TRISTATE

Tristate Holdings Limited

Interim Report

2018

Stock code: 458

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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

AU King Lun, Paulina

COMPANY SECRETARY

TO Hon Fai

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

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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
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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
Wan Chai
Hong Kong

Tel	:	(852) 2862-8555
Fax	:	(852) 2865-0990

CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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 2018 together with comparative figures for 2017.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2018 – unaudited

		Six months ended 30 June	
	Note	**2018** ***HK$'000***	2017 *HK$'000*
Revenue	5 & 6	**983,848**	742,612
Cost of sales		**(768,091)**	(590,758)
Gross profit		**215,757**	151,854
Other income and other gains	7	**2,378**	15,125
Selling and distribution expenses		**(72,837)**	(40,714)
General and administrative expenses		**(228,496)**	(200,271)
Loss from operations	8	**(83,198)**	(74,006)
Finance income	9	**2,276**	2,155
Finance costs	9	**(3,434)**	(1,781)
Loss before taxation		**(84,356)**	(73,632)
Income tax credit/(expense)	10	**421**	(1,105)
Loss for the period		**(83,935)**	(74,737)
Attributable to:			
Equity shareholders of the Company		**(84,179)**	(74,615)
Non-controlling interests		**244**	(122)
Loss for the period		**(83,935)**	(74,737)
Loss per share attributable to equity shareholders of the Company:	11		
Basic		**(HK$0.31)**	(HK$0.27)
Diluted		**(HK$0.31)**	(HK$0.27)

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2018 – unaudited

	Six months ended 30 June	
	2018 ***HK$'000***	2017 *HK$'000*
Loss for the period	**(83,935)**	(74,737)
Other comprehensive income, net of nil tax unless specified:		
Items that may be reclassified subsequently to profit or loss		
Fair value changes on cash flow hedges		
(Losses)/gains arising during the period	**(3,413)**	26,480
Transferred to and included in the following line items in the condensed consolidated interim statement of profit or loss		
Cost of sales	**(914)**	2,614
General and administrative expenses	**1,310**	483
Exchange difference on translation of financial statements of overseas subsidiaries	**(12,083)**	38,081
Other comprehensive income for the period	**(15,100)**	67,658
Total comprehensive income for the period	**(99,035)**	(7,079)
Attributable to:		
Equity shareholders of the Company	**(99,279)**	(6,957)
Non-controlling interests	**244**	(122)
Total comprehensive income for the period	**(99,035)**	(7,079)

The notes on pages 7 to 17 form part of the interim financial statements.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION

As at 30 June 2018 – unaudited

	Note	At 30 June 2018 HK$'000	At 31 December 2017 HK$'000
Non-Current Assets			
Property, plant and equipment	13	**317,513**	325,958
Leasehold land and land use rights	14	**133,420**	136,392
Intangible assets	15	**593,867**	208,334
Other long-term assets		**12,514**	12,708
Deferred tax assets		**4,594**	4,669
Defined benefit plan assets		**8,466**	7,769
Forward foreign exchange contracts		**401**	382
Interest in an associate		**–**	–
		1,070,775	696,212
Current Assets			
Inventories	16	**521,609**	231,769
Accounts receivable and bills receivable	17	**350,663**	264,864
Forward foreign exchange contracts		**579**	913
Prepayments and other receivables		**81,589**	74,709
Current tax recoverable		**1,054**	1,054
Cash and bank balances	18	**245,460**	512,990
		1,200,954	1,086,299
Current Liabilities			
Accounts payable and bills payable	19	**198,638**	105,537
Accruals and other payables	20	**232,800**	195,508
Forward foreign exchange contracts		**6,443**	6,239
Current tax liabilities		**5,427**	5,535
Bank borrowings	21	**180,054**	98,871
		623,362	411,690
Net Current Assets		**577,592**	674,609
Total Assets Less Current Liabilities		**1,648,367**	1,370,821

	Note	At 30 June 2018 HK$'000	At 31 December 2017 HK$'000
Non-Current Liabilities			
Retirement benefits and other post retirement obligations		**25,747**	24,500
License fees payable		**397,405**	26,613
Deferred tax liabilities		**25,393**	25,221
Forward foreign exchange contracts		**3,898**	1,399
		452,443	77,733
Net Assets		**1,195,924**	1,293,088
Capital and Reserves			
Share capital	22	**27,161**	27,161
Reserves		**1,171,467**	1,268,875
Total Equity Attributable to Equity Shareholders of the Company		**1,198,628**	1,296,036
Non-controlling Interests		**(2,704)**	(2,948)
Total Equity		**1,195,924**	1,293,088

The notes on pages 7 to 17 form part of the interim financial statements.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2018 – 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*
Balance at 1 January 2018	**27,161**	**1,268,875**	**1,296,036**	**(2,948)**	**1,293,088**
Impact of initial adoption of HKFRS 9 *(Note 3(b))*	**–**	**1,550**	**1,550**	**–**	**1,550**
Adjusted balance at 1 January 2018	**27,161**	**1,270,425**	**1,297,586**	**(2,948)**	**1,294,638**
Total comprehensive income for the period	**–**	**(99,279)**	**(99,279)**	**244**	**(99,035)**
Share option scheme – value of employee services	**–**	**321**	**321**	**–**	**321**
Balance at 30 June 2018	**27,161**	**1,171,467**	**1,198,628**	**(2,704)**	**1,195,924**

	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*
Balance at 1 January 2017	27,161	1,210,960	1,238,121	(2,148)	1,235,973
Total comprehensive income for the period	–	(6,957)	(6,957)	(122)	(7,079)
Share option scheme – value of employee services	–	295	295	–	295
Balance at 30 June 2017	27,161	1,204,298	1,231,459	(2,270)	1,229,189

The notes on pages 7 to 17 form part of the interim financial statements.

CONDENSED CONSOLIDATED INTERIM CASH FLOW STATEMENT

For the six months ended 30 June 2018 – unaudited

		Six months ended 30 June	
	Note	**2018** **HK$'000**	2017 HK$'000
Operating activities			
Cash used in operations		**(326,780)**	(82,467)
Income tax paid		**(406)**	(3,065)
Net cash used in operating activities		**(327,186)**	(85,532)
Investing activities			
Interest received		**2,276**	2,155
Payment for the purchase of property, plant and equipment		**(21,993)**	(13,809)
Proceeds from disposals of property, plant and equipment		**607**	198
Acquisition of intangible assets		**–**	(254)
Decrease in short-term bank deposits, with maturities over 3 months		**5,866**	19,092
Decrease/(increase) in bank structured deposits		**251**	(839)
Increase in pledged bank deposits		**(23,544)**	–
Net cash (used in)/generated from investing activities		**(36,537)**	6,543
Financing activities			
Interest paid		**(1,699)**	(1,073)
Proceeds from new bank borrowings		**352,172**	212,202
Repayment of bank borrowings		**(270,989)**	(282,720)
Net cash generated from/(used in) financing activities		**79,484**	(71,591)
Decrease in cash and cash equivalents		**(284,239)**	(150,580)
Cash and cash equivalents at beginning of the period	18	**458,500**	375,175
Effect on foreign exchange rate changes		**(718)**	7,295
Cash and cash equivalents at end of the period	18	**173,543**	231,890

The notes on pages 7 to 17 form part of the interim financial statements.

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2018

1. GENERAL INFORMATION

Tristate Holdings Limited (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 Company and its subsidiaries (together the "Group") are (i) garment manufacturing, and (ii) brands business.

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

The unaudited consolidated interim financial statements are presented in Hong Kong dollars ("HK$"), unless otherwise stated. The unaudited consolidated interim financial statements for the six months ended 30 June 2018 were approved for issue by the Board on 27 August 2018.

These consolidated interim financial statements have not been audited or reviewed by external auditors.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

These interim financial statements have 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 (the "Listing Rules"), including compliance with Hong Kong Accounting Standard ("HKAS") 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The interim financial statements have been prepared in accordance with the same accounting policies adopted in the 2017 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2018 annual financial statements. Details of any changes in accounting policies are set out in note 3.

These interim financial statements contain 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 2017 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 2017 that is included in the interim financial statements as comparative information does not constitute the Company's statutory annual consolidated financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2017 are available from the Company's head office and principal place of business in Hong Kong. The auditors have expressed an unqualified opinion on those financial statements in their report dated 26 March 2018.

3. CHANGES IN ACCOUNTING POLICIES

(a) Overview

The HKICPA has issued a number of new HKFRSs and amendments to HKFRSs that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's financial statements:

– HKFRS 9, *Financial instruments*

– HKFRS 15, *Revenue from contracts with customers*

– HK(IFRIC) 22, *Foreign currency transactions and advance consideration*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period, except for the amendments to HKFRS 9, *Prepayment features with negative compensation* which have been adopted at the same time as HKFRS 9.

The Group has been impacted by HKFRS 9 in relation to classification of financial assets. Details of the changes in accounting policies are discussed in note 3(b) for HKFRS 9.

(b) HKFRS 9, *Financial instruments*

HKFRS 9 replaces HKAS 39, *Financial instruments: recognition and measurement*. It sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

The Group has applied HKFRS 9 retrospectively to items that existed at 1 January 2018 in accordance with the transition requirements. The Group has recognised the cumulative effect of initial application as an adjustment to the opening equity at 1 January 2018. Therefore, comparative information continues to be reported under HKAS 39.

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2018

3. CHANGES IN ACCOUNTING POLICIES (Continued)

(b) HKFRS 9, *Financial instruments* (Continued)

(i) Classification of financial assets and financial liabilities

HKFRS 9 categorises financial assets into three principal classification categories: measured at amortised cost, at fair value through other comprehensive income ("FVOCI") and at fair value through profit or loss ("FVPL"). These supersede HKAS 39's categories of held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at FVPL. The classification of financial assets under HKFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics.

Non-equity investments held by the Group are classified into one of the following measurement categories:

– amortised cost, if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method;

– FVOCI – recycling, if the contractual cash flows of the investment comprise solely payments of principal and interest and the investment is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognised in other comprehensive income, except for the recognition in profit or loss of expected credit losses, interest income (calculated using the effective interest method) and foreign exchange gains and losses. When the investment is derecognised, the amount accumulated in other comprehensive income is recycled from equity to profit or loss; or

– FVPL, if the investment does not meet the criteria for being measured at amortised cost or FVOCI (recycling). Changes in the fair value of the investment (including interest) are recognised in profit or loss.

The following table shows the original measurement categories for each class of the Group's financial assets under HKAS 39 and reconciles the carrying amounts of those financial assets determined in accordance with HKAS 39 to those determined in accordance with HKFRS 9.

	HKAS 39 carrying amount at 31 December 2017 *HK$'000*	Reclassification *HK$'000*	Remeasurement *HK$'000*	HKFRS 9 carrying amount at 1 January 2018 *HK$'000*
Financial Assets Measured at FVPL				
Other long term assets – Club debentures	–	2,100	1,550	3,650
Financial Assets Classified as Available-For-Sale under HKAS 39	2,100	(2,100)	–	–

The measurement categories for all financial assets and financial liabilities of the Group remain the same, except for club debentures discussed above.

The Group did not designate or re-designate any financial asset or financial liability at FVPL at 1 January 2018.

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2018

3. CHANGES IN ACCOUNTING POLICIES (Continued)

(b) HKFRS 9, *Financial instruments* (Continued)

(ii) Credit losses

HKFRS 9 replaces the "incurred loss" model in HKAS 39 with the expected credit loss ("ECL") model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and generally recognises ECLs earlier than under the "incurred loss" accounting model in HKAS 39.

The Group applies the new ECL model to the financial assets measured at amortised cost (including cash and cash equivalents, accounts receivable, bills receivable and other receivables).

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

Where the effect of discounting is material, the expected cash shortfalls from accounts receivable, bills receivable and other receivables are discounted using the effective interest rate determined at initial recognition or an approximation thereof.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

– 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and

– lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for accounts receivable, bills receivable and other receivables are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

The adoption of the ECL model under HKFRS 9 has no material impact on the Group.

(iii) Hedge accounting

The Group has elected to adopt the new general hedge accounting model in HKFRS 9. Depending on the complexity of the hedge, this new accounting model allows a more qualitative approach to assessing hedge effectiveness compared to HKAS 39 to be applied, and the assessment is always forward-looking. The adoption of HKFRS 9 has not had a significant impact on the Group's financial statements in this regard.

(iv) Transition

Changes in accounting policies resulting from the adoption of HKFRS 9 have been applied retrospectively, except as described below:

– Information relating to comparative periods has not been restated. Differences in the carrying amounts of financial assets resulting from the adoption of HKFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 continues to be reported under HKAS 39 and thus may not be comparable with the current period.

– On 1 January 2018 (the date of initial application of HKFRS 9 by the Group), the Group has made assessment for the determination of the business model within which a financial asset is held.

– All hedging relationships designated under HKAS 39 at 31 December 2017 met the criteria for hedge accounting under HKFRS 9 at 1 January 2018 and are therefore regarded as continuing hedging relationships.

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2018

3. CHANGES IN ACCOUNTING POLICIES

(Continued)

(c) HKFRS 15, *Revenue from contracts with customers*

HKFRS 15 establishes a comprehensive framework for recognising revenue and some costs from contracts with customers. HKFRS 15 replaces HKAS 18, *Revenue*, which covered revenue arising from sale of goods and rendering of services.

Timing of revenue recognition

Previously, revenue arising from provision of services was recognised over time, whereas revenue from sale of goods was generally recognised at a point in time when the risks and rewards of ownership of the goods had passed to the customers.

Under HKFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract. This may be at a single point in time or over time. HKFRS 15 identifies situations in which control of the promised good or service is regarded as being transferred over time. If the contract terms and the entity's activities do not fall into such situations, then under HKFRS 15 the entity recognises revenue for the sale of that good or service at a single point in time, being when control has passed. Transfer of risks and rewards of ownership is only one of the indicators that is considered in determining when the transfer of control occurs.

The adoption of HKFRS 15 does not have a significant impact on when the Group recognises revenue from sale of good or service and as a result, the adoption of HKFRS 15 has not had a significant impact on the Group's financial statements. Therefore, comparative information has not been restated and continues to be reported under HKAS 18.

(d) HK(IFRIC) 22, *Foreign currency transactions and advance consideration*

This interpretation provides guidance on determining "the date of the transaction" for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) arising from a transaction in which an entity receives or pays advance consideration in a foreign currency.

The Interpretation clarifies that "the date of the transaction" is the date on initial recognition of the non-monetary asset or liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the date of the transaction for each payment or receipt should be determined in this way. The adoption of HK(IFRIC) 22 does not have any material impact on the financial position and the financial result of the Group.

4. ESTIMATES

The preparation of the interim financial statements in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities, income and expense on a year to date basis. Actual results may differ from these estimates. In preparing these interim financial statements, 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 2017.

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2018

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 Group manages its business by business units, which are organised by business lines and geography. The Group identified two reportable segments: (i) garment manufacturing and (ii) brands business. The chief operating decision makers assess the performance of the reportable segments and allocate resources between segments based on the measure of profit or loss generated. This measurement basis is equivalent to loss for the period of that reportable segment.

Segment assets include all tangible, intangible assets and current assets employed by the segments. Segment liabilities include all current liabilities and non-current liabilities managed directly by the segments. Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments. Inter-segment sales are priced with reference to prices charged to external parties for similar orders. The segment information is as follows:

	Six months ended 30 June							
	Garment manufacturing		Brands business		Unallocated		Total	
	2018 HK$'000	2017 HK$'000	**2018 HK$'000**	2017 HK$'000	**2018 HK$'000**	2017 HK$'000	**2018 HK$'000**	2017 HK$'000
Reportable segment revenue	**836,023**	650,657	**153,778**	96,880	**–**	–	**989,801**	747,537
Less: Inter-segment revenue	**(5,953)**	(4,925)	**–**	–	**–**	–	**(5,953)**	(4,925)
Revenue *(Note)*	**830,070**	645,732	**153,778**	96,880	**–**	–	**983,848**	742,612
Reportable segment loss before taxation	**(12,089)**	(27,233)	**(62,044)**	(32,503)	**(10,223)**	(13,896)	**(84,356)**	(73,632)
Income tax credit/(expense)	**738**	2,356	**(85)**	(73)	**(232)**	(3,388)	**421**	(1,105)
Reportable segment loss for the period	**(11,351)**	(24,877)	**(62,129)**	(32,576)	**(10,455)**	(17,284)	**(83,935)**	(74,737)

Note: All revenue was recognised at point in time for the six months ended 30 June 2018 and 2017.

	Garment manufacturing		Brands business		Unallocated *(Note (i))*		Total	
	At 30 June 2018 HK$'000	At 31 December 2017 HK$'000	**At 30 June 2018 HK$'000**	At 31 December 2017 HK$'000	**At 30 June 2018 HK$'000**	At 31 December 2017 HK$'000	**At 30 June 2018 HK$'000**	At 31 December 2017 HK$'000
Reportable segment assets	**1,054,547**	736,643	**807,172**	368,245	**410,010**	677,623	**2,271,729**	1,782,511
Reportable segment liabilities	**366,947**	284,738	**528,804**	105,814	**180,054**	98,871	**1,075,805**	489,423

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2018

5. SEGMENT INFORMATION (Continued)

	Six months ended 30 June							
	Garment manufacturing		Brands business		Unallocated		Total	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Finance income	**–**	–	**–**	–	**2,276**	2,155	**2,276**	2,155
Finance costs	**–**	–	**(1,735)**	(708)	**(1,699)**	(1,073)	**(3,434)**	(1,781)
Amortisation of leasehold land and land use rights	**(161)**	(147)	**–**	–	**(1,711)**	(1,572)	**(1,872)**	(1,719)
Amortisation of intangible assets	**–**	–	**(4,099)**	(3,213)	**–**	–	**(4,099)**	(3,213)
Depreciation on property, plant and equipment	**(15,532)**	(15,720)	**(4,324)**	(2,944)	**(7,298)**	(7,758)	**(27,154)**	(26,422)
(Provision for)/reversal of impairment of receivables, net	**(922)**	827	**(198)**	365	**–**	–	**(1,120)**	1,192
(Write-down)/reversal of write-down of inventories to net realisable value, net	**(5,625)**	(4,378)	**3,934**	4,869	**–**	–	**(1,691)**	491
Net gain/(loss) on disposals of property, plant and equipment	**50**	–	**–**	(614)	**40**	(12)	**90**	(626)
Additions to non-current assets	**12,527**	6,366	**400,299**	7,760	**2,689**	338	**415,515**	14,464

The Group's revenue is mainly derived from customers located in the People's Republic of China (the "PRC"), the United States of America (the "US"), the United Kingdom (the "UK") and Canada, while the Group's production facilities, trademark and other assets are located predominantly in the PRC, Luxembourg and Thailand. The PRC includes the Mainland 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:

	Six months ended 30 June											
	US		UK		PRC		Canada		Other countries		Total	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Revenue	**223,010**	217,329	**249,353**	218,476	**143,040**	94,669	**127,532**	79,007	**240,913**	133,131	**983,848**	742,612

Included in revenue derived from the PRC was HK$118,926,000 (2017: HK$78,311,000) related to revenue generated in Hong Kong.

For the six months ended 30 June 2018, revenues from three (2017: two) customers in the garment manufacturing segment each accounted for more than 10% of the Group's total revenue and they represented approximately 16%, 16% and 11% (2017: 17% and 13%) of the total revenue respectively.

	PRC		Luxembourg		Thailand		Other countries		Total	
	At 30 June 2018	At 31 December 2017	**At 30 June 2018**	At 31 December 2017	**At 30 June 2018**	At 31 December 2017	**At 30 June 2018**	At 31 December 2017	**At 30 June 2018**	At 31 December 2017
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Non-current assets *(Note (ii))*	**747,592**	368,075	**179,709**	183,378	**70,007**	70,110	**60,407**	62,211	**1,057,715**	683,774

Included in non-current assets located in the PRC was HK$402,057,000 (2017: HK$9,928,000) related to assets located in Hong Kong.

Notes:

(i) Unallocated assets and liabilities mainly include centrally-managed cash and bank balances, bank borrowings, land use rights and buildings for corporate purposes.

(ii) Non-current assets exclude deferred tax assets and defined benefit plan assets.

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2018

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 manufacturing products and brands business products.

7. OTHER INCOME AND OTHER GAINS

	Six months ended 30 June	
	2018	2017
	HK$'000	*HK$'000*
Consultancy and transitional services fee income from JW PRC Co *(Note)*	**–**	11,667
Procurement fee income	**–**	2,916
Government subsidy	**508**	487
Sundry income	**1,870**	55
	2,378	15,125

Note:

Shanghai Tristate Enterprises Co., Ltd., a wholly-owned subsidiary of the Group, provided consultancy and transitional services to Jack Wolfskin Trading (Shanghai) Co., Ltd. ("JW PRC Co") after the early termination of the distribution license for Jack Wolfskin products in the PRC from March 2015 until December 2017.

8. LOSS FROM OPERATIONS

Loss from operations is arrived at after charging/(crediting):

	Six months ended 30 June	
	2018	2017
	HK$'000	*HK$'000*
Amortisation of leasehold land and land use rights	**1,872**	1,719
Amortisation of intangible assets	**4,099**	3,213
Depreciation on property, plant and equipment	**27,154**	26,422
Provision for/(reversal of) impairment of receivables, net	**1,120**	(1,192)
Provision for/(reversal of) write-down of inventories to net realisable value, net	**1,691**	(491)
Employment benefit expenses	**338,319**	302,246
Net (gain)/loss on disposals of property, plant and equipment	**(90)**	626

9. FINANCE INCOME/FINANCE COSTS

	Six months ended 30 June	
	2018	2017
	HK$'000	*HK$'000*
Finance income		
Interest income from bank deposits	**2,276**	2,155
Finance costs		
Interest on bank borrowings	**1,699**	1,073
Imputed interest on license fees payable	**1,735**	708
	3,434	1,781

10. INCOME TAX CREDIT/(EXPENSE)

	Six months ended 30 June	
	2018	2017
	HK$'000	*HK$'000*
Current income tax *(Note)*		
Hong Kong profits tax	**(27)**	–
Non-Hong Kong tax	**(354)**	(498)
Under-provision for prior year	**(76)**	(1,230)
Deferred income tax	**878**	623
	421	(1,105)

Note:

Hong Kong profits tax has been provided at the rate of 16.5% (2017: 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.

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2018

11. 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.

	Six months ended 30 June	
	2018	2017
	HK$'000	*HK$'000*
Loss attributable to equity shareholders of the Company	**(84,179)**	(74,615)
Weighted average number of ordinary shares in issue	**271,607,253**	271,607,253
Basic loss per share	**(HK$0.31)**	(HK$0.27)

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 2018 and 30 June 2017, 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 2018 and 30 June 2017.

12. INTERIM DIVIDEND

The Board has resolved not to declare an interim dividend for the six months ended 30 June 2018 (2017: Nil).

13. PROPERTY, PLANT AND EQUIPMENT

	At 30 June 2018	At 31 December 2017
	HK$'000	*HK$'000*
Opening net book amount	**325,958**	332,149
Additions	**21,993**	28,116
Disposals	**(517)**	(3,461)
Depreciation	**(27,154)**	(53,006)
Exchange difference	**(2,767)**	22,160
Closing net book amount	**317,513**	325,958

14. LEASEHOLD LAND AND LAND USE RIGHTS

	At 30 June 2018	At 31 December 2017
	HK$'000	*HK$'000*
Opening net book amount	**136,392**	130,863
Amortisation	**(1,872)**	(3,504)
Exchange differences	**(1,100)**	9,033
Closing net book amount	**133,420**	136,392

15. INTANGIBLE ASSETS

	At 30 June 2018	At 31 December 2017
	HK$'000	*HK$'000*
License rights *(Note (i))*		
Opening net book amount	**24,741**	25,687
Additions	**393,522**	–
Amortisation	**(4,063)**	(2,647)
Exchange differences	**(217)**	1,701
Closing net book amount	**413,983**	24,741
Trademark *(Note (ii))*		
Opening net book amount	**183,378**	160,275
Exchange differences	**(3,669)**	23,103
Closing net book amount	**179,709**	183,378
Customer relationship and others		
Opening net book amount	**215**	3,565
Amortisation	**(36)**	(3,525)
Exchange differences	**(4)**	175
Closing net book amount	**175**	215
Total intangible assets	**593,867**	208,334

Notes:

(i) License rights

License rights represent capitalisation of the minimum contractual obligation at the time of inception of license agreements. They are recognised based on discount rates of approximately 3.4% to 5.5% per annum at the dates of inception. The relating minimum contractual obligation payable to the licensor is recognised in license fees payable.

In addition to the licensed footwear brand "ACBC", during the first half of 2018, the Group entered into license agreements to distribute "Nautica" brand products and an American sports brand products mainly in Mainland China and Hong Kong.

(ii) Trademark

It represents C.P. Company trademark which is regarded as having indefinite useful life and there is no foreseeable limit to the period over which it is expected to generate cash flows for the Group as it is expected that the value will not be reduced through usage and the cost of renewal of period for its use is negligible.

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2018

16. INVENTORIES

	At 30 June 2018 *HK$'000*	At 31 December 2017 *HK$'000*
Raw materials	**149,431**	56,044
Work-in-progress	**213,963**	110,736
Finished goods	**123,814**	42,977
Goods in transit	**34,401**	22,012
	521,609	231,769

Increase in raw materials and work-in-progress reflects seasonal requirements for second half year shipment of garment manufacturing segment. Increase in finished goods was attributable to garment purchased for the licensed brand "Nautica" and finished goods of C.P. Company.

17. ACCOUNTS RECEIVABLE AND BILLS RECEIVABLE

As at the end of the reporting period, the ageing of accounts receivable and bills receivable, based on the invoice date, is as follows:

	At 30 June 2018 *HK$'000*	At 31 December 2017 *HK$'000*
Less than 3 months	**344,049**	259,220
3 months to 6 months	**5,653**	5,644
Over 6 months	**3,602**	1,764
	353,304	266,628
Less: Provision for impairment	**(2,641)**	(1,764)
	350,663	264,864

The majority of accounts receivable 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.

18. CASH AND BANK BALANCES

	At 30 June 2018 *HK$'000*	At 31 December 2017 *HK$'000*
Short-term bank deposits	**385**	176,931
Cash at bank and on hand	**173,158**	281,569
Cash and cash equivalents in the consolidated cash flow statement	**173,543**	458,500
Short-term bank deposits, with maturities over 3 months	**19,314**	25,180
Bank structured deposits	**29,059**	29,310
Pledged bank deposits	**23,544**	–
Cash and bank balances in the consolidated statement of financial position	**245,460**	512,990

The decrease in cash and bank balances reflects the seasonal working capital financing requirements.

19. ACCOUNTS PAYABLE AND BILLS PAYABLE

As at the end of the reporting period, the ageing of accounts payable and bills payable, based on invoice date, is as follows:

	At 30 June 2018 *HK$'000*	At 31 December 2017 *HK$'000*
Less than 3 months	**188,585**	97,955
3 months to 6 months	**4,168**	2,669
Over 6 months	**5,885**	4,913
	198,638	105,537

The majority of payment terms with suppliers are within 60 days.

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

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2018

20. ACCRUALS AND OTHER PAYABLES

Accruals and other payables mainly consist of accrued employee benefit and other operating expenses. The decrease in accruals and other payables is mainly due to payment of 2017 staff bonus and expenses and accrued value added tax.

21. BANK BORROWINGS

	At 30 June 2018 HK$'000	At 31 December 2017 HK$'000
Unsecured short-term bank borrowings	**180,054**	98,871

The carrying amounts of bank borrowings approximate their fair values.

22. SHARE CAPITAL

	At 30 June 2018 HK$'000	At 31 December 2017 HK$'000
Authorised: 500,000,000 (2017: 500,000,000) shares of HK$0.10 each	**50,000**	50,000

Issued and fully paid ordinary share capital:

	At 30 June 2018		At 31 December 2017	
	Number of shares	HK$'000	Number of shares	HK$'000
Opening and closing balance	**271,607,253**	**27,161**	271,607,253	27,161

23. 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:

	At 30 June 2018 HK$'000	At 31 December 2017 HK$'000
Within 1 year	**41,188**	27,193
After 1 year but within 5 years	**39,017**	16,880
After 5 years	**12,580**	5,560
	92,785	49,633

(b) Capital commitments

The Group had no capital commitments as at 30 June 2018 and 31 December 2017.

24. RELATED PARTY TRANSACTIONS

(a) Transactions with related parties

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

	Six months ended 30 June	
	2018 HK$'000	2017 HK$'000
A related company		
Rental expense *(Note)*	**3,349**	3,789

Note:

The entire issued share capital of TDB Company Limited ("TDB"), a related company, is held by a discretionary trust of which two directors of the Company are eligible beneficiaries. Rental expense was paid to TDB for the leasing of factory, storage and ancillary office and was determined by reference to the tenancy agreement entered.

(b) Transactions with key management

(i) Key management compensation

	Six months ended 30 June	
	2018 HK$'000	2017 HK$'000
Salaries, allowances and bonuses	**10,292**	9,304
Defined contribution plans	**331**	272
Share-based compensation expense – share options granted	**212**	192
	10,835	9,768

(ii) Advance to an employee

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 and the amendment agreements dated in June 2013 and 2014, the cash advance is unsecured and bears interest at the Group's cost of borrowing. Cash advance of HK$3,500,000 plus related interest has been fully repaid in 2016. The remaining cash advance of HK$8,500,000 ("long-term portion") 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 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.

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2018

25. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value estimation

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 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.

Financial instruments are measured in the statement of financial position at fair value. HKFRS 13, *Fair value measurement* requires disclosure of fair value measurements according to the following fair value measurement hierarchy:

– 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.

There was no transfer of financial assets between fair value hierarchy classifications for the period/year ended 30 June 2018 and 31 December 2017. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

Club debentures were reclassified as FVPL upon adoption of HKFRS 9 at 1 January 2018 (Note 3(b)). Club debentures are measured at fair value based on quoted price in active markets and classified as Level 1 valuations at 30 June 2018.

Forward foreign exchange contracts are measured at fair value and classified as Level 2 valuations at 30 June 2018 and 31 December 2017. Level 2 hedging derivatives 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.

The carrying amount of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 30 June 2018 and 31 December 2017.

26. COMPARATIVE FIGURES

The Group has initially applied HKFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. Further details of the changes in accounting policies are disclosed in note 3.

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 2018.

OVERVIEW

For the six months ended 30 June 2018, the Group recorded a loss attributable to equity shareholders of HK$84 million as compared with a loss of HK$75 million in 2017. The increase in reported loss in the first half of 2018 as compared with 2017 was mainly attributable to reduction in consultancy fee income from Jack Wolfskin China business (following our service ended in December 2017); increase spending on organisation set up and shop expenses for Nautica, our newly licensed American lifestyle brand, and our licensed footwear brand ACBC; and offset by reduced loss for garment manufacturing business.

The Group's performance continues to reflect our investment in brands business. C.P. Company continues to have strong growth in revenue and improving operating results. In the first half of 2018, we took major steps towards establishing a long-term and high potential brands business platform. In April 2018, we entered a long-term license agreement to distribute Nautica products in Mainland China and Hong Kong upon Nautica being acquired by Authentic Brands Group globally. We took over the franchisee network, retail shops and inventories from the Nautica licensor to continue the business operation. In June 2018, we signed another license agreement for the distribution of an American sports brand product in Mainland China, Hong Kong, Macau and Taiwan.

C. P. Company's sales growth continued. The brand's Spring/Summer 2018 revenue attained over 50% growth over last year of homologous season. The growth momentum continued through Fall/Winter 2018 with order values over 40% increase over the last year. In terms of markets, Europe continues to be our largest market. Strong growth continues for key countries with well-established wholesale channels, especially for Italy, the United Kingdom (the "UK"), Benelux and France. Apart from menswear, we also started to introduce "Undersixteen" collections to more markets with positive feedback.

To continue developing brand awareness globally, our ongoing global marketing campaign "#EyesOnTheCity" pays homage to the authenticity of its community: through the personal perspective of its people, it explores different urban scenarios and exceptional landscapes that develop a unique narrative. Since September 2017, C.P. Company featured four chapters of video inviting special fans to tell their relationship with their cities of Milan, Moscow, London and Japan. The program also invites our customer community to take a picture of their C.P. Company goggle jacket with their city as background and share their personal distinctive urban perspective on social channels. From there the best images are selected to be used as advertising images on newspapers and billboards. During the year, C.P. Company worked with adidas Originals in a collaboration which paired the two brands on and off the football terraces. Brought together by a mutual commitment to quality and innovation, the two brands collaborate to rework an array of iconic pieces, including Originals' Samba sneaker and Beckenbauer track top and one of C.P. Company's goggle jacket transformed to adidas Explorer. The C.P. Company by adidas Originals collection is available starting from 24 August 2018.

Apart from C.P. Company, the Group continues to develop our two home-grown lifestyle brands – Engineered for Motion ("EFM"), our urban apparel NYC designer brand, and our French concept premium ladies' wear "Cissonne". EFM grew with key customer, Saks Fifth Avenue ("Saks") in the United States of America ("US") and started to open shop-in-shop in the retail space of Saks. Cissonne gradually expanded through direct retailing in China major cities with increasing sell-through and customer loyalty. The brand has now three stores in China, including stores in Shanghai Kerry Centre, Shanghai Zhenning Road and Beijing Sanlitun.

Our licensed footwear brand ACBC creates innovation and improves commuting and travelling experience. The patented zipper shoe allows users to customise, mix and match the shoe skins and soles to fit any occasion. During this year, the Group has been enhancing brand awareness and acceptance, and also reengineering the fit, comfort, and breathability of the ACBC products. Following the first store of the brand launched in December 2017, the brand has five stores in China up to June 2018.

On garment manufacturing business, we have our China and Thailand factories to serve "premium business" for fashion and complicated outerwear products, while our Vietnam, Philippines and Myanmar factories allow us to stay competitive in cost to support "better business" for better tailoring products. We maintained steady and long-term relationship with our customers and continued to expand our customer base. We have improved performance in the first half of 2018 due to increased orders from key premium business customers. Our unique manufacturing system allows us to upkeep product quality, fulfil customers' stringent requirements on changes in product type and variations in quantity especially for fashion and complicated outerwear products. During the year, we also developed our Vietnam factory to manufacture outerwear products with positive response. All these measures help to control rising factory costs and price pressure from our customers as well as handling various product types.

FINANCIAL REVIEW

For the six months ended 30 June 2018, the Group recorded a loss attributable to equity shareholders of HK$84 million (2017: loss of HK$75 million). The loss increase was mainly attributable to reduction in consultancy fee income from Jack Wolfskin China business; increase spending on organisation set up and shop expenses for ACBC and Nautica; and offset by reduced loss for garment manufacturing business.

Revenue

Total revenue of the Group for the first half of 2018 was HK$984 million (2017: HK$743 million), increased by 32% as compared with 2017.

Revenue from brands business was HK$154 million in the first half of 2018, increased by 59% as compared with HK$97 million in 2017, due to strong growth of wholesale by C.P. Company in key European countries, especially for Italy, the UK, Benelux and France.

Revenue from the garment manufacturing segment was HK$830 million, increased by 29% as compared with HK$646 million in 2017. Revenue from premium business, which accounted for 70% (2017: 66%) of the segment revenue, increased by 35% as compared with last year. Such increase was due to order growth from key customers. Revenue from better business also increased by 13%, mainly from competitively priced business in our Myanmar factory.

Geographically, major markets of the Group are the US and Canada, the UK and the People's Republic of China (the "PRC"), which accounted for 36% (2017: 40%), 25% (2017: 29%) and 15% (2017: 13%) of the Group's total revenue respectively.

The Group's business has been skewed towards the second half year mainly due to the seasonality effect in terms of higher quantity and unit selling price for Fall/Winter and holiday seasons shipment for both our garment manufacturing (in particular premium outerwear products) and brands business. 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 future.

Gross Profit

During the period, the Group's overall gross profit recorded at HK$216 million (2017: HK$152 million), representing a gross profit margin of 21.9% (2017: 20.4%). The increase in gross profit was mainly attributable to increased turnover from both brands business and garment manufacturing business. In this half year, the gross margin of the two businesses remained stable as compared with the previous year. The Group's overall gross profit margin increased due to the rise in revenue from higher margin brands business.

Other Income and Other Gains

Other income and other gains in the last year mainly included consultancy fees income for the Jack Wolfskin China business. No such income recorded in this year after the cessation of the service at end of 2017.

Selling and Distribution Expenses

Selling and distribution expenses comprise mainly advertising and promotion, agency commission, shop and sample expenses. Selling and distribution expenses increased as compared to 2017 mainly due to increase in marketing and shop expenses for brands business.

General and Administrative Expenses

General and administrative expenses increased by 14% to HK$228 million as compared with HK$200 million in 2017 mainly due to the growth of our brands business and general salary increase.

Segment Results

In the first half of 2018, segment loss of brands business increased mainly due to reduction in consultancy fee income from Jack Wolfskin China business, increase in organisation set up and shop expenses for ACBC and Nautica.

Segment loss of garment manufacturing business reduced in the first half of 2018 as compared with last year mainly due to the increased revenue and profit contribution from premium business.

FINANCIAL RESOURCES AND LIQUIDITY

As at 30 June 2018, cash and bank balances amounted to HK$245 million (31 December 2017: HK$513 million) which mainly represented United States dollars ("US dollars") and Renminbi bank deposits. Due to seasonality reasons, the Group utilises more cash in the first half year to finance working capital and generates more revenue and cash in the second half year. In the first half of 2018, the Group used more cash and increased bank loan drawdown as compared with same period in 2017. This is mainly caused by the followings:

– in accordance with payment schedule, in 2018 the Group received less cash on Jack Wolfskin consultancy fee than 2017 by HK$60 million.

– for Nautica business, in the first half of 2018, the Group made HK$54 million purchase payment mainly for the initial bulk inventory taken over, while the brand started to contribute revenue to the Group from May 2018. On the other hand, in 2017 the Group received from the Nautica licensor transitional service fee and inventory consideration totaling HK$44 million after the previous license expired in December 2016.

– in this year, the Group paid more shop expenses of licensed brands, ACBC and Nautica.

– in garment manufacturing business, the Group made more payment for materials to meet increased sales orders for the second half year.

The Group maintained sufficient banking facilities to support its business. Short-term bank borrowings of the Group amounted to HK$180 million as at 30 June 2018 (31 December 2017: HK$99 million). Such borrowings were mainly denominated in US dollars and Hong Kong dollars and bearing interest at fixed rates. The Group did not have any long-term bank borrowings outstanding as at 30 June 2018. As at 30 June 2018, bank deposits of HK$24 million was pledged to secure bank guarantee facilities granted to the Group (31 December 2017: Nil). The gearing ratio of the Group is calculated as net borrowings divided by total capital. Net borrowings are 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 2018 and 31 December 2017, and accordingly, no information on gearing ratio as at those dates is provided.

Shareholders' equity at 30 June 2018 decreased mainly due to loss attributable to equity shareholders for the current period and exchange difference on translating the financial statements of subsidiaries in the PRC, Europe and Thailand following the depreciation of the currencies during the first half of 2018.

Most of the Group's receipts and payments are denominated in US dollars, Hong Kong dollars, Renminbi, Pound Sterling and Euro. The Group manages the related foreign exchange risk exposure by entering into forward foreign exchange contracts. During the six months ended 30 June 2018, 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 Pound Sterling sales receipts of a European subsidiary.

CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

There were no material capital commitments or contingent liabilities as at 30 June 2018.

HUMAN RESOURCES

The Group had about 9,880 employees as at 30 June 2018 (31 December 2017: 9,560). Fair and competitive remuneration packages and benefits are offered to employees. Those employees with outstanding performance are also awarded with discretionary bonuses and share options.

OUTLOOK

The Group continues to grow our brands business. Adding to our own brands, we are excited to have signed long-term license agreements for two high potential international brands this year. This expands our brand portfolio and benefits us for long-term. We are focusing on formulating strategy and plans to develop the business. Strategically, we target to grow our own brands worldwide, with our licensed active sports brands to mass market in China.

C.P. Company, our major own brand, has strong double-digit sales growth every season. Based on latest order received from our Spring/Summer 2019 sales campaign, we continue to have a double-digit revenue growth from wholesale sector. Building on the heritage of C.P. Company's proprietary fabrics, garment dye and goggle jackets, we continue to strengthen our product range, innovation and design and widen our collections. We will continue to grow number of doors in existing key and growing wholesale markets and expand into other countries in Europe as well as the North America and Asian markets, including China. To complement the wholesale business, the brand will expand its direct retail at suitable locations. The brand schedules to open a direct retail store in Beijing Oriental Plaza in August this year. We have identified our first flagship location in Milan, which will open in early 2019. Our marketing initiatives help to connect our customers and enhance brand awareness and image. Our ongoing global marketing campaign "#EyesOnTheCity" will continue to develop and communicate more storytelling around our customer community. We will have more marketing events and collaborations going forward.

EFM will grow gradually with our key customers in the US, particularly Saks. EFM plans to open additional shop-in-shop with Saks and further increase sell-through. Cissonne will continue to grow direct to customer retail in China. Riding on improving sell through in key cities and a favorite choice for influencers and celebrities in China, the brand will open two new stores in Beijing in August and the fourth quarter this year respectively. We will further increase the brand awareness through marketing and celebrity seeding.

On ACBC, in addition to our existing stores in China, we will roll out a "kiosk" concept for retail in the second half year. Besides, we will launch a new production in the fourth quarter this year with reengineered designs, style and comfortability.

For the Nautica distribution business, we are pleased to sign the long-term license agreement with this iconic, American lifestyle brand. We will leverage on our strength and past solid experience with the brand, the market and its products to grow the brand. We will communicate its image with consistency through product, store, advertising, social media, PR, sponsorships etc. To complement franchised retail business, we will open direct retail shops focusing in major cities such as Beijing and Shanghai and trading through key e-commerce platforms.

Our newly licensed sports brand is new to the China market and we will work closely with the licensor to complete all trademark registrations in China. We have developed plans and strategies on brand positioning, products and distribution channels. We plan to launch the brand from Spring/Summer 2019 season.

To support our brand investment and development, we continue to improve the profitability of our garment manufacturing business, which provides steady and strong cashflow to the Group. In this year, we saw increased orders for the second half year shipment from key premium business customers. This will add full year revenue and profitability to our garment manufacturing segment. We endeavor to maintain long-term relationship with our key customers and at the same time to enlarge and diversify our customer base. Our diversified production base allows us to serve our customers at different price range. To better serve our customers, we are expanding our supply chain and new capacity in Vietnam. To control the rising factory costs, we will continue to drive efficiency and enhance our competitiveness by applying our unique manufacturing system in our factories to guarantee quality consistency, high productivity and cost efficiency. The US-China trade war causes uncertainty and challenges to the garment industry. We will closely monitor the development of the trade war. We believe our diversified production base could alleviate the pressure from the trade war in case it gets worse.

We expect the Group will perform better in the second half of 2018 than the first half. However, as the Group needs to invest in the new licensed brands and it takes time to unlock their potentials, we are cautious about the Group's second half and full year financial performance. We expect the Group will result in a loss for the whole year.

DISCLOSURE OF INTERESTS

Directors' interests in securities

As at 30 June 2018, 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 child**	**Through controlled corporation**	**Total**	**Approximate percentage of issued share capital**
Mr. WANG Kin Chung, Peter	Long position	3,212,000 *(Note 1)*	182,517,000 *(Note 2)*	185,729,000	68.38%

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 child**	**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. 182,517,000 shares were beneficially owned by Silver Tree Holdings Inc., a company 100% controlled by New Perfect Global Limited, which in turn was 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 2018, 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.

Substantial shareholders

As at 30 June 2018, 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 child**	**Through controlled corporation**	**Total**	**Approximate percentage of issued share capital**
Ms. Daisy TING	Long position	3,212,000	182,517,000 *(Note)*	–	185,729,000	68.38%
New Perfect Global Limited	Long position	–	–	182,517,000 *(Note)*	182,517,000	67.20%
Silver Tree Holdings Inc.	Long position	182,517,000 *(Note)*	–	–	182,517,000	67.20%

Note:

These interests relate to the same block of shares of the Company, which were beneficially owned by Silver Tree Holdings Inc., a company 100% controlled by New Perfect Global Limited, which in turn was 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 2018, 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

A new share option scheme (the "2016 Share Option Scheme") was approved and adopted by the shareholders of the Company at the annual general meeting of the Company held on 6 June 2016 (the "2016 AGM") for granting of share options to eligible persons to subscribe for shares of the Company.

In relation to the share option scheme adopted by the Company on 2 April 2007 (the "2007 Share Option Scheme"), the termination of which was approved at the 2016 AGM. Upon termination, no further share options can be offered under the 2007 Share Option Scheme but all outstanding share options granted thereunder shall continue to be valid and exercisable in accordance with the terms of the 2007 Share Option Scheme.

Movements in the share options under the share option schemes of the Company during the six months ended 30 June 2018 were as follows:

A. The 2007 Share Option Scheme

		Number of share options				
Date of grant	**Participant**	**At 1 January 2018**	**Lapsed during the period**	**At 30 June 2018**	**Exercise price per share**	**Exercisable period**
3 June 2013	Employees	104,000	(104,000)	**–**	HK$3.92	3 June 2013 – 2 June 2018
	(in aggregate)	104,000	(104,000)	**–**	HK$3.92	3 June 2014 – 2 June 2018
		104,000	(104,000)	**–**	HK$3.92	3 June 2015 – 2 June 2018
		104,000	(104,000)	**–**	HK$3.92	3 June 2016 – 2 June 2018
9 June 2014	Employees	106,000	–	**106,000**	HK$3.10	9 June 2014 – 8 June 2019
	(in aggregate)	106,000	–	**106,000**	HK$3.10	9 June 2015 – 8 June 2019
		106,000	–	**106,000**	HK$3.10	9 June 2016 – 8 June 2019
		106,000	–	**106,000**	HK$3.10	9 June 2017 – 8 June 2019
8 June 2015	Employees	135,000	–	**135,000**	HK$2.97	8 June 2015 – 7 June 2020
	(in aggregate)	135,000	–	**135,000**	HK$2.97	8 June 2016 – 7 June 2020
		135,000	–	**135,000**	HK$2.97	8 June 2017 – 7 June 2020
		135,000	–	**135,000**	HK$2.97	8 June 2018 – 7 June 2020
9 May 2016	Employees	141,000	–	**141,000**	HK$2.28	9 May 2016 – 8 May 2021
	(in aggregate)	141,000	–	**141,000**	HK$2.28	9 May 2017 – 8 May 2021
		141,000	–	**141,000**	HK$2.28	9 May 2018 – 8 May 2021
		141,000	–	**141,000**	HK$2.28	9 May 2019 – 8 May 2021
	Total	1,944,000	(416,000)	**1,528,000**		

Notes:

1. The above options vest in four equal tranches over a period of three years from the relevant date of grant.

2. No options were granted, exercised or cancelled during the period.

SHARE OPTIONS (Continued)

B. The 2016 Share Option Scheme

		Number of share options				
Date of grant	Participant	At 1 January 2018	Granted during the period	At 30 June 2018	Exercise price per share	Exercisable period
5 June 2017	Employees	239,000	–	**239,000**	HK$1.68	5 June 2017 – 4 June 2022
	(in aggregate)	239,000	–	**239,000**	HK$1.68	5 June 2018 – 4 June 2022
		239,000	–	**239,000**	HK$1.68	5 June 2019 – 4 June 2022
		239,000	–	**239,000**	HK$1.68	5 June 2020 – 4 June 2022
25 June 2018	Employees	–	264,000	**264,000**	HK$1.75	25 June 2018 – 24 June 2023
(Notes 2 & 3)	(in aggregate)	–	264,000	**264,000**	HK$1.75	25 June 2019 – 24 June 2023
		–	264,000	**264,000**	HK$1.75	25 June 2020 – 24 June 2023
		–	264,000	**264,000**	HK$1.75	25 June 2021 – 24 June 2023
	Total	956,000	1,056,000	**2,012,000**		

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 consideration of HK$1.00 from each of the grantees for the options granted during the period.

3. The closing price of the shares of the Company on 22 June 2018, being the business day immediately before the date on which the options were granted, as quoted on the Stock Exchange, was HK$1.74.

4. No options were exercised, cancelled or lapsed during the period.

5. The fair value of the options granted during the period determined using the Trinomial valuation model was HK$0.611 per option. The significant inputs into the model are as follows:

Share price at the grant date	HK$1.75
Exercise price	HK$1.75
Dividend yield	0%
Volatility	38.04%
Annual risk-free interest rate	2.163%

The volatility at the grant date, which measured the standard deviation of expected share price returns, is based on statistics of 1,260 days historical volatilities of comparable companies within the industry.

The aggregate fair value of the options granted during the period amounted to HK$645,216 is to be recognised as employment benefit 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 2018, 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 and A.5 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 2017 (the "2017 Annual Report").

PURCHASE, SALE OR REDEMPTION OF SHARES

During the six months ended 30 June 2018, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's shares.

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 2018.

CHANGE IN DIRECTOR'S BIOGRAPHICAL DETAILS

The following is a change in a Director's biographical details since the date of the 2017 Annual Report, which is required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules:

Mr. LO Kai Yiu, Anthony

Cessation of Appointment

– Independent Non-executive Director of The Taiwan Fund, Inc. (listed on the New York Stock Exchange)

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 2018 (2017: Nil).

AUDIT COMMITTEE'S REVIEW OF FINANCIAL STATEMENTS

The Audit Committee has reviewed the unaudited Condensed Consolidated Interim Financial Statements and the Interim Report of the Group for the six months ended 30 June 2018 in conjunction with the management of the Group.

On behalf of the Board
WANG Kin Chung, Peter
Chairman and Chief Executive Officer

Hong Kong, 27 August 2018