NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

31 December 2001

1. SIGNIFICANT ACCOUNTING POLICIES

The unaudited condensed consolidated interim financial statements of the Group have been prepared in accordance with Hong Kong Statement of Standard Accounting Practice ("SSAP") 2.125 "Interim Financial Reporting".

The accounting policies and basis of preparation adopted are consistent with those used in the Group's annual financial statements for the year ended 30 June 2001 except that the Group has changed certain of its accounting policies following the adoption of the following revised and new SSAPs which became effective for the current accounting period:

SSAP 2.109 (Revised):	Events after the balance sheet date
SSAP 2.118 (Revised):	Revenue
SSAP 2.126:	Segment reporting
SSAP 2.128:	Provisions, contingent liabilities and contingent assets
SSAP 2.129:	Intangible assets
SSAP 2.130:	Business combinations
SSAP 2.131:	Impairment of assets
SSAP 2.132:	Consolidated financial statements and accounting for investments in subsidiaries

With the exception of SSAP 2.109 (Revised) and SSAP 2.126, the adoption of the above standards has had no significant effect on the results of the Group in current or prior periods.

In accordance with SSAP 2.109 (Revised), the Group no longer recognises dividend proposed or declared after the balance sheet date as a liability in the balance sheet date, but is disclosed as an allocation of retained profits on a separate line within the capital and reserves section of the balance sheet. The final dividend proposed for the year ended 30 June 2001 of approximately HK$7,760,000, classified as a current liability at 30 June 2001, has been reclassified to the proposed final dividend reserve account within the capital and reserves section of the balance sheet.

SSAP 2.126 prescribes the principles to be applied for reporting financial information by segment. It requires that management assesses whether the Group's predominant risks or returns are based on business segments or geographical segments and determines one of these bases to be the primary segment information reporting format, with the other as the secondary segment information reporting format. The impact of this SSAP is the inclusion of significant additional segment reporting disclosures which are set out in note 2 to the condensed consolidated financial statements.

2. SEGMENT INFORMATION

SSAP 2.126 was adopted during the Period, as detailed in note 1 to the condensed consolidated financial statements. Segment information is presented by way of segment formats:

(i) on a primary segment reporting basis, by geographical segment; and

(ii) on a secondary segment reporting basis, by business segment.

Each of the Group's geographical segments, based on the location of customers, represents a strategic business unit that offers products to customers located in different geographical areas which are subject to risks and returns that are different from those of other geographical segments.

(a) Geographical segments

Over 90% of the Group's revenue, results, assets and liabilities are derived from customers based in the People's Republic of China (the "PRC").

(b) Business segments

All of the Group's revenue, results, assets and liabilities are derived from the manufacture and sale of apparel.

3. PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities is arrived at after charging/(crediting):

	Six months ended 31 December	
	2001	2000
	HK$'000	*HK$'000*
Depreciation	**3,216**	2,956
Loss on disposal of fixed assets	**364**	–
Amortisation of goodwill	**856**	–
Realised losses on short term investment	**4,816**	2,966
Interest income	**(1,650)**	(1,501)
Dividend income from listed securities	**(713)**	(93)
Unrealised gains on short term investments	**(6,598)**	–

4. FINANCE COSTS

	Six months ended 31 December	
	2001	2000
	HK$'000	*HK$'000*
Interest on bank loans and overdrafts wholly repayable within five years	**14**	275
Interest on a bank loan wholly repayable beyond five years	**79**	155
Interest on other loans	**2**	117
Interest on a finance lease	**24**	–
	119	547

5. TAX

	Six months ended 31 December	
	2001	2000
	HK$'000	*HK$'000*
Current period provision:		
Hong Kong	**1**	4
Elsewhere	**7,241**	5,771
Tax charge for the Period	**7,242**	5,775

Hong Kong profits tax has been provided at the rate of 16% (2000: 16%) on the estimated assessable profits arising in Hong Kong during the Period. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

No provision for deferred tax has been made as the Group did not have any significant unprovided deferred tax liabilities in respect of the Period (2000: Nil).

6. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit from ordinary activities attributable to shareholders for the Period of approximately HK$40,388,000 (2000: HK$32,090,000) and the weighted average of 777,432,781 (2000: 752,529,086) ordinary shares in issue during the Period.

The calculation of diluted earnings per share is based on the net profit from ordinary activities attributable to shareholders for the Period of approximately HK$40,388,000 (2000: HK$32,090,000) and on 784,655,130 (2000: 763,006,786) ordinary shares, being the weighted average number of ordinary shares outstanding during the Period adjusted for the effects of dilutive potential ordinary shares outstanding during the Period.

7. LONG TERM INVESTMENTS

	31 December 2001 HK$'000	30 June 2001 HK$'000
Equity investments		
Listed securities in Hong Kong	–	11,000
Unlisted outside Hong Kong	6,667	6,667
	6,667	17,667
Market value of listed equity investments	–	17,463

8. TRADE RECEIVABLES

The Group normally allows credit terms to established customers ranging from 30 to 120 days.

An aging analysis of the trade receivables as at the balance sheet date, based on the date of recognition of the sales, is as follows:

	31 December 2001 HK$'000	30 June 2001 HK$'000
1 – 30 days	42,416	24,514
31 – 60 days	10,417	10,343
61 – 90 days	596	3,971
Over 90 days	153	1,324
	53,582	40,152

9. TRADE PAYABLES

The Group normally obtains credit terms ranging from 30 to 120 days from its suppliers.

An aging analysis of the trade payables as at the balance sheet date, based on the receipt of goods purchased, is as follows:

	31 December 2001 HK$'000	30 June 2001 HK$'000
1 - 30 days	1,375	1,006
31 - 60 days	1,594	977
61 - 90 days	246	457
Over 90 days	230	802
	3,445	3,242

10. ISSUED CAPITAL

	31 December 2001 HK$'000	30 June 2001 HK$'000
Authorised:		
1,000,000,000 ordinary shares of HK$0.10 each	100,000	100,000
Issued and fully paid		
780,755,200 (30 June 2001: 776,030,200) ordinary shares of HK$0.10 each	78,076	77,603

	Number of shares issued '000	Par value HK$'000
Issued capital as at 1 July 2001	776,030	77,603
Share options exercised	4,725	473
	780,755	78,076

11. RESERVES

	Share premium	Contributed surplus	Fixed asset revaluation reserve	Statutory reserve fund	Exchange fluctuation reserve	Retained profits	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Group							
At 1 July 2001	84,480	5,415	10,434	1,254	(1,613)	141,872	241,842
Arising on exercise of share options	769	–	–	–	–	–	769
Net profit for the Period	–	–	–	–	–	40,388	40,388
Transfer to statutory reserve fund	–	–	–	170	–	(170)	–
	85,249	5,415	10,434	1,424	(1,613)	182,090	282,999

12. POST BALANCE SHEET EVENTS

(a) On 20 February 2002, the Group entered into a conditional sale and purchase agreement with Smart Idea Securities Limited to acquire a further 40% equity interest in Hi-Tech Market Limited ("Hi-Tech Market"), a 60% owned subsidiary of the Company prior to the acquisition, for a cash consideration of HK$28.8 million. The acquisition required certain conditions to be fulfilled and such conditions have yet to be completely fulfilled before the acquisition becomes unconditional. Further details of the acquisition are set out in a press announcement dated 22 February 2002;

(b) On 1 March 2002, 2,160,000 share options under the share options scheme of the Company were exercised;

(c) On 22 March 2002, the Company proposed to grant two bonus ordinary shares for every one ordinary share of HK$0.10 each in the issued share capital of the Company held by the shareholders whose names appears on the register of members of the Company on 12 April 2002;

(d) On 22 March 2002, the Company proposed to increase its authorised share capital from HK$100 million to HK$500 million by the creation of an additional 4,000 million shares of HK$0.10 each;

(e) On 22 March 2002, the Group entered into a licensing agreement with an independent third party, U-Right Nano Textile (China) Limited ("U-Right Nano"), to obtain an exclusive right to apply Texcote Technology and Texcote Chemicals within the PRC (including Hong Kong and Macau, but excluding Taiwan), to the men's and ladies' suits manufactured by the Group; and

(f) On 22 March 2002, the Group entered into a conditional subscription agreement with U-Right Nano to subscribe for approximately 20% of the enlarged share capital of U-Right Nano for a consideration of HK$40 million. The subscription agreement required certain conditions to be fulfilled and such conditions have yet to be completely fulfilled before the subscription agreement becomes unconditional.

INTERIM DIVIDENDS

The Board does not recommend the payment of interim dividend for the Period (2000: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Operations review

The Board of Directors is pleased to announce that the Group's clothing business recorded a healthy growth over the Period. For the first half of the financial year, the Group achieved a turnover of approximately HK$162,503,000 (2000: HK$148,831,000), representing an increase of 9.2%. During the Period, the gross profit was approximately HK$59,780,000 (2000: HK$52,516,000), representing an increase of 13.8% over the same period of last year, and reflecting a slight increase in gross profit ratio from 35% to 37%. Net profit from ordinary activities attributable to shareholders increased to approximately HK$40,388,000 (2000: HK$32,090,000). Earnings per share also increased to 5.2 cents (2000: 4.3 cents).

Due to the steady growth of the PRC economy and the continuous increase of domestic consumption power, sales to the PRC increased to HK$154,699,000, representing over 95% of the total turnover of the Group. In spite of Hong Kong's sluggish economy, the Group maintained a turnover of HK$7,804,000 as a result of its continuous effort. The Group will continue to pursue orders for the design and manufacture of uniforms from government bodies and banking groups in Hong Kong and across the PRC in a bid to strengthen its presence in the uniform markets. At the same time, the Group will also increase its marketing effort in order to further improve the sale of the Group's quality men's and ladies' wear and apparel items.

During the Period, the securities investment held by the Group has achieved good return for the Group. The Group recorded a net gain of approximately HK$1,782,000 in its equity investments in listed securities. The Group's investment committee established last year has been closely monitoring the market situation to ensure the risk exposure to the Group is minimised.

Pursuant to a previous placing agreement, BG Investments Limited, a wholly-owned subsidiary of Zurich Financial Services Group, held 68,010,000 ordinary shares ("Placing Shares") of the Company throughout the Period. Upon the expiry of the lock-up period imposed under the deed of covenants, the Company, Golden Prince Group Limited and BG Investments Limited entered into a new deed of covenants on 27 November 2001, pursuant to which BG Investments Limited has undertaken not to dispose of the Placing Shares for a period of one year from 27 November 2001. Given Zurich Financial Services Group is one of the leading financial services groups in the world engaging in insurance and asset management operations, the further extension of the lock-up period would help to maintain the strength of the Group's shareholders and capital base.

Liquidity and financial resources

The Group's financial position remains robust. At 31 December 2001, the Group had only approximately HK$3,501,000 bank and other borrowings which were secured by certain properties, bank deposits and corporate guarantees given by the Company and a subsidiary of the Company. The Group's borrowings are primarily denominated in Hong Kong dollars and its cash, bank balances and pledged bank deposits amounted to approximately HK$127,243,000 as at 31 December 2001. The Group has no significant exposure to foreign exchange fluctuations.

The Group's gearing ratio as at 31 December 2001 (calculated as bank borrowings to total assets) was only 1% (30 June 2001: 1%). The Group has consistently maintained a healthy financial position and the Board believes that the Group has adequate financial resources to meet its present requirements.

Prospects

China's recent accession to the World Trade Organisation and Beijing's successful bid to host the 2008 Olympic Games are likely to speed up the pace of economic growth in the PRC. The PRC market is set to open further. While it brings in opportunities to the benefit of the Group, competition from foreign brand suit manufacturers is expected to be strong. The Group will seek to foster partnership with foreign companies and consolidate their effort to develop the mainland market.

Following the acquisition of 21.6% equity interest in Global Network Corporation ("GNC") last year, the Group has entered into an acquisition agreement on 20 February 2002, which would effectively increase its stake in GNC to 36%, subject to certain conditions. Details of the transaction have been included in the press announcement made by the Company on 22 February 2002. GNC has achieved major developments in the past six months. One of its newly developed web-based compression technology "壓寶" has successfully obtained international and US copyright registration. GNC has also entered into bundling agreements with several major computer manufacturers for the use of its compression technology.

According to the official estimate from the State Information Center of the PRC, the software and information technology industry contributes approximately 4.5% to the gross domestic product of the PRC currently and it is estimated that by 2005, the contribution would increase to approximately 10%. With the introduction of preferential policies encouraging the development of software and information technology by the PRC government, opportunities in such business are immense. The Board believes that this investment is in line with the Group's strategy of diversifying its business and will benefit the Group in the long term. Based on the above, the Directors consider that the terms of the acquisition are fair and reasonable and are in the best interests of the Company.

Pursuant to a licensing agreement dated 22 March 2002 entered into between the Group and U-Right Nano Textile (China) Limited, the Group was granted an exclusive right to apply Texcote Technology and Texcote Chemicals to the men's and ladies' suits manufactured by the Group within the PRC (including Hong Kong and Macau, but excluding Taiwan). Texcote Technology and Texcote Chemicals are the research results of two Swedish scientists studying Nanotechnology. Nano-processing technology could improve and enhance the value of products. Processed suits under this technological treatment are stain repellent, water-resistant, effective moisture control and require much less detergent usage than normal clothing does and therefore embrace exceptional functionality, attractive appearance, durability and is more environmental friendly. The Group is dedicated to enhance the value-adding properties of products and the corporate competitive edge amidst the competitive business environment, thereby opening up more opportunities.

Employees

At 31 December 2001, the Group employed about 900 employees in our Putian Factory and about 17 staff in the Hong Kong office. In addition to competitive package offered to the employees, share options of the Company may be granted by the Group to enable its employees to participate in the growth of the Group. On-going training sessions were also conducted to enhance the competitiveness of the Group's human resources.