NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars)

1 Significant accounting policies

(a) Basis of preparation

This interim financial report is unaudited, but has been reviewed by KPMG in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports", issued by the Hong Kong Society of Accountants ("HKSA"). KPMG's independent review report to the board of directors is included on page 16.

The interim financial report has been prepared in accordance with the requirements of the Main Board Listing Rules of The Stock Exchange of Hong Kong Limited, including compliance with Statement of Standard Accounting Practice ("SSAP") 25 "Interim financial reporting" issued by the HKSA.

The financial information relating to the financial year ended 31 March 2003 included in the interim financial report does not constitute the Company's statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 March 2003 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 16 July 2003.

The same accounting policies adopted in the statutory financial statements for the financial year ended 31 March 2003 have been applied to the interim financial report except as disclosed in note 1(b) below.

The notes on the interim financial report include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the statutory financial statements for the financial year ended 31 March 2003.

(b) Adoption of new accounting policy on deferred tax

The HKSA issued SSAP 12 "Income taxes" in August 2002, which supersedes the previous SSAP 12 "Accounting for deferred taxes". The new standard became effective for accounting periods beginning on or after 1 January 2003. The Group has therefore adopted the new standard for preparation of the Group's interim financial report for the six months ended 30 September 2003.

1 **Significant accounting policies *(continued)***

(b) Adoption of new accounting policy on deferred tax (continued)

In prior years, deferred tax liabilities were provided using the liability method in respect of the taxation effect arising from all material timing differences between the accounting and tax treatments of income and expenditure, which were expected with reasonable probability to crystallise in the foreseeable future. Deferred tax assets were not recognised unless their realisation was assured beyond reasonable doubt. With effect from 1 January 2003, in order to comply with SSAP 12 (revised) issued by the HKSA, the Group has adopted a new policy for deferred tax.

Under SSAP 12 (revised), deferred tax assets and liabilities arise from deductible and taxable temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the tax bases respectively. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. The limited exceptions are temporary differences arising from goodwill not deductible for tax purposes, negative goodwill treated as deferred income, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

The new accounting policy has been adopted retrospectively, with the opening balance of revaluation reserves and retained earnings and the comparative information adjusted for the amounts relating to prior periods as disclosed in the consolidated statement of changes in equity and note 12.

2 Segmental information

No business segment analysis of the Group is presented as the Group has been operating in a single business segment, i.e. the manufacturing and sale of garments. An analysis of the Group's turnover by geographical location of the customers is set out below:

	Group turnover Six months ended 30 September	
	2003	2002
	$'000	*$'000*
North America	**291,671**	257,584
Europe	**109,059**	97,061
PRC, excluding Hong Kong	**28,115**	21,929
Other regions	**13,837**	18,665
	442,682	395,239

3 Disposal of subsidiaries

During the period, the Group disposed of its investments in two wholly-owned subsidiaries, Blue Cat Enterprise (HK) Limited and 藍貓製衣企業（羅定）有限公司, to independent third parties at an aggregate cash consideration of $11,068,000. No significant gains or losses resulted from the disposal. The net assets and turnover of the disposed subsidiaries constituted approximately 3% and 7% of the consolidated net assets and turnover respectively as of 31 March 2003 and for the year then ended.

4 Profit from ordinary activities before taxation

Profit from ordinary activities before taxation is arrived at after charging:

	Six months ended 30 September	
	2003	2002
	$'000	*$'000*
Cost of goods sold	**299,137**	265,624
Depreciation	**14,967**	11,897
Amortisation of permanent textile quota entitlements	**1,296**	1,994
Interest on bank and other borrowings	**5,597**	6,974

5 Taxation

	Six months ended 30 September	
	2003	2002
	$'000	*$'000*
Provision for Hong Kong profits tax	**2,790**	2,086
Provision for PRC income tax	**–**	5
Deferred taxation	**1,880**	1,907
	4,670	3,998

Provision for Hong Kong profits tax is calculated at 17.5% (2002: 16%) on the estimated assessable profits for the period.

As a foreign investment enterprise, the Company's subsidiary in the People's Republic of China ("PRC") is subject to PRC income tax at the unified tax rate of 33%.

The Company's subsidiaries in Cambodia are subject to Cambodia income tax at a rate of 9%. Pursuant to the tax exemption certificates dated 15 June 2000 issued by the relevant tax authorities, Tack Fat Garment (Cambodia) Ltd. is exempted from Cambodia income tax for the period from 15 June 2000 to 14 June 2004. Cambodia Sportswear Mfg. Ltd. is exempted from Cambodia income tax for the period from 15 June 2000 to 14 June 2003 and is subject to Cambodia income tax at 9% from 15 June 2003 onwards.

6 Dividends

(a) Dividends attributable to the period

	Six months ended 30 September	
	2003	2002
	$'000	*$'000*
Interim dividend declared of 0.9 cents per share (2002: 0.8 cents)	**12,562**	10,624

The interim dividend of 0.9 cents per share or $12,562,000 in total proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

6 Dividends *(continued)*

(b) Dividends attributable to the previous year, approved and paid during the period

	Six months ended 30 September	
	2003	2002
	$'000	*$'000*
Final dividend in respect of the previous year, approved and paid during the period of 2 cents per share (2002: 0.625 cents)	**27,460**	8,300

7 Earnings per share

(a) Basic earnings per share

The calculation of basic earnings per share for the period ended 30 September 2003 is based on the profit attributable to shareholders of $43,121,000 (2002: $36,710,000) and the weighted average number of ordinary shares of 1,353,680,000 shares (2002: 1,281,486,000 shares) in issue during the period.

(b) Diluted earnings per share

The calculation of diluted earnings per share for the period ended 30 September 2003 is based on the adjusted profit attributable to shareholders of $43,335,000 and the weighted average number of shares of 1,435,883,000 shares after adjusting for the effects of all dilutive potential ordinary shares.

The diluted earnings per share for the last interim period is not presented as there were no dilutive potential ordinary shares during the period.

8 Fixed assets

Additions to fixed assets during the six months ended 30 September 2003 comprise:

	$'000
Land and buildings	16,318
Plant and machinery	22,146
Furniture, fixtures and office equipment	1,956
Motor vehicles and yacht	40
	40,460

8 Fixed assets *(continued)*

Land and buildings of the Group were revalued by professional valuers at 31 January 2002. The directors of the Company, who are not qualified valuers, have reviewed the carrying value of the land and buildings as at 30 September 2003 with reference to the relevant market indices. In their opinion, there have been no significant changes in the value of land and buildings since 31 March 2003.

9 Trade receivables

Credit terms granted by the Group to customers generally range from one to three months.

Included in trade receivables are balances (stated after provisions for doubtful debts) with the following ageing analysis:

	At 30 September 2003	At 31 March 2003
	$'000	*$'000*
Within 3 months	**109,331**	121,753
After 3 months	**579**	–
	109,910	121,753

All the above balances are expected to be recovered within one year.

10 Trade payables

The credit terms obtained by the Group generally range from 30 days to 180 days.

Included in trade payables are balances with the following ageing analysis:

	At 30 September 2003	At 31 March 2003
	$'000	*$'000*
Due within 1 month or on demand	**8,211**	10,520
Due after 1 month but within 3 months	**17,816**	12,104
Due after 3 months but within 6 months	**5,789**	12,959
Due after 6 months but within 1 year	**1,511**	3,006
	33,327	38,589

11 Share capital

The following is a summary of movements in the authorised and issued share capital of the Company during the period:

	Note	Number of ordinary shares of $0.1 each	Par value $'000
Authorised:			
At 31 March/30 September 2003		**2,000,000,000**	**200,000**
Issued and fully paid:			
Total issued share capital as at 31 March 2003		1,335,568,000	133,557
Conversion of convertible bonds	*(a)*	44,840,000	4,484
Issue of new shares	*(b)*	11,744,000	1,174
Total issued share capital as at 30 September 2003		**1,392,152,000**	**139,215**

Notes:

(a) During the period, convertible bonds totalling US$3,400,000 (approximately $26,520,000) were converted at conversion prices ranging from approximately $0.489 to $0.699 per ordinary share into 44,840,000 new ordinary shares of par value $0.1 each.

(b) On 5 June 2003, 11,744,000 new ordinary shares of the Company were issued at an issue price of $0.531 per ordinary share upon the exercise of the rights granted to holders of the convertible bonds for subscribing new ordinary shares of the Company.

12 Reserves

	Share premium $'000	Land and buildings revaluation reserve $'000	Contributed surplus $'000	PRC statutory reserve $'000	Retained earnings $'000	Total $'000
At 1 April 2002 as previously reported	–	16,849	6,400	19	206,732	230,000
Prior period adjustment in respect of deferred tax *(note 1(b))*	–	(3,767)	–	–	–	(3,767)
At 1 April 2002 as restated	–	13,082	6,400	19	206,732	226,233
Dividends approved in respect of the previous year *(note 6)*	–	–	–	–	(8,300)	(8,300)
New issue of shares on public offer and placement	86,640	–	–	–	–	86,640
Capitalisation issue	(67,880)	–	–	–	(27,920)	(95,800)
Share issuance expenses	(18,760)	–	–	–	–	(18,760)
Bonds issuance expenses	(1,491)	–	–	–	–	(1,491)
Shares issued on conversion of convertible bonds	3,138	–	–	–	–	3,138
Profit for the year (restated) *(note 1(b))*	–	–	–	–	104,113	104,113
Profit appropriations	–	–	–	500	(500)	–
Dividends declared in respect of the current year *(note 6)*	–	–	–	–	(10,624)	(10,624)
At 31 March 2003	1,647	13,082	6,400	519	263,501	285,149

12 Reserves *(continued)*

	Share premium $'000	Land and buildings revaluation reserve $'000	Contributed surplus $'000	PRC statutory reserve $'000	Retained earnings $'000	Total $'000
At 1 April 2003 as previously reported	1,647	16,849	6,400	519	263,514	288,929
Prior period adjustment in respect of deferred tax *(note 1(b))*	–	(3,767)	–	–	(13)	(3,780)
At 1 April 2003	1,647	13,082	6,400	519	263,501	285,149
Dividends approved in respect of the previous year *(note 6)*	–	–	–	–	(27,460)	(27,460)
Shares issued on conversion of convertible bonds	22,010	–	–	–	–	22,010
Issue of new shares	5,062	–	–	–	–	5,062
Shares issuance expenses	(26)	–	–	–	–	(26)
Profit for the period	–	–	–	–	43,121	43,121
Transfer of reserve on disposal of a subsidiary	–	–	–	(500)	500	–
At 30 September 2003	**28,693**	**13,082**	**6,400**	**19**	**279,662**	**327,856**

13 Contingent liabilities

At 30 September 2003, the Group had bills discounted with recourse with banks totalling to $15,928,000 (at 31 March 2003: $55,545,000).

14 Material related party transactions

During the period, the following significant related party transactions took place:

	Six months ended 30 September	
	2003	2002
	$'000	*$'000*
Expenses paid to related parties:		
Warehouse rentals	**186**	186
Directors' quarters rentals	**816**	816
Guangzhou office rentals	**243**	243

The directors of the Company are of the opinion that the above transactions with related parties were conducted on normal commercial terms in the ordinary course of business of the Group.

15 Post balance sheet events

After the balance sheet date, the directors of the Company proposed an interim dividend, details of which are disclosed in note 6.

On 3 October 2003, additional unsecured redeemable convertible bonds totalling US$4,000,000 (approximately $31,200,000) were issued by the Company. The bonds were issued on substantially the same terms as those convertible bonds issued by the Company on 19 December 2002, details of which are set out in the Company's annual report for the year end 31 March 2003.

On 11 December 2003, an aggregate amount of US$300,000 (approximately HK$2,340,000) out of the above convertible bonds was converted into 3,680,000 ordinary shares of the Company.

16 Comparative figures

Comparative figures have been restated based on the requirement of the new accounting standard as set out in note 1(b) on the interim financial report.

17 Approval of interim financial report

The interim financial report was approved by the board of directors on 19 December 2003.