

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

31 December 2004

1. BASIS OF PRESENTATION AND 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 Institute of Certified Public Accountants (“HKICPA”) and with the disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “Listing Rules”). The unaudited condensed consolidated interim financial statements should be read in conjunction with the annual audited financial statements for the year ended 30 June 2004.

The accounting policies and basis of preparation adopted are consistent with those used in the annual financial statements for the year ended 30 June 2004. The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards (“new HKFRSs”) which are effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the accounts for the period ended 31 December 2004 and is not in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

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. SEGMENT 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	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Segment revenue:								
External sales	58,687	98,450	13,485	12,962	-	-	72,172	111,412
Inter-segment sales	15,356	8,856	1,686	814	(17,042)	(9,670)	-	-
Total revenue	74,043	107,306	15,171	13,776	(17,042)	(9,670)	72,172	111,412
Segment results	(8,430)	23,173	(135)	1,552			(8,565)	24,725
Unallocated revenue and other net gain/(loss)							(1,740)	3,460
Unallocated expenses							(13,510)	(5,914)
(Loss)/Profit from operating activities							(23,815)	22,271
Finance costs							(90)	(95)
Share of profits of jointly-controlled entities							786	20,017
(Loss)/Profit before tax							(23,119)	42,193
Tax							(117)	(2,218)
(Loss)/Profit before minority interests							(23,236)	39,975
Minority interests							-	(8,007)
Net (loss)/profit for the period							(23,236)	31,968

(b) Business segments

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

4. (LOSS)/PROFIT FROM OPERATING ACTIVITIES

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

	Six months ended 31 December	
	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000
Amortisation of goodwill	5,256	3,810
Depreciation	3,468	3,462
Realised loss on disposal of short term investment	–	25
Interest income	(444)	(510)
Unrealised gain on short term investments	(84)	(3,600)
Unrealised loss on short term investments	2,550	1,016

5. FINANCE COSTS

	Six months ended 31 December	
	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000
Interest on bank loans and overdrafts	80	78
Interest on a finance lease	10	17
	90	95

6. TAX

	Six months ended 31 December	
	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000
Current period provision:		
Hong Kong	–	551
Elsewhere	117	1,667
Tax charge for the period	117	2,218

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 17.5%) 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. (LOSS)/EARNINGS PER SHARE

The calculation of basic (loss)/earnings per share is based on the Group's net loss from ordinary activities attributable to shareholders for the period of approximately HK\$23,236,000 (2003: net profit of HK\$31,968,000) and the weighted average number of 2,453,139,293 (2003: 2,362,395,600) ordinary shares in issue during the period.

The calculation of the 2003 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 and the weighted average of 2,380,881,924 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 ordinary shares in issue during this preceding period, as used in the basic loss per share calculation; and the weighted average of 18,486,324 ordinary shares assumed to have been issued at no consideration on the deemed exercise of all potential ordinary shares outstanding during the period.

No diluted loss per share is presented for the period of six months ended 31 December 2004 as the result of the exercise of potential ordinary shares during the period would have been anti-dilutive.

8. GOODWILL

	31 December 2004 (Unaudited) HK\$'000	30 June 2004 (Audited) HK\$'000
At beginning of the period	101,886	41,903
Addition from acquisition of a subsidiary	–	64,873
Adjustment	(26,960)	–
Amortisation	(5,256)	(4,890)
At end of period	69,670	101,886

The adjustment to goodwill balance during the period arise out of a downward adjustment to the consideration payable for the acquisition of a subsidiary during the preceding period.

9. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

	31 December 2004 (Unaudited) HK\$'000	30 June 2004 (Audited) HK\$'000
Share of net assets	43,956	43,170

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	55%	Development and sale of nano materials and transfer of related technology
中科納米技術工程 (蘇州) 有限公司 (Zhongke Nanotech (Suzhou) Co., Ltd.*)	Corporate	PRC	68.5%	Development and sale of nano materials and transfer of related technology

* For identification only

10. LONG TERM INVESTMENTS

	31 December 2004 (Unaudited) HK\$'000	30 June 2004 (Audited) HK\$'000
Equity investments		
Unlisted outside Hong Kong, at cost	6,667	6,667

11. TRADE AND BILLS 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 2004 (Unaudited) HK\$'000	30 June 2004 (Audited) HK\$'000
0 – 30 days	10,051	14,958
31 – 60 days	9,220	10,973
61 – 90 days	10,146	10,688
Over 90 days	14,245	9,537
	43,662	46,156

12. 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 2004 (Unaudited) HK\$'000	30 June 2004 (Audited) HK\$'000
0 – 30 days	1,168	1,206
31 – 60 days	675	707
61 – 90 days	345	276
Over 90 days	1,182	1,022
	3,370	3,211

13. SHARE CAPITAL

	31 December 2004 (Unaudited) HK\$'000	30 June 2004 (Audited) HK\$'000
Authorised:		
5,000,000,000 ordinary shares of HK\$0.10 each	500,000	500,000
Issued and fully paid		
2,449,967,600 (30 June 2004: 2,459,575,600) ordinary shares of HK\$0.10 each	244,997	245,958

13. SHARE CAPITAL (CONTINUED)

During the period, by virtue of exercise of the rights granted by the company's shareholders to the directors under general mandate, the Company repurchased on the Stock Exchange of Hong Kong Limited in aggregate 9,608,000 of its ordinary shares of HK\$0.1 each at a total consideration before expenses of approximately HK\$2,468,000.

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 2004 annual report. The Company has not granted any share option under its existing share option scheme during the period.

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. 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. Details of grant and exercise of share options subsequent to balance sheet date are set out in note 16 (i) to the financial statements.

14. RESERVES

	Share Premium account HK\$'000	Subscription right reserve HK\$'000	Fixed asset revaluation reserve HK\$'000	Statutory reserve fund HK\$'000	Capital reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
Group								
At 1 July 2004	26,239	24,543	5,887	1,859	(419)	(1,613)	191,819	248,315
Net loss for the Period	-	-	-	-	-	-	(23,236)	(23,236)
Repurchase of shares	(1,469)	-	-	-	-	-	-	(1,469)
Tax refund credit	-	-	-	-	-	-	759	759
At 31 December 2004	24,770	24,543	5,887	1,859	(419)	(1,613)	169,342	224,369

15. COMMITMENTS

As at 31 December 2004, the Group has outstanding commitments of approximately HK\$7.6 million in respect of capital contribution for the establishment of a joint venture entity in the PRC.

16. POST BALANCE SHEET EVENTS

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

- (i) On 10 January 2005, a total of 244,800,000 share options exercisable at a subscription price of HK\$0.24 per share were granted by the Company. During the period from 13 January 2005 to 14 January 2005, certain of these share options were exercised at the exercise price at HK\$0.24 per share for subscription of 27,800,000 ordinary shares in the Company with aggregate subscription proceeds of approximately HK\$6,672,000, resulting in the issue and allotment of 27,800,000 new ordinary shares in the Company.
- (ii) On 13 January 2005, the Company raised share issue proceeds, net of related expenses, of approximately HK\$95 million under a top-up placing and subscription arrangement whereby an aggregate of 489,000,000 new shares in the Company were issued and allotted at HK\$0.20 per share to Golden Price Group Limited, a substantial shareholder and party connected with the Company. Further details of the top-up placing and subscription are set out in the Company's press announcement of 13 January 2005.
- (iii) During the period from 1 February 2005 to 4 February 2005, by virtue of the exercise of rights granted by the Company's shareholders to the directors under general mandate, the Company repurchased on the Stock Exchange of Hong Kong Limited (the "Stock Exchange") in aggregate 7,000,000 of its ordinary shares of HK\$0.1 each at a total consideration, before expenses, of approximately HK 1.2 million. The subject shares were cancelled after repurchases and the issued share capital of the Company was reduced by the nominal value thereof.
- (iv) On 14 March 2005, by virtue of an ordinary resolution passed by the Company's shareholders in a special general meeting, a refreshment was approved of the general mandate granted to the directors to issue and deal with a maximum of 591,953,520 shares in the Company, being 20% of the Company's issued capital at the date of passing of resolution. Further details of the refreshment of general mandate was set out in the Company's circular to shareholders of 7 February 2005.

17. COMPARATIVE AMOUNTS

Certain comparative amounts have been re-classified in order to conform with the current period presentation. These include the re-classification as selling and distribution expenses of expenditure items in aggregate of HK\$1,253,000, previously included within administrative expenses.