopted the Model Code as the code of conduct regarding securities transactions by Directors. All Directors have confirmed, following specific enquiry by the Company, that they have complied with the required standard set out in the Model Code throughout the six months ended 30 June 2015.

## CHANGES IN DIRECTORS' BIOGRAPHICAL DETAILS

Changes in Directors' biographical details since the date of the 2014 Annual Report, which are required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules, are set out below:

**Mr. LO Kai Yiu, Anthony**

Retirement

- Independent non-executive director of IDT International Limited

Save for the information disclosed above, there is no other information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

## 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