

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

31 December 2002

1. SIGNIFICANT ACCOUNTING POLICIES

The unaudited condensed consolidated 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 accounting policies and basis of preparation adopted are consistent with those used in the annual financial statements for the year ended 30 June 2002 except that the Group has adopted the following new or revised SSAPs which became effective for the current accounting period:

SSAP 1 (revised)	:	Presentation of financial statements
SSAP 11 (revised)	:	Foreign currency translation
SSAP 15 (revised)	:	Cash flow statements
SSAP 34	:	Employee Benefits

Except for certain presentational changes resulting from the adoption of SSAP 1 (revised) and SSAP 15 (revised), the adoption of the above new or revised SSAPs has no material effect on the unaudited consolidated interim financial statements.

The following additional accounting policy has been adopted in respect of the investments in associates for the six months ended 31 December 2002:

Associates

An associate is an enterprise in which the Group has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and statement of changes in equity respectively. The Group's investments in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting.

2. SEGMENT INFORMATION

(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

The Group has been operating in a single business segment, manufacture and sale of apparel, throughout the Period. No analysis by business segments is provided.

3. PROFIT FROM OPERATING ACTIVITIES

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

	Six months ended	
	31 December	
	2002	2001
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Depreciation	3,339	3,216
Cost of inventories sold	110,780	102,723
Loss on disposal of fixed assets	–	364
Amortisation of goodwill	1,573	856
Realised loss on disposal of short term investment	349	4,816
Interest income	(505)	(1,650)
Dividend income from listed securities	(239)	(713)
Unrealised loss/(gain) on short term investments	1,890	(6,598)

4. FINANCE COSTS

	Six months ended 31 December	
	2002 (Unaudited) HK\$'000	2001 (Unaudited) HK\$'000
Interest on bank loans and overdrafts wholly repayable within five years	2	14
Interest on a bank loan wholly repayable beyond five years	56	79
Interest on other loans	1	2
Interest on a finance lease	23	24
	82	119

5. TAX

	Six months ended 31 December	
	2002 (Unaudited) HK\$'000	2001 (Unaudited) HK\$'000
Current period provision:		
Hong Kong	9	1
Elsewhere	1,567	7,241
Tax charge for the Period	1,576	7,242

Hong Kong profits tax has been provided at the rate of 16% (2001: 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 (2001: Nil).

6. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the Group's net profit from ordinary activities attributable to shareholders for the Period of approximately HK\$41,068,000 (2001: HK\$40,388,000) and the weighted average number of 2,360,376,959 (2001: 2,332,298,345 as adjusted for the two for one bonus issue) ordinary shares in issue during the Period.

The calculation of diluted earnings per share is based on the Group's net profit from ordinary activities attributable to shareholders for the Period of approximately HK\$41,068,000 (2001: HK\$40,388,000) and on 2,372,715,311 (2001: 2,351,594,831 as adjusted for the two for one bonus issue) 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 2002 (Unaudited) HK\$'000	30 June 2002 (Audited) HK\$'000
Equity investments		
Unlisted outside Hong Kong	6,667	6,667

8. INTERESTS IN ASSOCIATES

	31 December 2002 (Unaudited) HK\$'000	30 June 2002 (Audited) HK\$'000
Share of net assets	35,204	—

The Group's share of the post-acquisition profits of its associated companies as at 31 December 2002 is HK\$6,615,000 (30 June 2002: Nil).

Particulars of the associates are as follows:

Name	Place of incorporation/ establishment and operations	Paid-up share/ registered capital	Percentage of equity attributable to the Group	Principal activities
Zhongke Nanotech Engineering Center Co., Ltd.	PRC	Rmb50,000,000	33%	Development and sales of nano materials
Global Equipment Limited	British Virgin Islands ("BVI")	Ordinary US\$100	45%	Trading of computer software and office equipment
Potent Data Technology Limited	BVI	Ordinary US\$100	23%	Investment holding
Fuzhou Kerun Software Ltd.	PRC	Rmb11,000,000	23%	Development and sale of computer software

9. 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 2002 (Unaudited) HK\$'000	30 June 2002 (Audited) HK\$'000
0 – 30 days	39,120	17,400
31 – 60 days	10,645	20,542
61 – 90 days	5,383	7,742
Over 90 days	5,912	3,057
	61,060	48,741

10. 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 2002 (Unaudited) HK\$'000	30 June 2002 (Audited) HK\$'000
0 – 30 days	2,344	287
31 – 60 days	1,289	539
61 – 90 days	399	3,557
Over 90 days	292	942
	4,324	5,325

11. ISSUED CAPITAL

	31 December 2002 (Unaudited) HK\$'000	30 June 2002 (Audited) HK\$'000
<i>Authorised:</i>		
5,000,000,000 ordinary shares of HK\$0.10 each	500,000	500,000
<i>Issued and fully paid:</i>		
2,371,995,600 (30 June 2002: 2,349,465,600) ordinary shares of HK\$0.10 each	237,200	234,947

	Number of shares issued '000	Par value HK\$'000
At 1 July 2002	2,349,465	234,947
Share options exercised	22,530	2,253
At 31 December 2002	2,371,995	237,200

12. RESERVES

	Share premium HK\$'000	Fixed asset revaluation reserve HK\$'000	Statutory reserve fund HK\$'000	Exchange fluctuation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
Group						
At 1 July 2002	43	10,249	1,665	(1,613)	131,742	142,086
Arising on exercise of share options	869	-	-	-	-	869
Arising on issue of warrants	25,200	-	-	-	-	25,200
Warrant issue expenses	(657)	-	-	-	-	(657)
Net profit for the Period	-	-	-	-	41,068	41,068
Transfer to statutory reserve fund	-	-	424	-	(424)	-
At 31 December 2002	25,455	10,249	2,089	(1,613)	172,386	208,566

13. CONTINGENT LIABILITIES

As at 31 December 2002, there were contingent liabilities in respect of the guarantees issued by the Company in favour of a bank to the extent of HK\$13,632,000 in respect of banking facilities granted to its associated company (2001: Nil).

14. INTERIM DIVIDENDS

The Board does not recommend the payment of interim dividend for the Period (2001: Nil).

15. COMPARATIVE FIGURES

As further explained in note 1 to the unaudited interim financial statements, due to the adoption of the new or revised SSAPs during the Period, the presentation of certain items and balances have been reclassified to conform with the current period's presentation.

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 six months ended 31 December 2002, the Group succeeded in maintaining a stable development for the Group's clothing business. Turnover for the six months ended 31 December 2002 reached approximately HK\$165,063,000 (2001: HK\$162,503,000), representing an increase of approximately 2% over the same period of last year. Gross profit was approximately HK\$54,283,000 (2001: HK\$59,780,000), representing a decrease of 9% when compared with the corresponding period last year. Net profit from ordinary activities attributable to shareholders increased by 2% and amounted to approximately HK\$41,068,000 (2001: HK\$40,388,000). Earnings per share were HK1.7 cents (2001: HK1.7 cents).

During the six months ended 31 December 2002, the Group dedicated to maintain its leading position in the PRC's uniform market in the garment industry, by consolidating and further developing its business of the design, manufacture and sale of high-end men's and women's suits and uniforms. The PRC market continued to contribute the largest portion of the Group's turnover, which made up to approximately 97% of the total turnover during the period. Capitalised on the PRC's robust economy and the ever-increasing consumption power of the Chinese people, moderate growth momentum of the Group's business in the PRC was captured.