

NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars)

1 Significant accounting policy

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

The financial information relating to the financial year ended 31 March 2004 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 2004 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 26 July 2004.

The same accounting policies adopted in the statutory financial statements for the financial year ended 31 March 2004 have been applied to the interim financial report.

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 2004.

As disclosed in the statutory financial statements for the year ended 31 March 2004, pursuant to a conditional sale and purchase agreement dated 26 July 2004, the Group has proposed to acquire an additional 43.06% equity interest in Sino Legend Limited (equivalent to 31% effective interest in Mudd (USA) LLC) at a cash consideration of US\$53,000,000 (equivalent to approximately \$413,400,000). As of the date of approval of this interim financial report, the above proposed acquisition is not yet complete and its completion is subject to the fulfilment of certain prescribed conditions under the agreement, including receipt of approval of the Company's shareholders in an extraordinary general meeting to be convened.

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	
	2004	2003
	\$'000	\$'000
North America	575,150	291,671
Europe	119,512	109,059
PRC, excluding Hong Kong	35,041	28,115
Other regions	17,245	13,837
	746,948	442,682

3 Profit from ordinary activities before taxation

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

	Six months ended	
	30 September	
	2004	2003
	\$'000	\$'000
(a) Finance costs:		
Interest on bank loans and overdrafts wholly repayable within five years	9,933	5,597
(b) Other items:		
Cost of goods sold	565,618	299,137
Depreciation	17,681	14,967
Amortisation of permanent textile quota entitlements	-	1,296

4 Taxation

	Six months ended 30 September	
	2004 \$'000	2003 \$'000
Provision for Hong Kong Profits Tax for the period	4,480	2,790
Provision for overseas tax	743	-
Deferred tax expense relating to the origination and reversal of temporary differences	-	1,880
	5,223	4,670

Provision for Hong Kong Profits Tax is calculated at 17.5% (2003: 17.5%) of the estimated assessable profits for the period. Taxation for subsidiaries outside Hong Kong is charged at the appropriate current rates of taxation ruling in the relevant countries.

The Group's subsidiary in the People's Republic of China ("PRC"), Luoding Hua Tian Long Garment Ltd. is subject to PRC income tax at 33%.

The Group'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. was exempted from Cambodia income tax for the period from 15 June 2000 to 14 June 2004 and Cambodia Sportswear Mfg. Ltd. was exempted from Cambodia income tax for the period from 15 June 2000 to 14 June 2003. Cambodia Sportswear Mfg. Ltd. and Tack Fat Garment (Cambodia) Ltd. are subject to Cambodia income tax at 9% starting from 15 June 2003 and 15 June 2004 respectively. The Group's newly established subsidiary in Cambodia, Supertex Limited is exempted from Cambodia income tax for the period from 8 July 2004 to 7 July 2008.

5 Dividends

(a) *Dividends attributable to the period*

	Six months ended 30 September	
	2004 \$'000	2003 \$'000
Interim dividend declared of 1.2 cents per share (2003: 0.9 cents)	18,134	12,562

The interim dividend of 1.2 cents per share or \$18,134,000 in total proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

5 Dividends (continued)

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

	Six months ended 30 September	
	2004 \$'000	2003 \$'000
Final dividend in respect of the previous year, approved and accrued during the period of 2 cents per share (2003: 2 cents)	28,545	27,460

The amount of final dividend accrued during the period of \$28,545,000 included an additional amount of \$129,000 paid to holders of new shares issued before the closing date of the shareholders' register.

6 Earnings per share

(a) *Basic earnings per share*

The calculation of basic earnings per share for the period ended 30 September 2004 is based on the profit attributable to shareholders of \$60,768,000 (2003: \$43,121,000) and the weighted average number of ordinary shares of 1,412,843,000 shares (2003: 1,353,680,000 shares) in issue during the period.

(b) *Diluted earnings per share*

The calculation of diluted earnings per share for the period ended 30 September 2004 is based on the adjusted profit attributable to shareholders of \$60,999,000 (2003: \$43,335,000) and the weighted average number of ordinary shares of 1,484,080,000 shares (2003: 1,435,883,000 shares) after adjusting for the effects of all dilutive potential ordinary shares.

7 Fixed assets

Additions to fixed assets during the six months ended 30 September 2004 comprise:

	<i>\$'000</i>
Land and buildings	16,181
Plant and machinery	23,301
Furniture, fixtures and office equipment	3,898
Motor vehicles	281
	<hr/> 43,661

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 2004 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 2004.

8 Trade and other receivables

	At 30 September 2004 \$'000	At 31 March 2004 \$'000
Trade receivables	201,627	149,882
Deposits with subcontractors for manufacturing of garments	34,306	57,121
Refundable acquisition deposit	-	58,804
Other prepayments and receivables	13,895	29,956
	249,828	295,763

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 2004 \$'000	At 31 March 2004 \$'000
Within 3 months	201,627	149,882

All the trade and other receivables are expected to be recovered within one year.

9 Trade and other payables

	At 30 September 2004 \$'000	At 31 March 2004 \$'000
Bills payable	14,446	12,822
Trade payables	45,043	38,099
Accrued expenses and other payables	16,288	13,714
	75,777	64,635

9 Trade and other payables (continued)

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 2004 \$'000	At 31 March 2004 \$'000
Due within 1 month or on demand	12,155	10,037
Due after 1 month but within 3 months	20,692	16,855
Due after 3 months but within 6 months	11,841	11,181
Due after 6 months but within 1 year	355	26
	45,043	38,099

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

10 Share capital

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

	<i>Note</i>	Number of ordinary shares of \$0.1 each	Par value \$'000
<i>Authorised:</i>			
At 31 March/30 September 2004		2,000,000,000	200,000
<i>Issued and fully paid:</i>			
Total issued share capital as at 31 March 2004		1,410,576,000	141,058
Conversion of convertible bonds	(a)	14,688,000	1,469
Issue of new shares	(b)	6,216,000	621
Total issued share capital as at 30 September 2004		1,431,480,000	143,148

Notes:

- (a) During the period, convertible bonds totalling US\$1,100,000 (approximately \$8,580,000) were converted into 14,688,000 ordinary shares of par value \$0.1 each.
- (b) During the period, 6,216,000 new ordinary shares of par value \$0.1 each were issued at \$0.531 each upon the exercise of the share subscription rights granted to the holders of the convertible bonds.

11 Reserves

	Share premium	Land and buildings revaluation reserve	Contributed surplus	PRC statutory reserve	Retained earnings	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
At 1 April 2003						
- as previously reported	1,647	16,849	6,400	519	263,514	288,929
- prior period adjustments in respect of deferred tax (note)	-	(3,499)	-	-	(281)	(3,780)
- as restated	1,647	13,350	6,400	519	263,233	285,149
Dividends approved in respect of the previous year (note 5)	-	-	-	-	(27,461)	(27,461)
Share premium on conversion of convertible bonds	31,813	-	-	-	-	31,813
Share premium on exercise of share subscription rights	5,062	-	-	-	-	5,062
Share issue costs	(1,111)	-	-	-	-	(1,111)
Transfer on disposal of a subsidiary	-	-	-	(500)	500	-
Profit for the year	-	-	-	-	121,049	121,049
Dividends declared in respect of the current year (note 5)	-	-	-	-	(12,562)	(12,562)
At 31 March 2004	37,411	13,350	6,400	19	344,759	401,939

Note: With effect from 1 January 2003, in order to comply with Statement of Standard Accounting Practice 12 (revised) issued by the Hong Kong Institute of Certified Public Accountants, the Group adopted a new policy for deferred tax. As a result of the adoption of this accounting policy, the Group's net assets as at 31 March 2003 were decreased by \$3,780,000.

11 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 2004	37,411	13,350	6,400	19	344,759	401,939
Dividends approved in respect of the previous year (note 5)	-	-	-	-	(28,545)	(28,545)
Share premium on conversion of convertible bonds	7,102	-	-	-	-	7,102
Share premium on exercise of share subscription rights	2,679	-	-	-	-	2,679
Profit for the period	-	-	-	-	60,768	60,768
At 30 September 2004	47,192	13,350	6,400	19	376,982	443,943

12 Contingent liabilities

At 30 September 2004, the Group had bills discounted with recourse with banks amounting to \$38,698,000 (at 31 March 2004: \$15,049,000).

13 Material related party transactions

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

	Six months ended 30 September	
	2004 \$'000	2003 \$'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.

14 Post balance sheet event

After the balance sheet date, the directors of the Company proposed an interim dividend, details of which are disclosed in note 5.

Subsequent to 30 September 2004 and up to the date of approval of this report, an aggregate amount of US\$1,500,000 (approximately \$11,700,000) out of the convertible bonds outstanding at 30 September 2004 were converted into 19,656,000 ordinary shares of the Company.

On 11 October 2004, the Company issued US\$30 million (approximately HK\$234 million) new convertible bonds bearing interest at the rate of 1% p.a. to independent investors. The new convertible bonds will mature on 12 October 2009. The bonds are convertible into the Company's shares at the conversion price of HK\$1.00 after three months from 11 October 2004 provided that up to a maximum of 50% of the bonds may be converted within the first 12 months. Furthermore, each bondholder has a put option such that the Company shall redeem the bonds upon exercise of the option by the relevant bondholder under certain conditions.

15 Approval of interim financial report

The interim financial report was approved by the board of directors on 28 December 2004.