

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

June 30, 2001 (Amounts expressed in Hong Kong dollars unless otherwise stated)

1. PRINCIPAL ACCOUNTING POLICIES

The condensed interim financial statements have been prepared in accordance with Statement of Standard Accounting Practice (“SSAP”) No. 25 “Interim Financial Reporting” issued by the Hong Kong Society of Accountants (the “HKSA”), except that comparative figures are not presented for the condensed consolidated statement of cash flow, being the first statement of cash flow to be included in the interim financial report relating to accounting period ended on or after July 1, 2000. Such departure from SSAP 25 is permitted under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The condensed interim financial statements should be read in conjunction with the 2000 annual financial statements. The accounting policies and the basis of preparation adopted are consistent with those followed in the Group’s annual financial statements for the year ended December 31, 2000, except for the adoption of certain new SSAPs issued by HKSA as described below.

In current period, the Group has adopted, for the first time, the following SSAPs issued by HKSA:

SSAP 9 (revised)	Events after the balance sheet date
SSAP 14 (revised)	Leases
SSAP 26	Segment reporting
SSAP 28	Provisions, contingent liabilities and contingent assets
SSAP 29	Intangible assets
SSAP 30	Business combinations
SSAP 31	Impairment of assets
SSAP 32	Consolidated financial statements and accounting for investments in subsidiaries

The effects on the adoption of the above accounting standards are as follows:

- The adoption of SSAP 9 (revised) “Events after the balance sheet date” results in a change in accounting policy whereby dividend proposed after the balance sheet date is no longer recognized as a liability at the balance sheet date, while dividends income proposed or declared by the subsidiaries after the balance sheet date are no longer recognized as income. Proposed dividend is now separately disclosed on the face of the balance sheet within shareholders’ equity. This change in accounting policy has been applied retrospectively and comparative figures have been restated. As a result of this change in accounting policy, the beginning retained profits of the Group as at January 1, 2000 and January 1, 2001 have increased by \$21,071,220 and \$31,606,830 respectively.
- The adoption of SSAP 14 (revised) “Leases” has no material impact on the reported financial position or results of the Group except that comparative information in the operating lease commitment disclosure is restated to comply with the requirements of this revised statement.

Except for the effect of adoption of SSAP 9 (revised), the new adoption of SSAP 14 (revised), SSAP 26, SSAP 28, SSAP 29, SSAP 30, SSAP 31 and SSAP 32 have no material impact on the reported financial position or results of the Group.

2. SEGMENT INFORMATION

An analysis of the Group’s turnover and contribution to profit from operations by principal business activities and geographical markets is as follows:

	Turnover		Profit from operations	
	Six Months Ended		Six Months Ended	
	June 30, 2001	June 30, 2000	June 30, 2001	June 30, 2000
	(\$'000)	(\$'000)	(\$'000)	(\$'000)
By principal business activities:				
Garment manufacturing	656,833	797,252	8,236	29,211
Trading	258,298	214,423	20,349	24,727
Retail	52,475	49,126	681	676
	<u>967,606</u>	<u>1,060,801</u>	<u>29,266</u>	<u>54,614</u>
By principal geographical markets:				
The United States	649,377	620,069		
Asia	203,298	289,505		
Europe	114,931	151,227		
	<u>967,606</u>	<u>1,060,801</u>		

3. DEPRECIATION

During the period, depreciation of \$22,073,957 (2000 - \$24,684,285) was charged in respect of the Group’s fixed assets.

4. TAXATION

Hong Kong profits tax has been provided at the rate of 16% (2000 - 16%) on the estimated assessable profit for the period. Taxation on overseas profit has been calculated on the estimated assessable profit for the period at the rates prevailing in the respective jurisdictions.

	Six Months Ended	
	June 30, 2001	June 30, 2000
Company and subsidiaries:		
Hong Kong profits tax	858,310	1,369,612
Overseas taxation	798,593	2,538,995
	<u>1,656,903</u>	<u>3,908,607</u>
Associates:		
Overseas taxation	1,370,502	—
	<u>3,027,405</u>	<u>3,908,607</u>

5. EARNINGS PER SHARE

Basic earnings per share is calculated based on the consolidated profit attributable to shareholders for the period of \$26,404,979 (2000 - \$39,227,742) and the 263,867,159 (2000 - 263,390,253) weighted average number of ordinary shares in issue throughout the period ended June 30, 2001.

Diluted earnings per share is calculated based on the consolidated profit attributable to shareholders for the period of \$26,404,979 (2000 - \$39,227,742) and the diluted weighted average number of ordinary shares of 267,468,498 (2000 - 264,515,967) in issue during the period. It has been calculated after taking into account the outstanding share options as at June 30, 2001. The effect of the dilution resulting from the outstanding share options on the weighted average number of ordinary shares in issue during the period is an additional 3,601,339 (2000 - 1,125,714) shares. These shares are deemed to be issued at no consideration on the date when the options were granted.

The reconciliation of number of ordinary shares is as follows:

	Six Months Ended	
	June 30, 2001	June 30, 2000
Weighted average number of ordinary shares used in calculating basic earnings per share	263,867,159	263,390,253
Deemed issue of ordinary shares for no consideration	3,601,339	1,125,714
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>267,468,498</u>	<u>264,515,967</u>

6. DIVIDENDS

	Six Months Ended	
	June 30, 2001	June 30, 2000
2000 final dividend paid, of \$0.12 (1999 - \$0.08) per ordinary share	31,606,830	21,071,220
Interim dividend proposed of \$0.04 (2000 - \$0.06) per ordinary share	10,749,410	15,803,415
	<u>42,356,240</u>	<u>36,874,635</u>

7. BILLS RECEIVABLE AND ACCOUNTS RECEIVABLE

Analysis of aging of bills receivable and accounts receivable of the Group is as follows:

	June 30, 2001	December 31, 2000
Not over 3 months	294,906,063	266,289,401
Over 3 months to 6 months	4,707,317	20,179,351
Over 6 months to 1 year	6,855,184	2,835,821
Over 1 year	9,388,579	7,410,866
	<u>315,857,143</u>	<u>296,715,439</u>
Less: Provision for bad debts	(13,242,055)	(13,076,826)
	<u>302,615,088</u>	<u>283,638,613</u>

The payment terms with overseas customers are largely on letters of credit, where the instruction of payment is executed at site or on receipt of inspection certificates.

8. BILLS PAYABLE AND ACCOUNTS PAYABLE

Analysis of aging of bills payable and accounts payable of the Group is as follows:

	June 30, 2001	December 31, 2000
Not over 3 months	220,778,460	145,517,682
Over 3 months to 6 months	33,294,235	12,555,158
Over 6 months to 1 year	10,461,282	9,492,337
Over 1 year	5,736,783	23,615,025
	<u>270,270,760</u>	<u>191,180,202</u>

Payment terms with suppliers are on letters of credit and open accounts. Certain suppliers grant a credit period ranging from 30 to 60 days to the Group.

9. SHARE CAPITAL

	June 30, 2001	December 31, 2000
Authorized:		
500,000,000 (2000 - 500,000,000) ordinary shares of \$0.10 each	<u>50,000,000</u>	<u>50,000,000</u>
Issued and fully paid:		
268,735,253 (2000 - 263,390,253) ordinary shares of \$0.10 each	<u>26,873,525</u>	<u>26,339,025</u>

On June 13, 2001 and June 15, 2001, 400,000 and 4,945,000 share options were exercised to subscribe for a total of 5,345,000 ordinary shares of the Company at \$1.62 per share respectively. The Company has issued an additional 5,345,000 ordinary shares for the exercise of these share options.

During the period, 3,141,000 share options were lapsed upon expiry of the share options and when the grantees ceased to be employees of the Group. No new share options have been granted during the period. There were 12,960,000 share options outstanding as at June 30, 2001.

10. RETAINED PROFITS

At January 1, 2000 as previously reported	150,198,488
Effect on adoption of SSAP 9 (revised) (Note 1)	21,071,220
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At January 1, 2000, as restated	171,269,708
1999 final dividend paid (Note 6)	(21,071,220)
Profit for the year	112,662,824
Transfer to reserves	(103,727,581)
2000 interim dividend paid (Note 6)	(15,803,415)
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At December 31, 2000, as restated	143,330,316
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Representing:	
Retained profits	111,723,486
2000 final dividend proposed (Note 6)	31,606,830
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	143,330,316
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At January 1, 2001 as previously reported	111,723,486
Effect on adoption of SSAP 9 (revised) (Note 1)	31,606,830
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At January 1, 2001, as restated	143,330,316
2000 final dividend paid (Note 6)	(31,606,830)
Profit for the period	26,404,979
Transfer to reserves	(159,928)
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At June 30, 2001	137,968,537
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Representing:	
Retained profits	127,219,127
2001 interim dividend proposed (Note 6)	10,749,410
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	137,968,537
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11. BANKING FACILITIES

As at June 30, 2001, the Group had aggregate banking facilities of approximately \$973,000,000 (2000 - \$966,000,000) for loans, overdrafts, trade financing and forward contracts. Unused facilities as at the same date amounted to approximately \$660,000,000 (2000 - \$838,000,000). These facilities were secured by corporate guarantees given by the Company of approximately \$954,000,000 (2000 - \$944,000,000) for general banking facilities granted to subsidiaries.

12. COMMITMENTS

a. Operating lease commitments

The total future aggregate minimum lease payments under non-cancelable operating leases as at June 30, 2001 are as follows:

	June 30, 2001	December 31, 2000
Land and buildings		
- within one year	41,432,375	38,876,587
- in the second to fifth years inclusive	46,382,652	50,232,721
- after the fifth year	79,256,593	82,663,260
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	167,071,620	171,772,568
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The comparative figures for December 31, 2000 have been restated to take into account the adoption of the SSAP 14 (revised) "Leases" as described in Note 1.

b. Capital commitments

As at June 30, 2001, the Group had the following capital commitments in relation to office renovation and purchase of equipment:

	June 30, 2001	December 31, 2000
Authorized and contracted for	—	2,317,937
Authorized but not contracted for	583,648	—
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	583,648	2,317,937
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13. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current period's presentation.

The Group has adopted the following new accounting standards: SSAP 9 (revised) "Events after the balance sheet date", SSAP 14 (revised) "Leases", SSAP 26 "Segment reporting", SSAP 28 "Provisions, contingent liabilities and contingent assets", SSAP 29 "Intangible assets", SSAP 30 "Business combination", SSAP 31 "Impairment of assets" and SSAP 32 "Consolidated financial statements and accounting for investments in subsidiaries", recently issued by HKSA. This has resulted in changes to the presentation of various items and certain comparative financial information have been restated accordingly.