



PEKING APPAREL INTERNATIONAL GROUP LIMITED

(Incorporated in Bermuda with limited liability)

**2003/04
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 2003 (the “period”), together with the comparative figures for the corresponding period in 2002 as follows:

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

		For the six months ended 30 September	
		2003	2002
		(Unaudited)	(Unaudited)
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
TURNOVER	3	49,724	45,215
Cost of sales		<u>(37,938)</u>	<u>(39,044)</u>
Gross profit		11,786	6,171
Other revenue		411	362
Selling and distribution costs		(2,206)	(740)
Administrative expenses		<u>(5,749)</u>	<u>(5,577)</u>
PROFIT FROM OPERATING ACTIVITIES	5	4,242	216
Finance costs	6	<u>(212)</u>	<u>(94)</u>
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		<u>4,030</u>	<u>122</u>
EARNINGS PER SHARE – BASIC	8	<u>1.27 cents</u>	<u>0.04 cents</u>

CONDENSED CONSOLIDATED BALANCE SHEET

		As at	
		30 September 2003 (Unaudited) HK\$'000	31 March 2003 (Audited) HK\$'000
	Notes		
NON-CURRENT ASSETS			
Fixed assets		27,760	28,497
Long term investments	9	3,364	3,364
		31,124	31,861
CURRENT ASSETS			
Cash and bank balances		1,705	3,969
Pledged bank deposits		26,369	26,349
Trade and bills receivables	10	14,927	14,044
Inventories		60,353	48,471
Other receivables, prepayments and deposits		4,579	4,251
		107,933	97,084
CURRENT LIABILITIES			
Bank loans and overdrafts, secured		10,913	5,413
Hire purchase contract payables	12	198	191
Trust receipt loans, secured		3,978	3,272
Trade and bills payables	11	4,156	3,116
Other payables and accruals		3,667	4,646
Tax payable		–	92
		22,912	16,730
NET CURRENT ASSETS		85,021	80,354
TOTAL ASSETS LESS CURRENT LIABILITIES		116,145	112,215
NON-CURRENT LIABILITIES			
Hire purchase contract payables	12	(248)	(348)
		115,897	111,867
CAPITAL AND RESERVES			
Share capital		31,704	31,704
Reserves		84,193	80,163
		115,897	111,867

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	For the six months ended 30 September	
	2003	2002
	(Unaudited) <i>HK\$'000</i>	(Unaudited) <i>HK\$'000</i>
Net cash outflow from operating activities	(8,210)	(3,305)
Net cash inflow/(outflow) from investing activities	45	(318)
Net cash inflow from financing activities	<u>2,271</u>	<u>–</u>
Net decrease in cash and cash equivalents	(5,894)	(3,623)
Cash and cash equivalents at beginning of period	<u>(510)</u>	<u>(73)</u>
Cash and cash equivalents at end of period	<u><u>(6,404)</u></u>	<u><u>(3,696)</u></u>
Analysis of the balances of cash and cash equivalents		
Cash and bank balances	1,705	862
Bank overdrafts	<u>(8,109)</u>	<u>(4,558)</u>
	<u><u>(6,404)</u></u>	<u><u>(3,696)</u></u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Unaudited for the six months ended 30 September 2003

	Issued share capital	Share premium account	Fixed asset revaluation reserve	Exchange Reserve funds	fluctuation reserve	Retained profits	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 April 2002	31,704	49,586	12,358	173	(633)	21,060	114,248
Net profit for the period	–	–	–	–	–	122	122
At 30 September 2002	<u>31,704</u>	<u>49,586</u>	<u>12,358</u>	<u>173</u>	<u>(633)</u>	<u>21,182</u>	<u>114,370</u>
At 31 March 2003 and 1 April 2003	<u>31,704</u>	<u>49,586</u>	<u>12,356</u>	<u>173</u>	<u>(633)</u>	<u>18,681</u>	<u>111,867</u>
Net profit for the period	–	–	–	–	–	4,030	4,030
At 30 September 2003	<u>31,704</u>	<u>49,586*</u>	<u>12,356*</u>	<u>173*</u>	<u>(633)*</u>	<u>22,711*</u>	<u>115,897</u>

* These reserve accounts comprise the consolidated reserves of HK\$84,193,000 (as at 30 September 2002: HK\$82,666,000) in the consolidated balance sheet.

NOTES ON 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 ("HKSA") and with the applicable disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities 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 and basis of preparation adopted in these unaudited condensed consolidated interim financial statements are consistent with those used in the Group's annual audited financial statements for the year ended 31st March, 2003 except for the adoption of the following revised SSAP issued by the HKSA which is effective for the accounting periods commencing on or after 1st January, 2003:

SSAP 12 (Revised) "Income Taxes" prescribes the accounting treatment and disclosures for deferred tax. In previous years, deferred tax is provided using the income statement liability method, on all significant timing differences to the extent that it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively. However, the adoption of the SSAP 12 (Revised) has had no material effect on the Group's net assets and results for the current or prior accounting periods. Accordingly, no prior period adjustment is required.

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 2003 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 period ended 30 September is as follows:

(a) Business segments

Unaudited for the six months ended 30 September 2003					
	Fur HK\$'000	Leather HK\$'000	Fabric garments HK\$'000	Corporate and others HK\$'000	Consolidated HK\$'000
Segment revenue:					
Sales to external customers	25,556	15,453	8,511	204	49,724
Segment results	3,630	2,655	3,613	(5,800)	4,098
Interest income					144
Profit from operating activities					4,242
Finance costs					(212)
Profit before tax					4,030
Tax					-
Net profit from ordinary activities attributable to shareholders					4,030

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

4. **Segmental information** (continued)

(b) *Geographical segments*

Unaudited for the six months ended 30 September 2003							
	Hong Kong	Mainland	Germany	Spain	United States	Other	Consolidated
	HK\$'000	China	HK\$'000	HK\$'000	of America	countries	HK\$'000
		HK\$'000			HK\$'000	HK\$'000	HK\$'000
Segment revenue:							
Sales to external customers	16,412	9,210	16,323	2,997	1,276	3,506	49,724
Segment results	2,119	1,399	4,167	1,175	274	691	9,825
Corporate expenses							(5,727)
Profit from operating activities before interest income							4,098

Unaudited for the six months ended 30 September 2002							
	Hong Kong	Mainland	Germany	Spain	United States	Other	Consolidated
	HK\$'000	China	HK\$'000	HK\$'000	of America	countries	HK\$'000
		HK\$'000			HK\$'000	HK\$'000	HK\$'000
Segment revenue:							
Sales to external customers	20,023	5,862	4,833	187	9,087	5,223	45,215
Segment results	3,186	625	600	5	495	572	5,483
Corporate expenses							(5,546)
Profit from operating activities before interest income							(63)

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	
	2003 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000
Cost of inventories sold (including inventory provision)	29,426	31,271
Depreciation	854	769
Auditors' remuneration	301	348
Operating lease rentals in respect of land and buildings	514	235
Foreign exchange (gains)/losses, net	57	102
Staff costs (including directors' remuneration)	6,462	6,356
Bank interest income	(144)	(279)
	<u>29,860</u>	<u>39,792</u>

6. Finance costs

	For the six months ended 30 September	
	2003 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000
Interest on bank loans and overdrafts	195	94
Interest on hire purchase contract	17	—
	<u>212</u>	<u>94</u>

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 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\$4,030,000 (2002: HK\$122,000) and the weighted average of 317,035,700 (2002: 317,035,700) ordinary shares in issue during the period.

The diluted earnings per share amounts for the period ended 30 September 2003 and 2002 have not been disclosed because no diluting events existed during these periods.

9. Long term investments

	As at	
	30 September 2003 (Unaudited) HK\$'000	31 March 2003 (Audited) HK\$'000
Unlisted equity investments, at cost	<u>3,364</u>	<u>3,364</u>

10. Trade and bills receivables

The Group's trading term with its customers are mainly on credit, except for new customers where payment in advance is normally required. The credit period is generally for a period of one month, extending up to six months for major customers. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management.

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

	As at	
	30 September 2003 (Unaudited) HK\$'000	31 March 2003 (Audited) HK\$'000
Trade receivable:		
Within 3 months	8,914	6,660
4 to 6 months	1,841	6,180
7 to 12 months	883	1,126
Over 1 year	<u>5,152</u>	<u>5,148</u>
	16,790	19,114
Less: Provisions for bad and doubtful debts	<u>(5,360)</u>	<u>(5,234)</u>
	11,430	13,880
Bills receivable	<u>3,497</u>	<u>164</u>
	<u>14,927</u>	<u>14,044</u>

11. Trade and bills payables

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

	As at	
	30 September 2003 (Unaudited) HK\$'000	31 March 2003 (Audited) HK\$'000
Trade payables:		
Within 3 months	3,114	2,098
4 to 6 months	609	530
7 to 12 months	132	141
Over 1 year	301	347
	<u>4,156</u>	<u>3,116</u>
Bills payables	–	–
	<u>4,156</u>	<u>3,116</u>

12. Hire purchase contract payables

The Group acquired a motor vehicle under a hire purchase contract with a term of three years. At the balance sheet date. The total future minimum lease payments under the hire purchase contract and their present values were as follows:

	Minimum lease payments		Present value of minimum lease payments	
	As at		As at	
	30 September 2003 (Unaudited) HK\$'000	31 March 2003 (Audited) HK\$'000	30 September 2003 (Unaudited) HK\$'000	31 March 2003 (Audited) HK\$'000
Amounts payable:				
Within one year	221	221	198	191
In the second year	221	221	211	204
In the third year	37	147	37	144
Total minimum hire purchase contract payments	<u>479</u>	<u>589</u>	<u>446</u>	<u>539</u>
Future finance charges	<u>(33)</u>	<u>(50)</u>		
Total net hire purchase contract payables	446	539		
Portion classified as current liabilities	<u>(198)</u>	<u>(191)</u>		
Long term portion	<u>248</u>	<u>348</u>		

13. Share Capital

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

14. 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.

15. 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\$26,369,000 (at 31 March 2003: HK\$26,349,000) and HK\$21,180,000 (at 31 March 2003: HK\$21,180,000), respectively; guarantees given by the Company.

16. Contingent liabilities

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

- (a) The Group had a contingent liability in respect of possible future long term service payments to employees under the Hong Kong Employment Ordinance with a maximum possible amount of HK\$2,400,000 as at 30 September 2003 (at 31 March 2003: HK\$2,073,000). The contingent liability had been arisen because, at the balance sheet date, a number of current employees had achieved the required number of years of service to the Group in order to be eligible for long service payments under the Employment Ordinance if their employment was terminated under certain circumstances. A provision had not been recognized in respect of such possible payments, as it was not considered probable that the situation would result in a material future outflow of resources from the Group.
- (b) The Company had given guarantees to a bank in connection with facilities granted to a subsidiary amounting HK\$71,560,000 (at 31 March 2003: HK\$71,560,000), of which HK\$12,087,000 (at 31 March 2003: HK\$7,751,000) had been utilized at the balance sheet date.

17. Operating lease arrangements

The Group leases certain of its shops and offices under operating lease arrangements. These leases are negotiated for terms ranging from one to three years.

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

	As at	
	30 September 2003 (Unaudited) HK\$'000	31 March 2003 (Audited) HK\$'000
Within one year	426	736
In the second to third years, inclusive	313	456
	<u>739</u>	<u>1,192</u>

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Results

Turnover for this period amounted to approximately HK\$49,724,000, representing an increase of approximately 10% as compared to that of last period. Net profit attributable to shareholders amounted to approximately HK\$4,030,000, representing an increase of approximately 32 times as compared with that of last period.

Business Review

As mentioned in the 2003 Annual Report, the war on Iraq and the SARS epidemic was happened during the first half of the Group's financial year 2004. These 2 major incidents did affect the Group's overall performance in terms of sales and profit margins from its major customers throughout Asia and the USA. However, the Group was able to improve its sales and profit margins from its major customers from European countries that were not much affected by the abovementioned incidents, such as Germany and Spain. Apart from this, with the success in improving the productivity and product cost, the Group was able to improve its overall results for the period.

Outlook

Since the impact of the war on Iraq and the SARS epidemic has been gradually cleared up, the global economy recently shows signs of recovery.

With strong EURO dollars, the purchasing power of the European countries getting much better than before. The Group will continuously adopt careful but aggressive marketing strategies to enhance the relationship with customers from Europe. Since the PRC and Hong Kong are two major markets for the Group's product, the Group has recruited and trained more marketing and design staffs during this period aiming to improve the overall performance over these two markets. The Group will continue to adopt aggressive but prudent approach in business expansion with new customers and new products.

Understanding that market supply remains substantial, the Group will continuously exercise appropriate measures to control its production and operating costs as well as improving its productivity and quality so as to deliver good quality and reasonable pricing to satisfy customers' demand.

We believe we are on the right track to achieve better returns for our shareholders.

Employees, Training and Remuneration Policy

As at 30 September 2003, the Group employed around 490 employees in both Hong Kong and the PRC. The Group continued to follow a prudent approach towards the size of the workforce. The Group continued to maintain and upgrade the capabilities of its workforce by providing staff training. There is no material change in the information as compared to the most recently published annual report.

The Group fully recognizes the importance of its employees who contribute so significantly to the success of our business. We offer remuneration packages in line with industry practices, which are subject to annual review. Discretionary bonus are awarded to employees based on individual and Group performances. Other benefits including Mandatory Provident Fund retirement benefits scheme and other subsidies. In the PRC, the Group provides staff welfare and bonus to its employees with prevailing labour laws in China.

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 continues to finance its operations from internal cash flows and banking facilities providing by its bankers in Hong Kong and PRC. The Group currently has aggregate composite banking facilities of approximately HK\$62,270,000. All outstanding bank borrowings were for the purpose of trade-finance and working capital and are short term in nature.

As at 30 September 2003, the Group's net current assets is approximately HK\$85,021,000 (as at 31 March 2003: HK\$80,354,000). Total cash and bank balances and pledged bank deposits decreased from HK\$30,318,000 to HK\$28,074,000; whereas, secured bank loans, bank overdrafts and trust receipt loans increased from HK\$8,685,000 to HK\$14,891,000. Inventories increased from HK\$48,471,000 to HK\$60,353,000. Trade and bills receivables increased slightly by approximately 6% to become HK\$14,927,000; whereas, trade and bills payables also increased by approximately 33% to become HK\$4,156,000.

The Group's gearing ratio at the period end is 0.20 (as at 31 March 2003: 0.15), which was calculated based on the total liabilities of HK\$23,160,000 (as at 31 March 2003 : HK\$17,078,000) and shareholders' funds of HK\$115,897,000 (as at 31 March 2003: HK\$111,867,000).

Financial Risk Management

The objective of the Group's treasury policies is to manage its exposure to fluctuation in foreign currency exchange rates and interest rates on its interest bearing banking facilities. It is our policy not to engage in speculative activities. There were no outstanding forward contract as at 30 September 2003.

Since major transactions of the Group were primarily denominated 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 dollars to the US dollars 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 2003.

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 (2002: 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 2003, 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*	47,261,000
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	<u>11,444</u>

(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	<u>60</u>	<u>–</u>

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.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the period were rights to acquire benefits by means of the acquisition of share in or debentures of the Company granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company, its holding company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

SUBSTANTIAL SHAREHOLDERS

At 30 September 2003, the following interests of 10% or more of the share capital of the Company was 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 share capital of the Company that was required to be recorded pursuant to Section 16(1) of the SDI Ordinance.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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 Company has an audit committee which was established in accordance with the requirements of the Code for the purposes of reviewing and providing supervision over the Group’s financial reporting process and internal controls. The audit committee comprises the two independent non-executive directors of the Company.

CODE OF BEST PRACTICE

In the opinion of the directors, the Company complied with the Code of Best Practice (the “Code”) as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited throughout the accounting period covered by the interim report, except that the the non-executive directors of the Company are not appointed for specific terms as required by paragraph 7 of the Code, but are subject to retirement by rotation in accordance with the Company’s by-laws.

On behalf of the Board

CHAR ON MAN

Chairman and Managing Director

Hong Kong, 22 December 2003