

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

31 December 2003

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 and the disclosure requirement of Appendix 16 of The Rules Governing The Listing of Securities on The Stock Exchange of Hong Kong Limited.

The accounting policies and basis of preparation adopted are consistent with those used in the annual financial statements for the year ended 30 June 2003 except that the Group has adopted the revised SSAP 12 "Incomes Taxes" in respect of income tax which became effective for accounting periods commencing on or after 1 January 2003. This standard prescribes the basis for accounting and disclosure requirements for both current tax and deferred tax. The revised SSAP requires deferred tax to be provided in full, using the liability method, on temporary differences, arising between the tax bases of assets and liabilities and their carry amounts in the financial statements. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. The adoption of the revised SSAP 12 represents a change in accounting policy, which has been applied retrospectively. The adoption of this revised standard has no significant financial impact to condensed consolidated interim financial statements of the Group for the period.

2. TURNOVER

Turnover represents the net invoiced value of goods sold, after allowance for returns and trade discounts. All significant intra-group transactions have been eliminated on consolidation.

3. SEGMENTAL INFORMATION

(a) Geographical segments

In determining the Group's geographical segments, revenue and results are attributed to the segment based on the location of the customers.

Group

For the six months ended 31 December

	The PRC excluding Hong Kong and Macau		Hong Kong		Elimination		Consolidation	
	2003	2002	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:								
External sales	98,450	159,801	12,962	5,262	-	-	111,412	165,063
Inter-segment sales	8,856	2,881	814	3,350	(9,670)	(6,231)	-	-
Total revenue	107,306	162,682	13,776	8,612	(9,670)	(6,231)	111,412	165,063
Segment results	23,173	42,307	1,552	(771)			24,725	41,536
Unallocated revenue and other net gain/(loss)							3,460	5,089
Unallocated expenses							(5,914)	(3,899)
Profit from operating activities							22,271	42,726
Finance costs							(95)	(82)
Share of profits of jointly-controlled entities							20,017	-
Profit before tax							42,193	42,644
Tax							(2,218)	(1,576)
Profit before minority interest							39,975	41,068
Minority interests							(8,007)	-
Net profit for the period							31,968	41,068

3. SEGMENTAL INFORMATION (continued)

(b) Business segments

The Group has been operating in a single business segment, manufacture and sale of apparel, throughout the period.

4. PROFIT FROM OPERATING ACTIVITIES

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

	Six months ended 31 December	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Amortisation of goodwill	3,810	1,573
Depreciation	3,462	3,339
Realised loss on disposal of short term investment	25	349
Interest income	(510)	(505)
Dividend income from listed securities	–	(239)
Dividend income from unlisted investment	–	(5,625)
Unrealised gain on short term investments	(3,600)	–
Unrealised loss on short term investments	1,016	1,890

5. FINANCE COSTS

	Six months ended 31 December	
	2003 (Unaudited) <i>HK\$'000</i>	2002 (Unaudited) <i>HK\$'000</i>
Interest on bank loans and overdrafts	78	59
Interest on a finance lease	17	23
	95	82

6. TAX

	Six months ended	
	31 December	
	2003	2002
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Current period provision:		
Hong Kong	551	9
Elsewhere	1,667	1,567
Tax charge for the Period	2,218	1,576

Hong Kong profits tax has been provided at the rate of 17.5% (2002: 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.

7. 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\$31,968,000 (2002: HK\$41,068,000) and the weighted average number of 2,362,395,600 (2002: 2,360,376,959) 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\$31,968,000 (2002: HK\$41,068,000) and the weighted average of 2,380,881,924 (2002: 2,372,715,311) ordinary shares in issue. The weighted average number of ordinary shares used in the calculation of diluted earnings per share is the aggregate of the weighted average of 2,362,395,600 (2002: 2,360,376,959) ordinary shares in issue during the period, as used in the basic earnings per share calculation; and the weighted average of 18,486,324 (2002: 12,338,352) ordinary shares assumed to have been issued at no consideration on the deemed exercise of all options and warrants outstanding during the period.

8. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

	31 December 2003 (Unaudited) HK\$'000	30 June 2003 (Audited) HK\$'000
Share of net assets	46,308	26,291

Particulars of the jointly-controlled entity which account principally for the results and net assets shared by the Group are as follow:

Name	Form of business structure	Place of establishment and operations	Percentage of ownership interest attributable to the Group	Principal activities
中科納米技術工程 中心有限公司 (Zhongke Nanotech Engineering Center Co., Ltd.*)	Corporate	PRC	33%	Development and sale of nano materials and related products

* For identification only

9. LONG TERM INVESTMENTS

	31 December 2003 (Unaudited) HK\$'000	30 June 2003 (Audited) HK\$'000
Equity investments		
Unlisted outside Hong Kong, at cost	12,917	6,667

10. 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 2003 (Unaudited) HK\$'000	30 June 2003 (Audited) HK\$'000
0 – 30 days	15,791	15,003
31 – 60 days	12,078	11,288
61 – 90 days	21,574	9,724
Over 90 days	12,847	11,990
	62,290	48,005

11. 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 good purchased, is as follows:

	31 December 2003 (Unaudited) HK\$'000	30 June 2003 (Audited) HK\$'000
0 – 30 days	616	2,270
31 – 60 days	321	395
61 – 90 days	83	13
Over 90 days	843	3,527
	1,863	6,205

12. SHARE CAPITAL

	31 December 2003 (Unaudited) HK\$'000	30 June 2003 (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>		
2,362,395,600 (30 June 2003: 2,362,395,600) ordinary shares of HK\$0.10 each	236,240	236,240

Share options

The Company operates a share option scheme for eligible participants, including directors and employees of the Company and its subsidiaries, for the subscription of new shares in the Company. A summary of the terms of the Company's share option scheme was included in the Company's 2003 annual report. The Company has not granted any share option under its existing share option scheme.

Options exercisable at a price of HK\$ 0.1 per share for the subscription of 7,200,000 ordinary shares in the Company was granted to a director of the Company under a previous share option scheme, which was terminated on 23 November 2001. These share options remain outstanding. The exercise in full of these share options, the expiry date of which being 28 October 2008, would result in issue and allotment of 7,200,000 additional ordinary shares in the Company under its present capital structure.

Warrants

As at 31 December 2003, the Company had 360,000,000 outstanding warrants. Each of the warrants entitles the holder thereof to subscribe for one ordinary share of the Company at a subscription price of HK\$0.37 per share at any time up to 15 March 2003. Saved for the exercise subsequent to the period end of 97,180,000 warrants for the subscription of new shares in the Company, as set out in note 15 below, all warrants outstanding as at 31 December 2003 have expired at the date of this interim report.

13. RESERVES

	Subscription right reserve <i>HK\$'000</i>	Fixed asset revaluation reserve <i>HK\$'000</i>	Statutory reserve fund <i>HK\$'000</i>	Exchange fluctuation reserve <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
Group						
At 1 July 2003	24,543	6,251	1,859	(1,613)	166,393	197,433
Net profit for the Period	–	–	–	–	31,968	31,968
Deferred tax debit	–	(273)	–	–	–	(273)
Transfer to statutory reserve fund	–	–	1,279	–	(1,279)	–
At 31 December 2003	24,543	5,978	3,138	(1,613)	197,082	229,128

14. COMMITMENTS

As at 31 December 2003, the Group has outstanding commitment of approximately HK\$35 million in respect of capital contribution for the establishment of a joint venture entity in the PRC.

15. POST BALANCE SHEET EVENTS

Subsequent to the balance sheet date, the following post balance sheet events took place:

- (i) During the period from 25 February 2004 to 15 March 2004, certain then outstanding warrants to subscribe for new shares in the Company were exercised at the exercise price of HK\$0.37 per share for the subscription of 97,180,000 ordinary shares in the Company with aggregate subscription proceeds of approximately HK\$35,957,000, resulting in the issue and allotment of 97,180,000 new ordinary shares in the Company.
- (ii) On 18 March 2004, a wholly owned subsidiary of the Company entered into a contract for the proposed acquisition of the entire equity interests in Charming World Investments Limited, a company incorporated in the British Virgin Islands, for cash consideration of HK\$98 million. The assets of Charming World Investments Limited principally consist of a 22% indirect equity interest in Zhongke Nanotech Engineering Centre Co., Ltd. ("Zhongke Nanotech"), a PRC incorporated company engaged in the development and sale of nano material and related products. Taking into account an indirect equity interest of 33% in Zhongke Nanotech held by the Company prior to the proposed acquisition, the Company shall have secured a total equity interest of 55% in Zhongke Nanotech upon completion of the proposed acquisition. Further details in connection with the proposed acquisition are set out in the Company's press announcement of 22 March 2004.

16. COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified to conform with the presentation in the current period. These include adjustments in relation to the first time adoption of SSAP 25 during the period.