

NOTES TO THE CONDENSED ACCOUNTS

30th June 2004

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 Institute of Certified Public Accountants (the "HKICPA").

The unaudited condensed interim accounts should be read in conjunction with the 2003 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 2003.

2. SEGMENT INFORMATION

An analysis of the Group's turnover and (loss)/profit from operations by principal business activities and geographical markets is as follows:

	Turnover		(Loss)/profit from operations	
	Six Months Ended		Six Months Ended	
	30th June 2004 HK\$'000	30th June 2003 HK\$'000	30th June 2004 HK\$'000	30th June 2003 HK\$'000
By principal business activities:				
Garment manufacturing	810,767	955,683	(29,689)	(31,611)
Garment trading	189,042	208,560	4,718	730
Garment retailing	58,914	46,583	(5,428)	(5,089)
	1,058,723	1,210,826	(30,399)	(35,970)
By principal geographical markets:				
The United States	775,102	858,624		
Europe	138,930	179,232		
Asia	144,691	172,970		
	1,058,723	1,210,826		

3. COST OF SALES

Included in cost of sales are the following items:

	Six Months Ended	
	30th June 2004 HK\$'000	30th June 2003 HK\$'000
Adjustment to cost of sales relating to 2003 (see below)	21,002,000	—
Adjustment to 2002 inventory	—	14,476,000
	21,002,000	14,476,000

During 2004, the Group discovered that purchases of raw materials and other related costs relating to 2003 were understated by HK\$15,402,000 and that the work in progress at 31st December 2003 was overstated by HK\$5,600,000. These errors were corrected and the resulting charge was included in cost of sales for the period ended 30th June 2004.

4. DEPRECIATION

During the period ended 30th June 2004, depreciation of HK\$18,661,000 (2003: HK\$21,089,000) was charged in respect of the Group's property, plant and equipment.

5. TAXATION

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 17.5%) 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	
	30th June 2004 HK\$'000	30th June 2003 HK\$'000
Company and subsidiaries:		
Hong Kong profits tax	(857)	—
Overseas taxation	(1,726)	(1,639)
Deferred taxation	(750)	1,905
	(3,333)	266
Share of taxation attributable to associated companies:		
Overseas taxation	(12)	(26)
	(3,345)	240

6. LOSS PER SHARE

Basic loss per share is calculated based on the consolidated loss attributable to shareholders for the six months ended 30th June 2004 of HK\$32,397,000 (2003: HK\$44,511,000) and the 268,735,253 (2003: 268,735,253) weighted average number of shares in issue throughout the six months ended 30th June 2004.

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 2004.

7. DIVIDENDS

	Six Months Ended	
	30th June 2004 HK\$'000	30th June 2003 HK\$'000
2002 final dividend of HK\$0.10 per share was paid in 2003	—	26,874

8. BILLS RECEIVABLE AND ACCOUNTS RECEIVABLE

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

	30th June 2004 HK\$'000	30th June 2003 HK\$'000	31st December 2003 HK\$'000
Not over 3 months	197,327	208,124	166,752
Over 3 months to 6 months	20,358	7,064	3,688
Over 6 months to 1 year	—	39	38
	217,685	215,227	170,478

The payment terms with overseas customers are largely on letters of credit, where the instruction of payment is executed at sight.

9. BILLS PAYABLE AND ACCOUNTS PAYABLE

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

	30th June 2004 HK\$'000	30th June 2003 HK\$'000	31st December 2003 HK\$'000
Not over 3 months	142,073	182,850	159,584
Over 3 months to 6 months	19,582	7,498	8,821
Over 6 months to 1 year	23,832	1,993	4,982
Over 1 year	—	493	5,813
	185,487	192,834	179,200

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 2003	193,545
2002 proposed final dividend (<i>Note 7</i>)	26,874
	220,419
Loss for the year	(92,349)
2002 final dividend paid (<i>Note 7</i>)	(26,874)
Transfer to reserves	(806)
At 31st December 2003	100,390
At 1st January 2003	193,545
2002 proposed final dividend (<i>Note 7</i>)	26,874
	220,419
Loss for the period	(44,511)
2002 final dividend paid (<i>Note 7</i>)	(26,874)
Transfer to reserves	(585)
At 30th June 2003	148,449
At 1st January 2004	100,390
Loss for the period	(32,397)
Transfer to reserves	(526)
At 30th June 2004	67,467

11. COMMITMENTS

a. Operating lease commitments

The total future aggregate minimum lease payments under non-cancelable operating leases as at 30th June 2004 are as follows:

	30th June 2004 HK\$'000	30th June 2003 HK\$'000	31st December 2003 HK\$'000
Land and buildings			
— within one year	31,666	27,152	34,488
— in the second to fifth years inclusive	32,648	31,558	41,915
— after the fifth year	48,126	63,672	51,088
	112,440	122,382	127,491

b. Capital commitments

As at 30th June 2004, the Group had the following capital commitments in relation to office renovation and purchase of equipment:

	30th June 2004 HK\$'000	30th June 2003 HK\$'000	31st December 2003 HK\$'000
Contracted but not provided for	1,201	583	625
Authorized but not contracted for	—	—	11,686
	1,201	583	12,311

12. RELATED PARTY TRANSACTIONS

During the period, the Group had the following significant related party transaction which was carried out in the normal course of the Group's business:

	Six Months Ended	
	30th June 2004 HK\$'000	30th June 2003 HK\$'000
Purchases of finished goods from Hua Thai Manufacturing Public Company Limited, an associated company, and its subsidiaries, which was determined on a cost plus mark up basis	123,559	140,470

13. COMPARATIVES

Certain comparative figures have been reclassified to conform with the current period's presentation.