



PEKING APPAREL INTERNATIONAL GROUP LIMITED

(Incorporated in Bermuda with limited liability)

2002/03

UNAUDITED INTERIM REPORT

INTERIM RESULTS

The board of directors (the “Directors”) of Peking Apparel International Group Limited (the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30 September 2002 (the “period”), together with the comparative figures for the corresponding period in 2001 as follows:

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

		For the six months ended 30 September	
		2002	2001
		(Unaudited)	(Unaudited)
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
TURNOVER	3	45,215	43,433
Cost of sales		<u>(39,044)</u>	<u>(35,558)</u>
Gross profit		6,171	7,875
Other revenue		362	815
Selling and distribution costs		(740)	(1,561)
Administrative expenses		<u>(5,577)</u>	<u>(5,658)</u>
PROFIT FROM OPERATING ACTIVITIES	5	216	1,471
Finance costs	6	<u>(94)</u>	<u>(1,149)</u>
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		<u>122</u>	<u>322</u>
EARNINGS PER SHARE — BASIC	8	<u>0.04 cents</u>	<u>0.1 cents</u>

CONDENSED CONSOLIDATED BALANCE SHEET

		As at	
		30 September 2002 (Unaudited) HK\$'000	31 March 2002 (Audited) HK\$'000
	<i>Notes</i>		
NON-CURRENT ASSETS			
Fixed assets		28,524	29,087
Long term investments	9	5,117	5,117
		33,641	34,204
CURRENT ASSETS			
Cash and bank balances		862	1,114
Pledged bank deposits		26,706	26,594
Trade and bills receivables	10	11,550	13,786
Inventories		49,524	41,126
Other receivables, prepayments and deposits		3,749	3,899
Tax recoverable		—	765
		92,391	87,284
CURRENT LIABILITIES			
Bank overdrafts, secured		4,558	1,187
Trust receipt loans, secured		—	861
Trade and bills payables	11	4,377	3,080
Other payables and accruals		2,727	2,112
		11,662	7,240
NET CURRENT ASSETS		80,729	80,044
TOTAL ASSETS LESS CURRENT LIABILITIES		114,370	114,248
CAPITAL AND RESERVES			
Share capital		31,704	31,704
Reserves		82,666	82,544
		114,370	114,248

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	For the six months ended 30 September	
	2002	2001
	(Unaudited) <i>HK\$'000</i>	(Unaudited) <i>HK\$'000</i>
Net cash (outflow)/inflow from operating activities	(3,305)	1,670
Net cash (outflow)/inflow from investing activities	(318)	14,437
Net cash inflow from financing activities	—	—
Increase/(decrease) in cash and cash equivalents	(3,623)	16,107
Cash and cash equivalents at beginning of period	(73)	(24,231)
Cash and cash equivalents at end of period	<u>(3,696)</u>	<u>(8,124)</u>
Analysis of the balances of cash and cash equivalents		
Cash and bank balances	862	856
Bank overdrafts	(4,558)	(8,980)
	<u>(3,696)</u>	<u>(8,124)</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Unaudited for the six months ended 30 September 2002

	Share premium account <i>HK\$'000</i>	Fixed asset revaluation reserve <i>HK\$'000</i>	Reserve funds <i>HK\$'000</i>	Exchange fluctuation reserve <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 April 2001	49,586	13,888	173	(633)	20,300	83,314
Net profit for the period	—	—	—	—	322	322
At 30 September 2001	<u>49,586</u>	<u>13,888</u>	<u>173</u>	<u>(633)</u>	<u>20,622</u>	<u>83,636</u>
At 1 April 2002	49,586	12,358	173	(633)	21,060	82,544
Net profit for the period	—	—	—	—	122	122
At 30 September 2002	<u>49,586</u>	<u>12,358</u>	<u>173</u>	<u>(633)</u>	<u>21,182</u>	<u>82,666</u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

1. Basis of preparation

The unaudited condensed consolidated interim financial statements have not been audited by the Company's Auditors but have been reviewed by the Company's Audit Committee.

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

2. Principal accounting policies

The condensed interim financial statements have been prepared under the historic cost convention, as modified for the revaluation of certain properties.

The accounting policies adopted are consistent with those followed in the preparation of the Group's annual audited financial statements for the year ended 31 March 2002, except for the adoption of the following new/revised SSAPs which become effective in the current period:

SSAP 1 (Revised)	:	"Presentation of financial statements"
SSAP 11 (Revised)	:	"Foreign currency translation"
SSAP 15 (Revised)	:	"Cash flow statements"
SSAP 34	:	"Employee benefits"

A summary of their major effects is as follows:

SSAP 1 (Revised) prescribes the basis for the preparation of financial statements and sets out guidelines for their structure and minimum requirements for the content thereof. The main revision to this SSAP is to change the requirements from presenting a statement of recognized gains and losses to a statement of changes in equity. The condensed consolidated statement of changes in equity for the current interim period and the comparative figures have been presented in accordance with the revised SSAP.

SSAP 11 (Revised) prescribes the basis for the translation of foreign currency transactions and financial statements. The principal impact of this revised SSAP on the condensed consolidated financial statements is that the profit and loss account of subsidiaries operating in Mainland China are translated at an average rate for the period on consolidation, rather than translated at the applicable rates of exchange ruling at the balance sheet date as was previously required. This SSAP is required to be applied retrospectively. The Group has adopted the transitional provision of this SSAP that where the calculation of a prior year adjustment is impractical, these changes in policy are applied only to current and future financial statements and the effect on the results of the current period is not significant.

2. Principal accounting policies (continued)

SSAP 15 (Revised) prescribes the provision of information about the historical changes in cash and cash equivalents by means of a cash flow statement which classifies cash flows during the period into operating, investing and financial activities. The condensed consolidated cash flow statement for the current interim period and the comparative figures have been prepared in accordance with the revised SSAP.

SSAP 34 prescribes the accounting treatment and disclosures for employee benefits. This SSAP has had no major impact on these condensed consolidated financial statements.

3. Turnover

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts during the period.

4. Segmental information

The Group's revenues and results for the six months ended 30 September 2002 were derived from the trading and manufacture and sales of leather and fur products as well as fabric garments and others. An analysis of the Group's revenues and results by business and geographical segments for the periods ended 30 September is as follows:

(a) Business segments

	Unaudited for the six months ended 30 September 2002				
	Fur	Leather	Fabric	Corporate	Consolidated
	HK\$'000	HK\$'000	garments	and other	HK\$'000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:					
Sales to external customers	<u>25,893</u>	<u>16,047</u>	<u>2,875</u>	<u>400</u>	<u>45,215</u>
Other revenue	<u>43</u>	<u>31</u>	<u>7</u>	<u>2</u>	<u>83</u>
Segment results	<u>5,118</u>	<u>(167)</u>	<u>382</u>	<u>(5,396)</u>	<u>(63)</u>
Interest income					<u>279</u>
Profit from operating activities					<u>216</u>
Finance costs					<u>(94)</u>
Profit before tax					<u>122</u>
Tax					<u>—</u>
Net profit from ordinary activities attributable to shareholders					<u>122</u>

4. Segmental information (continued)

(a) Business segments (continued)

Unaudited for the six months ended 30 September 2001					
	Fur	Leather	Fabric	Corporate	Consolidated
	HK\$'000	HK\$'000	garments	and other	HK\$'000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:					
Sales to external customers	18,595	18,761	5,914	163	43,433
Other revenue	117	11	33	0	161
Segment results	5,262	(1,089)	1,700	(5,056)	817
Interest income					654
Profit from operating activities					1,471
Finance costs					(1,149)
Profit before tax					322
Tax					—
Net profit from ordinary activities attributable to shareholders					322

(b) Geographical segments

Unaudited for the six months ended 30 September 2002							
	Hong Kong	Elsewhere	United States	Japan	Germany	Other	Consolidated
	in the PRC	in the PRC	of America	Japan	Germany	countries	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:							
Sales to external customers	20,023	5,862	9,087	1,766	4,833	3,644	45,215
Segment results	3,186	625	495	58	600	519	5,483
Corporate expenses							(5,546)
Loss from operating activities before interest income							(63)

4. Segmental information (continued)
(b) Geographical segments (continued)

Unaudited for the six months ended 30 September 2001							
	Hong Kong	Elsewhere	United States	Japan	Germany	Other	Consolidated
	HK\$'000	in the PRC	of America	HK\$'000	HK\$'000	countries	HK\$'000
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:							
Sales to external customers	10,350	4,071	2,387	10,052	7,522	9,051	43,433
Segment results	2,263	351	968	(78)	2,013	443	5,960
Corporate expenses							(5,143)
Profit from operating activities before interest income							817

5. Profit from operating activities

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

	For the six months ended 30 September	
	2002 (Unaudited) HK\$'000	2001 (Unaudited) HK\$'000
Cost of inventories sold (including inventory provision)	31,271	28,568
Depreciation	769	856
Auditors' remuneration	348	354
Operating leases payments in respect of land and buildings	235	175
Foreign exchange losses/(gains), net	102	(108)
Staff costs (including directors' remuneration)	6,356	6,220
Bank interest income	(279)	(654)

6. Finance costs

	For the six months ended 30 September	
	2002 (Unaudited) HK\$'000	2001 (Unaudited) HK\$'000
Interest expense on bank borrowings	94	1,149

7. Tax

No provision for Hong Kong profits tax has been made for the period as the Group has adequate tax losses brought forward from previous year. No provision for elsewhere profits tax has been made for the period as there will be no estimated assessable profits tax for the whole year as calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, practices and interpretations in respect thereof.

8. 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 HK\$122,000 (2001: HK\$322,000) and the weighted average of 317,035,700 (2001: 317,035,700) ordinary shares in issue during the period.

Diluted earnings per share for the period ended 30 September 2002 and 2001 has not been disclosed as no diluting events existed during these periods.

9. Long term investments

	As at	
	30 September 2002 (Unaudited) HK\$'000	31 March 2002 (Audited) HK\$'000
Unlisted equity investments, at cost	<u>5,117</u>	<u>5,117</u>

10. Trade and bills receivables

An aged analysis of trade and bills receivables as at the balance sheet date, based on the invoice date, is as follows:

	As at	
	30 September 2002 (Unaudited) HK\$'000	31 March 2002 (Audited) HK\$'000
Trade receivables:		
Within 3 months	6,178	6,133
4 to 6 months	2,247	4,238
7 to 12 months	200	1,258
Over 1 year	<u>5,165</u>	<u>7,410</u>
	13,790	19,039
Less: Provisions for bad and doubtful debts	<u>(5,376)</u>	<u>(5,307)</u>
	8,414	13,732
Bills receivable	<u>3,136</u>	<u>54</u>
	<u>11,550</u>	<u>13,786</u>

The Group's trading terms with customers are mainly on credit and invoices are normally payable within one to three months from the date of issue. The Group seeks to maintain strict control over its outstanding receivables. Senior management regularly reviews overdue balances.

11. Trade and bills payables

An aged analysis of trade and bills payables as at the balance sheet date, based on the invoice date, is as follows:

	30 September	As at
	2002	31 March
	(Unaudited)	2002
	HK\$'000	(Audited)
		HK\$'000
Trade payables:		
Within 3 months	3,712	602
4 to 6 months	241	600
7 to 12 months	15	854
Over 1 year	351	137
	<u>4,319</u>	<u>2,193</u>
Bills payable	58	887
	<u>4,377</u>	<u>3,080</u>

12. Share capital

There were no movements in the share capital of the Company in either the current or the prior period.

13. Share options

No share options were granted during the current period or the prior period and there were no share options outstanding at the balance sheet date.

14. Pledge of assets

At the balance sheet date, the bank facilities of the Group were secured by the Group's bank deposits and leasehold land and buildings with carrying values of HK\$26,706,000 (at 31 March 2002: HK\$26,594,000) and HK\$6,498,000 (at 31 March 2002: HK\$6,630,000), respectively; and guarantees given by the Company.

15. Contingent liabilities

At the balance sheet date, the contingent liabilities of the Group and Company not provided for in the financial statements were as follows:

- (a) Certain of the Group's employees had completed the required number of years of service under the Hong Kong Employment Ordinance (the "Ordinance") to be eligible for long service payments on termination of their employment. The Group is only liable to make such payments if the termination of employment meets the circumstances specified in the Ordinance. Had the employment of all of these eligible employees been terminated under the circumstances specified by the Ordinance, the Group's liability at 30 September 2002, which has not been provided for in the financial statements, would have been approximately HK\$2,014,000 (at 31 March 2002: HK\$2,008,000); and
- (b) The Company has given guarantees to a bank in connection with facilities granted to a subsidiary amounting HK\$71,560,000 (at 31 March 2002: HK\$71,560,000), of which HK\$4,616,000 (at 31 March 2002: HK\$2,935,000) had been utilized at the balance sheet date.

16. Operating lease arrangements

The Group leases one of its shops under an operating lease arrangement. The lease is negotiated for terms of approximately one year.

At the balance sheet date, the Group had total future minimum lease payments under the non-cancellable operating lease falling due as follows:

	30 September	As at
	2002	31 March
	(Unaudited)	2002
	HK\$'000	(Audited)
		HK\$'000
Within one year	<u>—</u>	<u>75</u>

SSAP 14 (Revised), which was adopted during the period, requires lessees under operating leases to disclose the total future minimum operating lease payments, rather than only the payments to be made during the next year as was previously required.

At the balance Sheet date, the Company did not have any other significant commitments.

17. Related party transactions

On 28 March 2002, Char On Man, a director of the Company, acquired an equity interest of 35% in a tanning and dyeing company. On 2 September 2002, Char On man has disposed of this equity interest. The Group paid tanning and dyeing fees amounting to approximately HK\$942,000 to this company during the period from 1 April 2002 to 2 September 2002.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Results

Turnover for this period amounted to approximately HK\$45,215,000, representing an increase of approximately 4% as compared to that of last period. Net profit attributable to shareholders amounted to approximately HK\$122,000, representing a decrease of approximately 62% as compared with that of last period.

Business Review

As mentioned in the 2002 Annual Report, the Group believed that, in the midst of an uncertain world economy, the economic situation of the US market will be steadier and recovering as well as the worldwide demand for fur products should be better. Therefore, the Group has adopted cautious marketing approach towards the US market and the sales of fur products. With these right approaches, the Group was able to improve its overall turnover for the 6 months ended 30 September 2002 by about 4% over that of last corresponding period. Fur products sales and sales to the US market for this period was about 40% and 2.8 times respectively more than that of last corresponding period. On the other hand, sales of leather garments and fabric garments were decreased by approximately 20% and 50% respectively as compared to that of last corresponding period. However, the most encouraging fact is that the Group was able to improve its overall sales and showed a healthy growth in various markets including the US, Korea, the PRC as well as the local market.

With the severe market competition, the overall gross profit was dropped. However, the Group was able to monitor its overall expenses and with the reduction in interest expenses, the Group was able to maintain a profitable period for the 6 months ended 30 September 2002.

Outlook

With worldwide low interest rate, recent economic data indicated some good signs for the US and other markets. However whether this will develop into a meaningful recovery is still unknown at this point in time. The lack of consumer confidence, the political situation in the Middle East and the outbreak of terrorist activities worldwide have made the recovery course even more unpredictable. However, the Group is more ready than ever to take up the challenge.

With good market connection, the Group has started to do more brokerage on fur skin trading. So far the performance is encouraging. Regarding garment manufacturing operation, the Group will continue to enhance its relationship with existing customers as well as to seek for new trading partners in this field in order to improve its overall performance. On the other hand, the Group believes that the PRC economy is pretty stable and is a place for retail operation. The Group has planned to do retailing business over there via direct or indirect channels. As of today, the Group has established a retail outlet in Shenzhen city and looking for opportunities in opening more retail outlets in various parts in the PRC. Moreover, a marketing team has been set up with the prime objective to develop and expand the Group's business in the PRC.

Other than the US and the PRC market, the Group will continue to look for new business opportunities in other parts of the world. Any such new business opportunity will be reviewed and examined to ensure that it fits into the Group's overall business strategy and the best interest to shareholders.

In order to remain competitive, the Group will continuously exercise appropriate measures to control its production and operating costs, improve its productivity and quality to improve its profitability.

The Group believes that with the support of our shareholders, customers and dedication of our staff, the Group will be able to improve the overall results.

Employees, Training and Remuneration Policy

As at 30 September 2002, the Group employed around 440 employees in both Hong Kong and the PRC. The Group continued to follow a prudent approach towards the size of the workforce and remained committed to its staff training. There is no material change in the information as compared to the most recently published annual report.

The Group remunerates its employees based on their performance, work experience and the prevailing market conditions. Bonuses are granted on a discretionary basis. Other employee benefits include mandatory provident fund retirement benefits scheme, insurance, other subsidies and a share option scheme.

Capital Expenditure

During the period under review, there is no material capital expenditure for business development. As of today, there is no plan for any material investments or production assets to be acquired.

Liquidity and Financial Resources

The Group generally finances its operation with internally generated cash flows and banking facilities provided by its principal banker in Hong Kong. The Group currently has aggregate composite banking facilities of approximately HK\$57,600,000.

As at 30 September 2002, the Group's net current assets is approximately HK\$80,729,000 (as at 31 March 2002: HK\$80,044,000). Total cash and bank balances and pledged bank deposits decrease from HK\$27,708,000 to HK\$27,568,000; whereas, secured bank overdrafts and secured trust receipt loans increased from HK\$2,048,000 to HK\$4,558,000. Inventories increased from HK\$41,126,000 to HK\$49,524,000, mainly due to seasonality of stock level. Trade and bills receivables decreased by approximately 16% to become HK\$11,550,000; whereas, trade and bills payables increased by approximately 42% to become HK\$4,377,000, mainly due to seasonality of sales and improved control of receivables.

The Group's gearing ratio at the period end is 0.10 (as at 31 March 2002: 0.06), which was calculated based on the total liabilities of HK\$11,662,000 (as at 31 March 2002 : HK\$7,240,000) and shareholders' funds of HK\$114,370,000 (as at 31 March 2002: HK\$114,248,000).

Financial Risk Management

The Group earns revenue and incurs costs primarily in Hong Kong dollars, US dollars and Renminbi. Foreign exchange exposure of the Group will continue to be minimal as long as the policy of the Government of the HKSAR to link the Hong Kong dollar to the US dollar remains in effect. There were no material exposure to fluctuations in exchange rates and therefore no related financial hedging instrument was applied during the period ended 30 September 2002.

Payment terms with customers are mainly on letter of credits, cash on delivery and on credit terms. In order to minimize the credit risk associated with trade debtors, the Group is very cautious in granting credits. Credit terms granted vary among individual customers.

INTERIM DIVIDEND

The Directors do not propose to declare any interim dividend during the period under review (2001: nil).

DIRECTORS' INTERESTS IN CONTRACTS

No director had a material interest in any contract of significance to the business of the Group to which the Company, its holding company or any of its subsidiaries was a party during the period.

DIRECTORS' INTERESTS IN SHARES

At 30 September 2002, the interests of the directors in the share capital of the Company or its associated corporations, as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), were as follows:

(i) The Company

Name of director	Number of ordinary shares held and nature of interest	
	Corporate	Personal
Char On Man	167,832,000*	45,227,000
So Choi Hing, Stella	—	3,885,000

* These shares are held through Wellglow Investments Limited, a company in which Mr. Char On Man has total interests of 89.58%.

(ii) Subsidiary — Peking Fur Factory (Hong Kong) Limited

Name of director	Nature of interest	Number of non-voting deferred shares held
Char On Man	Personal	11,444

(iii) Associated corporation — Wellglow Investments Limited

Name of director	Number of ordinary shares held and nature of interest	
	Personal	Family
Char On Man	674	100
So Choi Hing, Stella	60	—

Save as disclosed above, none of the directors or their associates had any personal, family, corporate or other interests in the equity or debt securities of the Company or any of its associated corporations as defined in the SDI Ordinance.

SUBSTANTIAL SHAREHOLDERS

At 30 September 2002, the following interest of 10% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance.

Name	Number of shares held	Percentage of the Company's issued share capital
Wellglow Investments Limited	<u>167,832,000</u>	<u>52.9</u>

This interest has also been disclosed as an interest of Mr. Char On Man under the section "Directors' interests in shares" above.

Save as disclosed above, no person, other than the directors of the Company, whose interests are set out in the section "Directors' interests in shares" above, had registered an interest in the issued share capital of the Company that was required to be recorded pursuant to Section 16(1) of the SDI Ordinance.

SHARE OPTION SCHEME

In the Company's annual general meeting held on 29 August 2002, an ordinary resolution was passed by the Company's shareholders for the adoption of a new share option scheme (which is complied with amended Chapter 17 of the Listing Rules) and the termination of the Company's share option scheme adopted on 18 February 1997. No share options have been granted by the Company under both the above-mentioned share option schemes.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the period.

AUDIT COMMITTEE

The Audit Committee of the Company has reviewed the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters, including the review of these interim results.

CODE OF BEST PRACTICE

None of the Directors is aware of any information that would reasonably indicate that the Company had not been for any part of the accounting period for the six months ended 30 September 2002, in compliance with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, except that the non-executive directors of the Company are not appointed for specific terms but are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Company's bye-laws.

PUBLICATION OF INTERIM RESULTS ON THE WEBSITE OF THE STOCK EXCHANGE

All the information required by paragraph 46(1) to 46(6) of Appendix 16 of the Listing Rules will be published on the website of the Stock Exchange in due course.

On behalf of the Board

CHAR ON MAN

Chairman and Managing Director

Hong Kong, 20 December 2002