

## Notes to the Condensed Financial Statements

*For the six months ended 30 September 2002*

### 1. Basis of Preparation

The condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with Statement of Standard Accounting Practice No. 25 "Interim Financial Reporting".

### 2. Principal Accounting Policies

The condensed financial statements have been prepared under the historical cost convention.

The accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 March 2002, except as described below.

In the current period, the Group has adopted, for the first time, the following new and revised Statements of Standard Accounting Practice ("SSAPs") issued by the Hong Kong Society of Accountants.

#### **Foreign Currencies**

The revisions to SSAP 11 "Foreign Currency Translation" have eliminated the choice of translating the income statements of overseas subsidiaries for the period. They are now required to be translated at an average rate. Accordingly, on consolidation, the assets and liabilities of the Company's subsidiaries are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the subsidiary is disposed of. This change in accounting policy has been applied retrospectively, resulting in an adjustment of approximately HK\$312,000 and HK\$356,000 to the opening balance of retained earnings and the translation reserve as at 1 April 2001 and 1 April 2002 respectively. The change in accounting policy has resulted in the decrease in the Group's profit for the six months ended 30 September 2001 and the increase in the Group's loss for the six months ended 30 September 2002 by approximately HK\$143,000 and HK\$40,000 respectively.

**Notes to the Condensed Financial Statements** (Continued)

*For the six months ended 30 September 2002*

**2. Principal Accounting Policies** (Continued)***Cash Flow Statements***

In the current period, the Group has adopted SSAP 15 (Revised) "Cash Flow Statements" ("SSAP 15 (Revised)"). Under SSAP 15 (Revised), cash flows are classified under three headings - operating, investing and financing, rather than the previous five headings. Interest income and expense, which were previously presented under a separate heading, are classified as operating and financing cash flows respectively. Cash flows arising from taxes on income are classified as operating activities, unless they can be separately identified with investing or financing activities. Cash flows of overseas subsidiaries have been re-translated at the rates prevailing at the dates of the cash flows rather than the rate of exchange ruling on the balance sheet date. The change in exchange rates used for translation of the cash flows of overseas subsidiaries have not had any material effect on the comparative amounts shown in the cash flow statement.

***Employee Benefits***

In the current period, the Group has adopted SSAP 34 "Employee Benefits" ("SSAP 34"), which introduces measurement rules for employee benefits, including retirement benefit plans. SSAP 34 also outlined the treatment of the Group's potential long services payment to the employee under the Employment Ordinance. The amount recognised as a liability for long service payments should be the net total of the present value of the defined benefit obligation at the balance sheet date minus the fair value at the balance sheet date of plan asset (if any) out of which the obligations are to be settled directly. The Group should also recognised the net of current service cost; interest cost; the expected return on any plan assets and or any reimbursement right recognised as an asset; actuarial gains and losses; past service cost and the effect of any curtailments or settlements, except to the extent that another SSAP requires or permits their inclusion in the cost of an asset. This change in accounting policy has been applied retrospectively, resulting in an adjustment of approximately HK\$769,000 and HK\$810,000 to the opening balance of retained earnings at 1 April 2001 and 1 April 2002 respectively. The change in policy has resulted in a decrease in the profit for the six months ended 30 September 2001 by HK\$19,000 and an increase in the loss for the six months ended 30 September 2002 by HK\$20,000.

**Notes to the Condensed Financial Statements** (Continued)

For the six months ended 30 September 2002

**3. Turnover and Contribution to (Loss) Profit for the Period**

The Group's turnover and contribution to loss for the period for the six months ended 30 September 2002 by business segment are as follows:

	Turnover		Contribution to (loss) profit for the period	
	Six months ended		Six months ended	
	30 September		30 September	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Sales of knitted-to-shape garments	285,065	232,660	(16,773)	30,671
Sales of non knitted-to-shape garments	6,140	19,654	(203)	3,869
Subcontracting income	4,611	6,824	226	1,162
	<u>295,816</u>	<u>259,138</u>	<u>(16,750)</u>	<u>35,702</u>
Finance costs			(509)	(618)
Share of results of an associate			(307)	(76)
(Loss) profit before taxation			(17,566)	35,008
Taxation			–	(2,867)
(Loss) profit before minority interests			(17,566)	32,141
Minority interests			1,064	(1,005)
(Loss) profit for the period			<u>(16,502)</u>	<u>31,136</u>

## Notes to the Condensed Financial Statements (Continued)

For the six months ended 30 September 2002

### 3. Turnover and Contribution to (Loss) Profit for the Period (Continued)

The Group's turnover for the six months ended 30 September 2002 by geographical market is as follows:

	Turnover	
	Six months ended 30 September	
	2002	2001
	HK\$'000	HK\$'000
United States of America	260,890	240,060
Europe	17,973	9,179
Asia	13,238	4,785
Australia	1,862	1,866
South America	–	108
Others	1,853	3,140
	<u>295,816</u>	<u>259,138</u>

### 4. Other Operating Income

	Six months ended 30 September	
	2002	2001
	HK\$'000	HK\$'000
Exchange gain	867	228
Gain on disposal of property, plant and equipment	–	157
Interest income	289	252
Sundry income	1,570	1,604
	<u>2,726</u>	<u>2,241</u>

**Notes to the Condensed Financial Statements** (Continued)

*For the six months ended 30 September 2002*

**5. (Loss) Profit from Operations**

During the period, depreciation of approximately HK\$3,618,000 (2001: HK\$2,642,000) was charged in respect of the Group's property, plant and equipment and amortisation of approximately HK\$410,000 (2001: HK\$410,000) was charged in respect of the Group's intangible asset.

**6. Finance Costs**

The finance costs represent interest on bank borrowings wholly repayable within five years.

**7. Taxation**

No provision for Hong Kong Profits Tax was made during the period as the Group incurred tax losses.

Provision for Hong Kong Profits Tax in prior period was calculated at 16% on the estimated assessable profit in the previous period.

The associate did not have any estimated assessable profit in both periods.

**8. Dividend**

On 28 August 2002, an amount of 4.6 HK cents per share (2001: Nil) was paid to shareholders as the final dividend for the financial year ended 31 March 2002. The directors do not recommend the payment of interim dividend for current period.

## Notes to the Condensed Financial Statements (Continued)

For the six months ended 30 September 2002

### 9. (Loss) Earnings Per Share

The calculation of (loss) earnings per share is based on the Group's loss for the period of HK\$16,502,000 (2001: profit of HK\$31,136,000) and on 236,402,000 ordinary shares in issue (2001: 186,000,000 in issue and issuable as a result of the group reorganisation for the purpose of listing the Company's share in 2001 on The Stock Exchange of Hong Kong Limited and as if these shares had been in issue in 1 April 2000).

Diluted earnings per share has not been presented for either period because the Company does not have any dilutive potential ordinary shares.

### 10. Property, Plant and Equipment

During the six months ended 30 September 2002, the Group acquired property, plant and equipment at a cost of approximately HK\$13,251,000 (Year ended 31 March 2002: HK\$11,705,000).

### 11. Trade Debtors

The Group allows an average credit period of 30 days to its trade customers.

The following is an aged analysis of trade debtors:

	At 30 September 2002 HK\$'000	At 31 March 2002 HK\$'000
0 - 30 days	34,050	15,025
31 - 60 days	21,525	1,812
61 - 90 days	3,384	244
> 90 days	277	331
	59,236	17,412

**Notes to the Condensed Financial Statements** (Continued)*For the six months ended 30 September 2002***12. Trade Creditors**

The following is an aged analysis of trade creditors:

	At 30 September 2002 HK\$'000	At 31 March 2002 HK\$'000
0 - 30 days	7,668	13,012
31 - 60 days	10,324	2,133
61 - 90 days	14,831	7,094
> 90 days	924	1,047
	33,747	23,286

**13. Bank Borrowings**

	At 30 September 2002 HK\$'000	At 31 March 2002 HK\$'000
Unsecured trust receipt loans	11,012	661
Secured bank loans ( <i>Note</i> )	4,830	-
	15,842	661

*Note: The loans are secured by letters of credit.*

**Notes to the Condensed Financial Statements** (Continued)*For the six months ended 30 September 2002***14. Capital Commitments**

	At 30 September 2002 HK\$'000	At 31 March 2002 HK\$'000
Capital expenditure in respect of the acquisition of property, plant and equipment:		
contracted for but not provided for in the financial statements	2,630	6,850
authorised but not contracted for	–	2,150

**15. Contingent Liabilities**

At 30 September 2002, contingent liabilities of the Group arising from discounted bills with recourse amounted to HK\$30,007,000 (At 31 March 2002: Nil).



**Notes to the Condensed Financial Statements** (Continued)*For the six months ended 30 September 2002***16. Related Party Transactions**

Name of related party	Nature of transaction	Six months ended 30 September	
		2002 HK\$'000	2001 HK\$'000
Pak Tak (Kwong Tai) Knitting Factory Limited	Sales of goods ( <i>Note d</i> ) Subcontracting income received ( <i>Note e</i> )	4,536 329	1,851 97
("Pak Tak Kwong Tai") ( <i>Note a</i> )	Interest income received ( <i>Note f</i> )	124	115
Admiralty Pty Limited ( <i>Note b</i> )	Sales of goods ( <i>Note d</i> )	987	1,850
普寧市高埔毛織製衣 有限公司 ( <i>Note c</i> )	Subcontracting fee paid ( <i>Note e</i> )	–	3,033

*Notes:*

- (a) Pak Tak Kwong Tai is an associate of the Company.
- (b) Admiralty Pty Limited is owned by relatives of Cheng Chi Tai and Cheng Kwai Chun, John, the directors of the Company.
- (c) 普寧市高埔毛織製衣有限公司 is a sino-foreign enterprise of which Lin Chick Kwan and Lin Wing Chau, directors of the Company, have beneficial interest.
- (d) The transactions were carried out at cost plus a percentage profit mark-up.
- (e) The subcontracting fee paid was determined at amounts mutually agreed by parties involved.
- (f) Interest income received was calculated with reference to the prevailing market rate.

In addition to the above, during the six months ended 30 September 2001, Cheng Chi Tai has given personal guarantees and other assets to certain banks to secure the banking facilities granted to Pak Tak Knitting and Garment Factory Limited ("Pak Tak Knitting") a subsidiary of the Company. Cheng Chi Tai and Cheng Kwai Chun, John have also provided joint and several guarantees to a bank to secure the banking facilities granted to Pak Tak Knitting. All these guarantees were released when the shares in the Company were listed in The Stock Exchange of Hong Kong Limited on 6 December 2001.