NOTES TO THE CONDENSED ACCOUNTS

30th June 2003

1. PRINCIPAL ACCOUNTING POLICIES

The unaudited condensed interim accounts 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").

The unaudited condensed interim accounts should be read in conjunction with the 2002 annual accounts.

The accounting policies and the basis of preparation adopted are consistent with those used in the Group's annual accounts for the year ended 31st December 2002, except that the Group has changed certain of its accounting policies following its adoption of SSAP No. 12 (Revised) "Income Taxes" issued by the HKSA which has been effective for accounting periods commencing on or after 1st January 2003.

In prior year, deferred taxation was provided for at the current taxation rate in respect of significant timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset was expected to be payable or recoverable in the foreseeable future. Under SSAP 12 (Revised), deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts, based on the tax rates enacted or substantively enacted by the balance sheet date. Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

The adoption of SSAP No. 12 (Revised) represents a change in accounting policy, which has been applied retrospectively so that the comparative figures presented have been restated to conform to the changed policy. This change in policy has resulted in a decrease of HK$2,477,000 and an increase of HK$2,966,000 in the loss attributable to shareholders for the six months ended 30th June 2003 and 2002 respectively. The opening reserves at 1st January 2003 and 2002 have been decreased by HK$4,599,000 and increased by HK$779,000 respectively.

2. ADJUSTMENT TO 2002 INVENTORY BALANCE

The management and the Directors of the Company identified certain errors relating to the inventory as at 31st December 2002 in one of the Company's wholly-owned subsidiaries in China. Such errors totalling HK$14,476,000 were corrected in the six month period ended 30th June 2003 by reducing the inventory balance with the same amount, details of which are specified in the below section of "Accounting Issue".

3. SEGMENT INFORMATION

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

	Turnover Six Months Ended		(Loss)/profit from operations Six Months Ended	
				(Restated)
	30th June 2003	**30th June 2002**	**30th June 2003**	**30th June 2002**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
By principal business activities:				
Garment manufacturing	955,683	557,770	(31,611)	(25,657)
Garment trading	208,560	216,195	730	6,090
Garment retail	46,583	48,652	(5,089)	(1,467)
	1,210,826	822,617	(35,970)	(21,034)
By principal geographical markets:				
The United States	858,624	525,905		
Europe	179,232	151,438		
Asia	172,970	145,274		
	1,210,826	822,617		

4. DEPRECIATION

During the period ended 30th June 2003, depreciation of HK$21,089,000 (2002 – HK$21,408,000) was charged in respect of the Group's fixed assets.

5. **TAXATION**

Hong Kong profits tax has been provided at the rate of 17.5% (2002 – 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 countries in which the Group operates.

	Six Months Ended	
		(Restated)
	30th June 2003	**30th June 2002**
	HK$'000	*HK$'000*
Company and subsidiaries:		
Hong Kong profits tax	–	(317)
Overseas taxation	(1,639)	(342)
Deferred taxation	1,905	(3,216)
	266	(3,875)
Associates:		
Overseas taxation	(26)	–
	240	(3,875)

6. **LOSS PER SHARE**

Basic loss per share is calculated based on the consolidated loss attributable to shareholders for the period of HK$44,511,000 (2002 – HK$27,187,000) and the 268,735,253 (2002 – 268,735,253) weighted average number of ordinary shares in issue throughout the period ended 30th June 2003.

As the impact of share options is anti-dilutive, the basic and diluted loss per share figures are the same for the period ended 30th June 2003.

7. **DIVIDEND**

	Six Months Ended	
	30th June 2003	**30th June 2002**
	HK$'000	*HK$'000*
2002 final dividend paid, of HK$0.10 (2001 – HK$0.10) per ordinary share	26,874	26,874

The Directors have resolved not to declare an interim dividend for the six months ended 30th June 2003 (2002 – Nil).

8. **BILLS RECEIVABLE AND ACCOUNTS RECEIVABLE**

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

	30th June 2003	**30th June 2002**	**31st December 2002**
	HK$'000	*HK$'000*	*HK$'000*
Not over 3 months	208,124	245,915	237,657
Over 3 months to 6 months	7,064	5,280	15,480
Over 6 months to 1 year	39	–	–
	215,227	251,195	253,137

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.

9. **BILLS PAYABLE AND ACCOUNTS PAYABLE**

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

	30th June 2003	**30th June 2002**	**31st December 2002**
	HK$'000	*HK$'000*	*HK$'000*
Not over 3 months	182,850	210,145	180,143
Over 3 months to 6 months	7,498	18,104	28,694
Over 6 months to 1 year	1,993	9,897	12,274
Over 1 year	493	5,858	5,050
	192,834	244,004	226,161

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.

10. RETAINED PROFITS

	HK$'000
At 1st January 2002	
– as previously reported	162,930
– prior period adjustment in respect of adoption of SSAP 12 (Revised)	2,179
As restated	165,109
2001 proposed final dividend *(Note 7)*	26,874
	191,983
Profit for the year	56,632
2001 final dividend paid	(26,874)
Transfer to reserves	(1,322)
At 31st December 2002	220,419
Representing:	
Retained profits	193,545
2002 proposed final dividend *(Note 7)*	26,874
	220,419
At 1st January 2002	
– as previously reported	162,930
– prior period adjustment in respect of adoption of SSAP 12 (Revised)	2,179
As restated	165,109
2001 proposed final dividend *(Note 7)*	26,874
	191,983
Loss for the period	(27,187)
2001 final dividend paid	(26,874)
At 30th June 2002	137,922
Representing:	
Retained profits	137,922
At 1st January 2003	
– as previously reported	196,768
– prior period adjustment in respect of adoption of SSAP 12 (Revised)	(3,223)
As restated	193,545
2002 proposed final dividend *(Note 7)*	26,874
	220,419
Loss for the period	(44,511)
2002 final dividend paid *(Note 7)*	(26,874)
Transfer to reserves	(585)
At 30th June 2003	148,449
Representing:	
Retained profits	148,449

11. BANKING FACILITIES

As at 30th June 2003, the Group had aggregate banking facilities of HK$1,157,754,000 (30th June 2002 – HK$1,076,000,000 and 31st December 2002 – HK$1,157,754,000) for loans, overdrafts, trade financing and forward exchange contracts. Unutilized facilities as at the same date amounted to HK$759,028,000 (30th June 2002 – HK$758,000,000 and 31st December 2002 – HK$931,460,000). These facilities are secured by corporate guarantees given by the Company of HK$1,157,000,000 (30th June 2002 – HK$1,076,000,000 and 31st December 2002 – HK$1,157,000,000) 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 30th June 2003 are as follows:

	30th June 2003	30th June 2002	31st December 2002
	HK$'000	*HK$'000*	*HK$'000*
Land and buildings			
– within one year	27,152	28,611	31,223
– in the second to fifth years inclusive	31,558	43,596	43,302
– after the fifth year	63,672	65,319	64,652
	122,382	137,526	139,177

b. Capital commitments

As at 30th June 2003, the Group had the following capital commitments in relation to office renovation and purchase of equipment:

	30th June 2003	30th June 2002	31st December 2002
	HK$'000	*HK$'000*	*HK$'000*
Contracted but not provided for	583	–	1,044
Authorized but not contracted for	–	–	4,503
	583	–	5,547

INTERIM DIVIDEND

The Directors have resolved not to declare an interim dividend for the six months ended 30th June 2003 (2002- Nil).

ACCOUNTING ISSUE

On 17th September 2003, the Company made an announcement (the "Announcement") regarding certain irregular accounting practices employed at Guangzhou All Asia Industrial Company, Limited (廣州環亞製衣有限公司) ("AAPY", a wholly-owned subsidiary of the Company situated in Panyu, Guangdong Province) in relation to its inventory, which are inconsistent with the accounting policies of the Group, and the performance by the Company's auditors, PricewaterhouseCoopers, of certain agreed procedures on the inventory of AAPY. The management of the Company has completed its investigation and considered the findings of the Company's auditors, and determined that the Group's inventory as at 31st December 2002 should be lower than that as reported in the Group's published audited consolidated balance sheet as at that date by HK$14.5 million, which is less than the estimated amount of HK$35 million, the potential shortfall identified in the Announcement. The shortfall arose as a result of incorrect unit prices being input into AAPY's inventory system in 2002.

The management and the Directors, having consulted the Company's auditors on the proper accounting treatments in relation thereto under the Statements of Standard Accounting Practice issued by the Hong Kong Society of Accountants, consider it to be appropriate to correct the said error by reducing the inventory balance of the Group by HK$14.5 million and the loss is to be dealt with in the Group's consolidated profit and loss account for the six months ended 30th June 2003.

The management of the Company has deployed its Group Chief Accountant, Group Finance Manager – Compliance & Control, the Vice President and the Manager of the Management Information System ("MIS") division from its headquarters to AAPY to review and further strengthen its accounting controls and MIS systems. A new General Manager has been sent by the Group's headquarters, and the Company is also in the process of recruiting an additional Finance Manager, to station at AAPY so as to further enhance its overall internal and accounting control systems.