Notes on the unaudited interim financial report

(Expressed in Hong Kong dollars)

1 Background and basis of preparation

The Company was incorporated in the Cayman Islands on 12 March 2001 as an exempted company with limited liability under the Companies Law (Revised) of Cayman Islands. Pursuant to a reorganisation scheme (the "reorganisation") to rationalise the Group in preparation for listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "SEHK") in April 2002, the Company became the holding company of the companies now comprising the Group on 11 April 2002. This was accomplished by the Company acquiring the entire issued share capital of Ever Century Holdings Limited ("Ever Century"), the then holding company of other subsidiaries, in consideration of and in exchange for the issue and allotment of 66,000,000 shares to Efulfilment Enterprises Limited, Wisehead Group Limited and Sharp Asset Holdings Limited. Further details of the reorganisation are set out in the Company's prospectus dated 16 April 2002.

Basis of preparation

This first interim financial report is unaudited, but has been reviewed by KPMG in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports", issued by the Hong Kong Society of Accountants ("HKSA"). KPMG's independent review report to the Board of Directors is included on page 24.

The interim financial report has been prepared in accordance with the requirements of the Main Board Listing Rules of the SEHK, including compliance with Statement of Standard Accounting Practice ("SSAP") 25 "Interim financial reporting" issued by the HKSA.

The financial information relating to the financial year ended 31 March 2002 included in the interim financial report 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 March 2002 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 23 July 2002.

The interim financial report of the Group has been prepared using the merger basis of accounting as if the Company had always been the holding company of the subsidiaries now comprising the Group.

The same accounting policies adopted in the 2002 annual financial statements have been applied to the interim financial report except as disclosed below.

The notes on the interim financial report 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 2002 annual financial statements.

1. Background and basis of preparation *(continued)*

Adoption of new accounting standards in Hong Kong

The following new SSAPs issued by the HKSA, which became effective for accounting period beginning on or after 1 January 2002, were adopted for preparation of the Group's financial statements for the six months ended 30 September 2002:

– SSAP 1 (revised) "Presentation of financial statements";

– SSAP 15 (revised) "Cash flow statements".

(i) Adoption of SSAP 1 (revised) "Presentation of financial statements"

In compliance with the revised requirements of SSAP 1 (revised), the Group prepares the new statement "Consolidated statement of changes in equity" which replaces the "Consolidated statement of recognised gains and losses". The new statement reconciles the movements of key components of the shareholders' funds, including shares capital, reserves and retained earnings, from the beginning to end of a period.

(ii) Adoption of SSAP 15 (revised) "Cash flow statements"

The new requirements of SSAP 15 (revised) has been adopted in preparing the condensed consolidated cash flow statement for the period.

2 Segmental information

No business segment analysis of the Group is presented as the Group has been operating in a single business segment, i.e. the manufacturing and sale of garments.

An analysis of the Group's turnover by geographical location of the customers is set out below:

	Group turnover Six months ended 30 September	
	2002	2001
	$'000	*$'000*
North America	**257,584**	239,847
Europe	**97,061**	84,049
Other regions	**40,594**	17,767
	395,239	341,663

There is no major disparity in the ratios between turnover and profit in relation to the above geographical locations. Hence, no analysis is given of the profit contributions from the above geographical locations.

3 Profit from ordinary activities before taxation

Profit from ordinary activities before taxation is arrived at after charging:

	Six months ended 30 September	
	2002	2001
	$'000	*$'000*
Cost of goods sold	**265,624**	232,277
Depreciation	**11,897**	13,234
Amortisation of permanent textile quota entitlements	**1,994**	1,994
Interest on bank and other borrowings	**6,974**	10,163

4 Taxation

	Six months ended 30 September	
	2002	2001
	$'000	*$'000*
Provision for Hong Kong profits tax for the period	**2,086**	3,278
Provision for PRC income tax	**5**	10
Deferred taxation	**1,907**	197
	3,998	3,485

Provision for Hong Kong profits tax is calculated at 16% (2001: 16%) on the estimated assessable profits for the period.

As a foreign investment enterprise, the Company's subsidiary in the People's Republic of China ("PRC") was granted certain tax relief, under which it was exempted from PRC income tax for the first two profit making years and thereafter was entitled to a 50% income tax reduction in the subsequent three years. The subsidiary was subject to PRC income tax at 18% during the year ended 31 December 2001 (being 50% of the standard state income tax rate of 30% and a local income tax rate of 3%). The tax relief ended on 31 December 2001 and the subsidiary is currently subject to PRC income tax at 33%.

The Company's subsidiaries in Cambodia are subject to Cambodia income tax at a rate of 9%. Pursuant to the tax exemption certificates dated 15 June 2000 issued by the relevant tax authorities, Tack Fat Garment (Cambodia) Ltd. is exempted from Cambodia income tax for the four years ending 31 December 2003 and Cambodia Sportswear Mfg. Ltd. is exempted from Cambodia income tax for the three years ending 31 December 2002.

5 Dividends

(a) *Dividends attributable to the period*

	Six months ended 30 September	
	2002	2001
	$'000	*$'000*
Interim dividend declared of 0.8 cent per share	**10,624**	–
Interim dividend declared and paid to the then shareholders prior to the reorganisation	**–**	24,000
	10,624	24,000

The interim dividend of 0.8 cent per share or $10,624,000 in total proposed after 30 September 2002 has not been recognised as a liability at that date.

(b) *Dividends attributable to the previous year, approved and paid during the period*

	Six months ended 30 September	
	2002	2001
	$'000	*$'000*
Final dividend in respect of the previous year, approved and paid during the period of 0.625 cent per share (2001: $Nil)	**8,300**	–

6 Earnings per share

(a) *Basic earnings per share*

The calculation of basic earnings per share for the period ended 30 September 2002 is based on the profit attributable to shareholders of $36,710,000 (2001: $31,120,000) and the weighted average of 1,281,486,000 shares (2001: 1,024,000,000 shares) in issue during the period, calculated based on the assumption that the reorganisation, as set out in note 1, had been completed on 1 April 2001.

(b) *Diluted earnings per share*

The diluted earnings per share is not presented as there is no dilutive potential ordinary shares during the period.

7. Fixed assets

Additions to fixed assets during the six months ended 30 September 2002 comprise:

	$'000
Land and buildings	1,560
Plant and machinery	26,172
Furniture, fixtures and office equipment	1,756
	29,488

Land and buildings of the Group were revalued by professional valuers at 31 January 2002. The directors of the Company, who are not qualified valuers, have reviewed the carrying value of the land and buildings as at 30 September 2002 with reference to the relevant market indices. In their opinion, there have been no significant changes in the value of land and buildings since 31 March 2002.

8. Trade receivables

Credit terms granted by the Group to customers generally range from one to three months.

Included in trade receivables are balances (stated after provisions for doubtful debts) with the following ageing analysis:

	At 30 September 2002 ***$'000***	At 31 March 2002 *$'000*
Within 3 months	**96,447**	94,220

All the above balances are expected to be recovered within one year.

9. Trade payables

The credit terms obtained by the Group generally range from 30 days to 180 days. Included in trade payables are balances with the following ageing analysis:

	At 30 September 2002 ***$'000***	At 31 March 2002 *$'000*
Due within 1 month or on demand	**6,909**	11,303
Due after 1 month but within 3 months	**15,118**	16,568
Due after 3 months but within 6 months	**10,289**	16,873
Due after 6 months but within 1 year	**5,165**	5,299
	37,481	50,043

10. Share capital

The following is a summary of movements in the authorised and issued share capital of the Company during the period:

	Note	Number of ordinary shares of $0.1 each	Par value $'000
Authorised:			
At 31 March 2002		3,800,000	380
Increase in authorised share capital	*(b)*	1,996,200,000	199,620
At 30 September 2002		**2,000,000,000**	**200,000**
Issued and fully paid:			
Total issued share capital as at 31 March 2002	(a)	1,000,000	–
Ordinary shares issued as the remaining consideration for the acquisition of the entire issued share capital of Ever Century	*(c)*	65,000,000	6,600
New issue on public offer and placing	*(d)*	256,000,000	25,600
Capitalisation of share premium and retained earnings	*(e)*	958,000,000	95,800
Exercise of over-allotment option	*(f)*	48,000,000	4,800
Total issued share capital as at 30 September 2002		**1,328,000,000**	**132,800**

Notes:

(a) As at 31 March 2002, 1,000,000 shares of the Company were in issue nil paid.

(b) On 11 April 2002, pursuant to written resolutions of all the shareholders of the Company, the authorised share capital of the Company was increased from $380,000 to $200,000,000 by the creation of 1,996,200,000 additional ordinary shares of $0.1 each, ranking pari passu in all respects with the existing ordinary shares of the Company.

(c) On 11 April 2002, pursuant to the reorganisation described in note 1, the Company allotted and issued 65,000,000 ordinary shares of $0.1 each, credited as fully paid, and also credited as fully paid the 1,000,000 nil paid ordinary shares of $0.1 each as set out in (a) above, in consideration for the acquisition of the entire issued share capital of Ever Century.

(d) On 26 April 2002, 256,000,000 ordinary shares of $0.1 each were issued to the public at $0.385 each for a total cash consideration of $98,560,000 before the related issue expenses.

10. Share capital *(continued)*

(e) On 11 April 2002, as a result of the issue of new ordinary shares to the public, a total of 958,000,000 ordinary shares of $0.1 each were allotted as fully paid at par to the shareholders whose names appeared on the register of members of the Company at that date, in proportion to their respective shareholdings by way of capitalisation of the sum of $67,880,000 and $27,920,000 standing to the credit of the share premium account and retained earnings account of the Company respectively.

(f) On 15 May 2002, the over-allotment option granted by the Company referred to in the prospectus was exercised in full, so that 48,000,000 additional new shares of $0.1 each were issued at $0.385 each to meet the over-allocations in the placing.

11. Reserves

	Share premium *$'000*	Contributed surplus *$'000*	Land and buildings revaluation reserve *$'000*	PRC statutory reserve *$'000*	Retained earnings *$'000*	Total *$'000*
At 1 April 2001	–	6,400	–	19	148,453	154,872
Revaluation surplus	–	–	16,849	–	–	16,849
Profit for the year	–	–	–	–	82,279	82,279
Interim dividend declared in respect of the year	–	–	–	–	(24,000)	(24,000)
At 31 March 2002	–	6,400	16,849	19	206,732	230,000
At 1 April 2002	–	6,400	16,849	19	206,732	230,000
New issue of shares on public offer and placement	86,640	–	–	–	–	86,640
Capitalisation issue	(67,880)	–	–	–	(27,920)	(95,800)
Share issue costs	(18,760)	–	–	–	–	(18,760)
Final dividends declared and paid in respect of previous year	–	–	–	–	(8,300)	(8,300)
Profit for the period	–	–	–	–	36,710	36,710
At 30 September 2002	**–**	**6,400**	**16,849**	**19**	**207,222**	**230,490**

12. Contingent liabilities

At 30 September 2002, the Group had bills discounted with recourse with banks amounting to $40,524,000 (at 31 March 2002: $47,849,000).

13. Material related party transactions

During the period, the following significant related party transactions took place:

	Six months ended 30 September	
	2002	2001
	$'000	*$'000*
Expenses paid to related parties:		
Warehouse rentals	**186**	186
Directors' quarters rentals	**816**	816
Guangzhou office rentals	**243**	243
Subcontracting fee	**–**	283

The directors of the Company are of the opinion that the above transactions with related parties were conducted on normal commercial terms in the ordinary course of business of the Group.

14. Post balance sheet event

After the balance sheet date, the directors of the Company proposed an interim dividend, details of which are disclosed in note 5.

15. Approval of interim financial report

The interim financial report was approved by the Board of Directors on 12 December 2002.