NOTES TO THE ACCOUNTS

1. **Basis of preparation**

These unaudited condensed consolidated financial information has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants.

These condensed consolidated financial information should be read in conjunction with the 2004 annual financial statements.

The accounting policies and methods of computation used in the preparation of these condensed consolidated financial information are consistent with those used in the annual financial statements for the year ended 31st December, 2004 except that the Group has changed certain of its accounting policies following its adoption of new/revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRS") which are effective for accounting periods commencing on or after 1st January, 2005.

These interim financial information have been prepared in accordance with those HKFRS standards and interpretations issued and effective as at the time of preparing these information (August 2005). The HKFRS standards and interpretations that will be applicable at 31st December, 2005, including those that will be applicable on an optional basis, are not known with certainty at the time of preparing these interim financial information.

The changes to the Group's accounting policies and the effect of adopting these new policies are set out in Note 2 below.

2. **Changes in accounting policies**

(a) *Effect of adopting new HKFRS*

In 2005, the Group adopted the new HKFRSs below, which are relevant to its operations. The 2004 comparative figures have been amended as required, in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, changes in Accounting Estimates and Errors
HKAS 10	Events after Balance Sheet Date
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 32	Financial Instruments : Disclosures and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments : Recognition and Measurement
HKAS 40	Investment Property
HKFRS 2	Share-based Payments
HKFRS 3	Business Combinations

(i) The adoption of HKASs 1, 2, 7, 8, 10, 16, 21, 23, 24, 27, 28, 33, 40 and HKFRS 2 did not result in substantial changes to the Group's accounting policies. In summary:

- HKAS 1 had affected the presentation of minority interest, share of net after-tax results of associates and other disclosures.

- HKASs 2, 7, 8, 10, 16, 21, 23, 27, 28, 33, 40 and HKFRS 2 had no material effect on the Group's policies.

- HKAS 24 has affected the identification of related parties and some other related-party disclosures.

(ii) The adoption of revised HKAS 17 has resulted in a change in the accounting policy relating to the reclassification of leasehold land and land use rights from property, plant and equipment to operating leases. The up-front prepayments made for the leasehold land and land use rights are expensed in the profit and loss account on a straight-line basis over the period of the lease or where there is impairment, the impairment is expensed in the profit and loss account. In prior years, the leasehold land was accounted for at fair value.

(iii) The adoption of HKASs 32 and 39 has resulted in a change of accounting policy for recognition, measurement and disclosure of financial instruments. Until 31st December, 2004, investments of the Group were classified as investment securities stated at cost less any provision for impairment losses and other investments stated at fair value in the balance sheet.

In accordance with HKAS 39, the investments have been reclassified into available-for-sale financial assets and financial assets at fair value through profit or loss. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently stated in the balance sheet at fair value. Balance of available-for-sale financial assets at 1st January, 2005 were re-measured at fair value with balance adjusted to the then retained earnings pursuant to the transitional provisions of HKAS 39. Realised and unrealised gains and losses arising from changes in the fair value of financial assets at fair value through profit or loss are included in the profit and loss accounts in the period in which they arise. Unrealised gains and losses arising from the changes in fair value of available-for-sale financial assets are recognised in equity. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the profit and loss account as gains or losses from investment securities.

The Group's discounted bills with recourse, which were previously treated as contingent liabilities, have been accounted for as a collateralized bank advances prospectively on or after 1st January, 2005, as the financial assets derecognition conditions as stipulated in HKAS 39 have not been fulfilled.

(iv) The adoption of HKFRS 3, HKAS 36 and HKAS 38 resulted in a change in the accounting policy for goodwill. Until 31st December, 2004, goodwill was:

– Amortised on a straight line basis over its estimated useful life; and

– Assessed for an indication of impairment at each balance sheet date.

In accordance with the provisions of HKFRS 3:

– The Group has ceased amortization of goodwill from 1st January, 2005;

– Accumulated amortization as at 31st December, 2004 has been eliminated with corresponding decrease in the cost of goodwill;

– From the year ending 31st December, 2005 onwards, goodwill is tested annually for impairment, as well as when there are indications of impairment.

However, the adoption of HKFRS 3 has no significant effect on the Group's results for the six months ended 30th June, 2005 and 2004.

(v) All changes in the accounting policies have been in accordance with the transition provisions in respective standards. All standards adopted by the Group require retrospective application other than:

– HKAS 39 – does not permit to recognize, derecognize and measure financial assets and liabilities in accordance with this standard on a retrospective basis. The Group applied the previous Statement of Standard Accounting Practice ("SSAP") 24 "Accounting for investments in securities" to investment securities and other investments for the 2004 comparative information. The adjustments required for the accounting differences between SSAP 24 and HKAS 39, if any, are determined and recognized at 1st January, 2005; and

– HKFRS 2 – only retrospectively applicable to all equity instruments granted after 7th November, 2002 and not vested at 1st January, 2005.

(vi) The impact of adopting HKAS 17, HKAS 32 and HKAS 39 on the Group's consolidated profit and loss account are as follows:

	Year ended 31st December, 2004		Six months ended 30th June, 2005		Six months ended 30th June, 2004	
	HKAS 17	**HKAS 32 and 39**	**HKAS 17**	**HKAS 32 and 39**	**HKAS 17**	**HKAS 32 and 39**
	(Unaudited)	**(Unaudited)**	**(Unaudited)**	**(Unaudited)**	**(Unaudited)**	**(Unaudited)**
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Increase in administrative expenses	286	–	143	–	143	–
Decrease in profit for the year/period	286	–	143	–	143	–
Decrease in basic earnings per share	0.08 HK cents	–	0.04 HK cents	–	0.04 HK cents	–

The adoption of HKAS 17 resulted in a decrease in revaluation reserve and retained earnings at 1st January, 2004 by HK$5,909,000 and HK$1,208,000 respectively. The adoption of HKAS 32 and HKAS 39 resulted in increase in opening retained earnings as at 1st January, 2005 by HK$938,000. Effect of adopting HKASs 17, 32 and 39 on consolidated balance sheets at 30th June, 2005 and 31st December, 2004 are as follows:

	At 30th June, 2005		At 31st December, 2004	
	HKAS 17	**HKAS 32 and 39**	HKAS 17	HKAS 32 and 39
	(Unaudited)	**(Unaudited)**	(Unaudited)	(Unaudited)
	HK$'000	**HK$'000**	HK$'000	HK$'000
Decrease in properties, plant and equipment	**9,672**	**–**	24,486	–
Increase in leasehold land	**2,185**	**–**	17,142	–
Increase in available-for-sale financial assets	**–**	**2,738**	–	–
Decrease in investment securities	**–**	**2,125**	–	–
Increase in trade and other receivables	**–**	**8,953**	–	–
Increase in financial assets at fair value through profit or loss	**–**	**6,892**	–	–
Decrease in other investments	**–**	**8,821**	–	–
Increase in bank loan	**–**	**8,953**	–	–
(Decrease)/increase in retained earnings	**(1,616)**	**938**	(1,480)	–
Decrease in investment revaluation reserve	**–**	**325**	–	–
Decrease in fixed assets revaluation reserve	**5,497**	**–**	5,497	–
Decrease in minority interest	**374**	**–**	367	–

(b) *New accounting policies*

During the current period, the Group's leasehold land and buildings held in Hong Kong ceased to be owner-occupied and therefore reclassified as investment properties. The Group has adopted HKAS 40 whereby the difference between the carrying amount and the fair value of the properties at the date of transfer is recognized in equity as a fixed assets revaluation reserve. However, if a fair value gain reverses a previous impairment loss, the gain is recognized in the profit and loss account.

Subsequent changes in fair values are recognized in the profit and loss account accordingly.

3. Segment information

An analysis of the Group's turnover and contribution to operating profit for the period by geographical segment is as follows:

	Turnover Six months ended 30th June,		**Contribution to operating profit Six months ended 30th June,**	
	2005 (Unaudited) HK$'000	2004 (Unaudited) HK$'000	**2005 (Unaudited) HK$'000**	2004 (Unaudited) HK$'000 (Restated)
Geographical segment:				
United States of America	**466,768**	431,023	**50,800**	28,718
Europe	**5,266**	12,013	**254**	1,022
Canada	**19,491**	19,595	**1,965**	1,374
Southeast Asia	**16,738**	12,199	**2,228**	1,061
Other countries	**4,622**	2,920	**71**	216
	512,885	477,750	**55,318**	32,391
Unallocated other revenues			**1,313**	683
Unallocated change in fair value of investment properties			**4,075**	–
Unallocated administrative expenses			**(23,106)**	(23,922)
Operating profit			**37,600**	9,152
Finance costs			**(2,318)**	(1,411)
Share of loss of an associate			**(162)**	–
Profit before taxation			**35,120**	7,741
Taxation			**(1,792)**	(2,709)
Profit for the period			**33,328**	5,032

The Group's turnover and operating profit were solely contributed by garment manufacturing business.

4. Operating profit

Operating profit is stated after crediting and charging the following:

	Six months ended 30th June, 2005 (Unaudited) HK$'000	2004 (Unaudited) HK$'000
Crediting		
Interest income	**923**	640
Rental income	**26**	43
Charging		
Cost of inventories sold	**414,932**	395,881
Quota charges	**–**	5,592
Depreciation of properties, plant and equipment	**8,420**	8,028
Amortization of goodwill	**–**	643
Impairment of goodwill	**187**	–

5. Taxation

No Hong Kong profits tax was provided on the estimated assessable profit for the period as the Group had tax loss brought forward. For the six months ended 30th June, 2004, Hong Kong profits tax was provided at the rate of 17.5% on the estimated assessable profit. Taxation on overseas profits has been calculated on the estimated assessable profit for the period at the rates of taxation prevailing in the countries which the Group operates.

The amount of taxation charged to the consolidated profit and loss account represents:

	Six months ended 30th June, 2005 (Unaudited) HK$'000	2004 (Unaudited) HK$'000
Hong Kong profits tax	**–**	1,400
Overseas taxation	**1,315**	866
Deferred taxation	**477**	443
	1,792	2,709

6. Earnings per share

The calculation of earnings per share is based on the profit attributable to equity holders of the Company of HK$30,481,000 (2004: HK$5,162,000) and the weighted average of 360,034,000 shares (2004: 360,034,000 shares) in issue during the period.

The diluted earnings per share is not disclosed as the exercise of the outstanding options for the periods ended 30th June, 2005 and 30th June, 2004 would have an anti-dilutive effect as the exercise price of the outstanding options was higher than the average market price of the share for the said periods.

7. Dividends

	Six months ended 30th June, 2005 (Unaudited) HK$'000	2004 (Unaudited) HK$'000
Interim dividend proposed of 2.0 HK cents (2004: Nil) per ordinary share	**7,201**	–

The interim dividend has not been recognised as a liability at the balance sheet date.

8. Trade and other receivables

	At 30th June, 2005 (Unaudited) HK$'000	At 31st December, 2004 (Audited) HK$'000
Trade receivables	**108,880**	70,834
Prepayments, deposits and other receivables	**22,334**	21,452
	131,214	92,286

The majority of the Group's turnover is on letter of credit at sight to 90 days. The remaining balances of turnover are being on an open account basis, where credit terms ranging from 30 to 90 days were granted on an individual basis.

The ageing analysis of trade receivables is as follows:

	At 30th June, 2005 (Unaudited) HK$'000	At 31st December, 2004 (Audited) HK$'000
Within 30 days	**85,888**	50,439
31-60 days	**14,680**	11,100
61-90 days	**4,189**	1,564
Over 90 days	**4,123**	7,731
	108,880	70,834

9. Trade and other payables

	At 30th June, 2005 (Unaudited) HK$'000	At 31st December, 2004 (Audited) HK$'000
Trade payables	**132,854**	101,514
Other payables and accruals	**39,195**	25,331
	172,049	126,845

The ageing analysis of trade payables is as follows:

	At 30th June, 2005 (Unaudited) HK$'000	At 31st December, 2004 (Audited) HK$'000
Within 30 days	**105,275**	83,134
31-60 days	**15,843**	4,702
61-90 days	**1,105**	2,146
Over 90 days	**10,631**	11,532
	132,854	101,514

10. Deemed disposal of subsidiary and acquisition of an associate

As announced by the Company on 19th May, 2005, a subsidiary of the Group entered into an agreement dated 18th May, 2005 with Shandong Weiqiao Chuangye Group Company Limited ("SDWQ") whereby it was agreed that the registered capital of ShanDong WeiQiao HengFu Textile Limited ("SWHT"), a then 60% owned indirect subsidiary, was increased from US$8,250,000 (approximately HK$64,350,000) to US$12,375,000 (approximately HK$96,525,000) and that the additional registered capital was solely contributed by SDWQ. Upon the increase in the registered capital of SWHT, the Group's interest in SWHT was diluted from 60% to 40%. Such dilution of interest was treated as a deemed disposal (the "Disposal") by the Group of an interest in SWHT under the Listing Rules. Following the Disposal, SWHT ceased to be a subsidiary of the Group and treated as an associate.

The net assets of the subsidiary at the date of Disposal were as follows:

	(Unaudited) HK$'000
Net assets disposed of:	
Properties, plant and equipment	52,254
Intangible assets	5,905
Inventories	6,941
Trade and other receivables	2,950
Bank balances and cash	1,443
Trade and other payables	(9,988)
Minority interest	(23,802)
	35,703
Gain on Disposal	969
	36,672
Represented and satisfied by:	
Interest in an associate	36,672

Analysis of the net outflow of cash and cash equivalents in respect of the Disposal:

	(Unaudited) HK$'000
Bank balance and cash disposed of	1,443

The subsidiary disposed of during the period did not contribute significantly to the Group's cash flows or operating results.

11. Related party transaction/connected transactions

(a) During the period, the Group has the following transactions carried out at prices determined with reference to market prices for similar transactions with related parties/persons deemed to be "connected persons" by the Stock Exchange, being entities controlled by the group of SDWQ, a substantial shareholder of SWHT:

	(Unaudited) HK$'000
Supply of electricity and steam	819
Supply of water	11
Provision of waste water treatment service	65
Supply of cotton yarn	6,107

(b) As detailed in Note 10, the Disposal constituted a connected transaction, the gain arising from the Disposal was approximately HK$969,000.

(c) Key management compensation

	Six months ended 30th June,	
	2005	2004
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Salaries and other short-term employee benefits	**4,671**	4,921
Contributions to the Mandatory Provident Fund Scheme	**154**	166
	4,825	5,087

12. Contingent liabilities

As at 30th June, 2005, the Group had no contingent liabilities. The bills discounted with recourse of HK$8,953,000 as at 30th June, 2005 was recorded as bank loans in accordance with HKAS 39 (31st December, 2004: The Group had bills discounted to bank with recourse amounting to HK$11,981,000).

13. Commitments

As at 30th June, 2005, the Group had total future aggregate minimum lease payments for land and buildings under non-cancellable operating leases as follows:

	At 30th June, 2005 (Unaudited) HK$'000	At 31st December, 2004 (Audited) HK$'000
Not later than one year	**7,193**	4,324
Later than one year and not later than five years	**15,552**	9,504
Later than five years	**9,056**	10,605
	31,801	24,433

14. Comparative figures

As explained in Note 2, due to the adoption of the new HKFRS during the current period, the accounting treatment and presentation of certain items in the account have been revised to comply with the new requirements. Accordingly, certain comparatives have been restated to conform to the current period presentation.

On behalf of the board

Rusli Hendrawan

Chairman

Hong Kong, 7th September, 2005