Notes to the Condensed Financial Statements

For the six months ended 30th June 2005

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The unaudited condensed interim financial statements have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

The unaudited condensed interim financial statements should be read in conjunction with the 2004 annual financial statements.

The accounting policies and the methods of computation used in the preparation of these condensed consolidated financial statements are consistent with those used in the Group's 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 or revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRS") which are effective from accounting periods beginning on or after 1st January 2005.

The changes to the Group's accounting policy and the effect of adopting new policies are set out in Note 2 below. The comparative figures have been restated as required.

2. IMPACT OF ADOPTING NEW/REVISED HKFRS AND HKAS

In 2005, the Group adopted the new and revised HKFRS and HKASs, together with their interpretations, as below:

HKAS 1	Preparation 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 the 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 39	Financial Instruments: Recognition and Measurement
HKAS 40	Investment Property
HKAS-Int 21	Income Taxes – Recovery of Revalued Non-Depreciated Assets

The adoption of new/revised HKASs 1, 2, 7, 8, 10, 16, 21, 23, 24, 27, 28, 33 and 36 did not result in substantial changes to the Group's accounting policies. In summary:

- HKAS 1 has affected the presentation of minority interests, share of net after-tax results of associated companies and other disclosures.

– HKASs 2, 7, 8, 10, 16, 21, 23, 27, 28, 33 and 36 had no material effect on the Group's policies.

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

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

The adoption of HKASs 32 and 39 has resulted in a change in the accounting policy relating to the treatment of financial assets at fair value through profit and loss. This has also resulted in a change in the recognition, measurement and classification of derivative financial instruments.

Certain foreign exchange contracts which do not qualify for hedge accounting, are initially recognised at fair value on the date on which such derivative contracts are entered into and subsequently remeasured at their fair value. Changes in fair value of the derivatives are recognised immediately in the income statement.

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

The adoption of revised HKAS 40 has resulted in a change in the accounting policy relating to restating investment properties at cost less accumulated depreciation and accumulated impairment. Any amount held as revaluation surplus in the asset revaluation reserves is reclassified to retained earnings. Depreciation of investment property is calculated to write off its cost over the unexpired period of the lease.

The adoption of revised HKAS-Int 21 has resulted in a change in the accounting policy relating to the measurement of deferred tax liabilities arising from the revaluation of investment properties. Such deferred tax liabilities are measured on the basis of tax consequences that would follow from recovery of the carrying amount of that asset through use. In prior years, the carrying amount of that asset was expected to be recovered through sale.

Effect of adopting HKASs 17, 32, 39, 40 and HKAS-Int 21 on the condensed consolidated income statement is as follows:

	Six months ended			
	30th June 2005			30th June 2004
	HKAS 17	**HKAS 32 & 39**	**HKAS 40 & Int-21**	HKAS 17
	HK$'000	**HK$'000**	**HK$'000**	HK$'000
Increase in general and administrative expenses	**(87)**	**(375)**	**(107)**	(16)
Decrease/increase in profit/(loss) attributable to equity holders of the Company	**(87)**	**(375)**	**(107)**	(16)
Decrease/increase in basic earnings/(losses) per share attributable to equity holders of the Company	**–**	**–**	**–**	–

Effect of changes in the accounting policies on the condensed consolidated balance sheet is as follows:

	As at 30th June 2005			
	HKAS 17 HK$'000	HKAS 32 & 39 HK$'000	HKAS 40 & Int-21 HK$'000	Total HK$'000
Decrease in property, plant and equipment	**(16,652)**	**–**	**–**	**(16,652)**
Decrease in investment property	**–**	**–**	**(4,190)**	**(4,190)**
Increase in leasehold land	**15,384**	**–**	**3,990**	**19,374**
Increase in bills receivable and accounts receivable	**–**	**93,299**	**–**	**93,299**
Increase in prepayments and other assets	**–**	**377**	**–**	**377**
Increase in accruals and other payables	**–**	**752**	**–**	**752**
Increase in bank borrowings	**–**	**93,299**	**–**	**93,299**
Decrease in deferred tax liabilities	**(182)**	**–**	**(415)**	**(597)**
Increase/(decrease) in revaluation reserve	**587**	**–**	**(6,557)**	**(5,970)**
(Decrease)/increase in retained earnings	**(1,673)**	**(375)**	**6,772**	**4,724**

	As at 30th June 2004			
	HKAS 17 HK$'000	HKAS 32 & 39 HK$'000	HKAS 40 & Int-21 HK$'000	Total HK$'000
Decrease in property, plant and equipment	(18,989)	–	–	(18,989)
Increase in leasehold land	18,217	–	–	18,217
Decrease in deferred tax liabilities	(417)	–	–	(417)
Increase in revaluation reserve	234	–	–	234
Decrease in retained earnings	(588)	–	–	(588)

	As at 31st December 2004			
	HKAS 17 HK$'000	HKAS 32 & 39 HK$'000	HKAS 40 & Int-21 HK$'000	Total HK$'000
Decrease in property, plant and equipment	(17,829)	–	–	(17,829)
Increase in leasehold land	17,141	–	–	17,141
Decrease in deferred tax liabilities	(332)	–	–	(332)
Increase in revaluation reserve	822	–	–	822
Decrease in retained earnings	(1,178)	–	–	(1,178)

3. FINANCIAL RISK MANAGEMENT

Financial assets and financial liabilities carried on the balance sheet include cash and cash equivalents, bills receivable and accounts receivable, amounts due from associated companies, bank borrowings, bills payable and accounts payable and amounts due to associated companies.

Management regularly monitors the financial risks of the Group. Because of the simplicity of the financial structure and the current operations of the Group, no major hedging activities are undertaken by management.

3.1 Foreign exchange risk

The Group's business operations are exposed to foreign exchange risk, primarily with respect to Philippine Peso, Thai Baht, New Taiwan dollars and China Renminbi. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations. The Group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk. As majority of the Group's transactions are denominated in United States dollars and Hong Kong dollars, the exposure to foreign currency exchange risk is small. From time to time, the Group hedges this foreign exchange exposure.

3.2 Credit risk

The Group's sales are mainly covered by sight letters of credit. The remaining portion of the sales is on open account which is substantially covered by credit insurance.

3.3 Liquidity risk

The Group has been prudent in liquidity risk management by maintaining sufficient cash and the availability of sufficient funding through an adequate amount of committed credit facilities from the Group's bankers.

3.4 Cash flow and fair value interest rate risk

As the Group has no significant interest-bearing assets and liabilities, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest-rate risk arises from bank balances and bank borrowings. The Group regularly seeks out the most favourable interest rates available for its bank deposits and bank borrowings.

4. CRITICAL ACCOUNTING ESTIMATES

Estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldomly equal to the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

4.1 Estimated impairment of property, plant and equipment, leasehold land and investment properties

The Group assesses annually whether property, plant and equipment, leasehold land and investment properties have any indication of impairment. The recoverable amounts of property, plant and equipment, leasehold land and investment properties have been determined based on value-in-use calculations. These calculations require the use of judgement and estimates.

4.2 Income taxes and deferred tax

The Group is subject to income taxes in various jurisdictions. Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the periods in which such determination is made.

Deferred tax assets relating to certain temporary differences and tax losses are recognised as management considers it is probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. Where the expectation is different from the original estimate, such difference will impact the recognition of deferred tax assets and income tax charge in the periods in which such estimate has been changed.

4.3 Estimated provision for doubtful debts

The Group makes provision for doubtful debts based on an assessment of the recoverability of bills receivable and accounts receivable. Provisions are applied to bills receivable and accounts receivable where events or changes in circumstances indicate that the balances may not be collectible. The identification of doubtful debts requires the use of judgement and estimates. Where the expectation is different from the original estimate, such difference will impact the carrying value of bills receivable and accounts receivable and doubtful debt expenses in the periods in which such estimate has been changed.

4.4 Estimated write-downs of inventories to net realisable value

The Group writes down inventories to net realisable value based on an assessment of the realisability of inventories. Write-downs on inventories are recorded where events or changes in circumstances indicate that the balances may not be realised. The identification of write-downs requires the use of judgement and estimates. Where the expectation is different from the original estimate, such difference will impact the carrying value of inventories and write-downs of inventories in the periods in which such estimate has been changed.

5. SEGMENT INFORMATION

a. Business segment

The Group conducts the majority of its business activities in three segments, namely garment manufacturing, garment trading and branded product distribution. An analysis of the Group's performance by business segment is as follows:

	Unaudited							
	Garment manufacturing		**Garment trading**		**Branded product distribution**		**Total**	
	Six months ended		**Six months ended**		**Six months ended**		**Six months ended**	
	30th June 2005 HK$'000	30th June 2004 HK$'000	**30th June 2005 HK$'000**	30th June 2004 HK$'000	**30th June 2005 HK$'000**	30th June 2004 HK$'000	**30th June 2005 HK$'000**	30th June 2004 HK$'000 (Restated)
Turnover	**808,312**	810,767	**301,067**	189,042	**58,797**	58,914	**1,168,176**	1,058,723
Segment results	**46,845**	(29,706)	**16,637**	4,718	**(2,955)**	(5,428)	**60,527**	(30,416)
Finance costs							**(451)**	(1,511)
Share of profits of associated companies							**9,061**	4,332
Taxation							**(6,418)**	(3,327)
Profit/(loss) after taxation							**62,719**	(30,922)

b. Geographical segment

The Group's revenue is mainly derived from customers located in the United States of America, Asia and Europe. An analysis of the Group's turnover by geographical segment is as follows:

	Unaudited	
	Six months ended	
	30th June 2005 HK$'000	30th June 2004 HK$'000
The United States of America	**949,262**	775,102
Asia	**145,221**	144,691
Europe	**73,693**	138,930
	1,168,176	1,058,723

6. OPERATING PROFIT/(LOSS)

Operating profit/(loss) is stated after charging the following:

	Unaudited Six months ended 30th June 2005 HK$'000	30th June 2004 HK$'000 (Restated)
Amortisation of leasehold land prepayments	**813**	241
Depreciation of property, plant and equipment	**20,024**	18,609
Depreciation of investment properties	**107**	–
Loss on disposal of property, plant and equipment	**9,112**	217
Loss on disposal of leasehold land	**83**	–
Write-downs of inventories to net realisable value	**10,822**	15,012

7. TAXATION

Hong Kong profits tax has been provided at the rate of 17.5% (2004: 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.

	Unaudited Six months ended 30th June 2005 HK$'000	30th June 2004 HK$'000 (Restated)
Company and subsidiaries:		
Hong Kong profits tax	**6,892**	857
Overseas taxation	**1,005**	1,726
Deferred income tax	**(1,479)**	744
	6,418	3,327

Share of associated companies' taxation for the six months ended 30th June 2005 of HK$737,000 (2004: HK$12,000) is included in the consolidated income statement as share of profits of associated companies.

8. EARNINGS PER SHARE

Basic earnings per share (2004: losses per share) is calculated based on the consolidated profit attributable to equity holders of the Company for the six months ended 30th June 2005 of HK$60,125,000 (2004: loss of HK$32,408,000) and the 268,735,253 (2004: 268,735,253) weighted average number of shares in issue throughout the six months ended 30th June 2005.

Diluted earnings per share for the period is not disclosed as there were no potential dilutive shares.

9. INTERIM DIVIDEND

	Unaudited Six months ended 30th June 2005 HK$'000	30th June 2004 HK$'000
Proposed HK$0.09 (2004: Nil) per share	**24,186**	–

10. PROPERTY, PLANT AND EQUIPMENT

	Unaudited As at 30th June 2005 HK$'000	As at 30th June 2004 HK$'000 (Restated)	As at 31st December 2004 HK$'000 (Restated)
Opening net book amount	**230,807**	254,986	254,986
Exchange differences	**435**	(12)	59
Additions	**16,604**	14,997	21,449
Disposals	**(22,700)**	(1,058)	(3,904)
Depreciation	**(20,024)**	(18,609)	(41,783)
Closing net book amount	**205,122**	250,304	230,807

11. INVESTMENT PROPERTIES

	Unaudited As at 30th June 2005 HK$'000	As at 30th June 2004 HK$'000 (Restated)	As at 31st December 2004 HK$'000 (Restated)
Opening net book amount	**13,150**	10,370	10,370
Adoption of HKAS 40	**(4,083)**	–	–
Depreciation	**(107)**	–	–
Revaluation	**–**	–	2,780
Closing net book amount	**8,960**	10,370	13,150

The investment properties are located in Hong Kong.

12. BILLS RECEIVABLE AND ACCOUNTS RECEIVABLE

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

	Unaudited As at 30th June 2005 HK$'000	As at 30th June 2004 HK$'000	Audited As at 31st December 2004 HK$'000
Less than 3 months	**298,428**	197,327	177,521
3 months to 6 months	**11,372**	20,358	10,960
6 months to 1 year	**–**	–	165
Over 1 year	**–**	–	7
	309,800	217,685	188,653

The payment terms with overseas customers are largely covered by letters of credit and the instruction of payment is executed at sight. The remaining portion is on open account which is substantially covered by credit insurance.

b. The Group has transferred certain bills of exchange amounting to HK$93,299,000 to banks with recourse in exchange for cash during the period ended 30th June 2005. The transactions have been accounted for as collateralised bank borrowings.

13. BILLS PAYABLE AND ACCOUNTS PAYABLE

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

	Unaudited		Audited
	As at 30th June 2005 HK$'000	As at 30th June 2004 HK$'000	As at 31st December 2004 HK$'000
Less than 3 months	**168,847**	142,073	198,517
3 months to 6 months	**7,424**	19,582	7,802
6 months to 1 year	**26,986**	23,832	3,855
Over 1 year	**9,951**	–	6,920
	213,208	185,487	217,094

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.

14. AMOUNTS DUE FROM/(TO) ASSOCIATED COMPANIES

The amounts due from/(to) associated companies have pre-determined repayment terms and are non-interest bearing.

15. BANK BORROWINGS

	Unaudited		Audited
	As at 30th June 2005 HK$'000	As at 30th June 2004 HK$'000	As at 31st December 2004 HK$'000
Bank overdrafts	**551**	6,539	2,636
Collateralised bank borrowings (Note 12b)	**93,299**	–	–
Short-term bank loans	**–**	246,441	–
	93,850	252,980	2,636

16. COMMITMENTS

a. Operating lease commitments

The total future aggregate minimum lease payments under non-cancelable operating leases are as follows:

	Unaudited		Audited
	As at 30th June 2005 HK$'000	As at 30th June 2004 HK$'000	As at 31st December 2004 HK$'000
Land and buildings			
within 1 year	**31,346**	31,666	24,759
after 1 year but within 5 years	**25,553**	32,648	23,293
after 5 years	**59,935**	48,126	62,286
	116,834	112,440	110,338

b. Capital commitments

The Group had the following capital commitments in relation to office renovation and purchase of equipment:

	Unaudited		Audited
	As at 30th June 2005 HK$'000	As at 30th June 2004 HK$'000	As at 31st December 2004 HK$'000
Contracted but not provided for	**1,708**	1,201	–
Authorised but not contracted for	**7,534**	–	2,797
	9,242	1,201	2,797

17. RELATED PARTY TRANSACTIONS

The Group had the following significant related party transactions which were carried out in the normal course of the Group's business:

a. Sales of finished garments and handling income on sales of raw materials to associated companies amounted to approximately HK$11,448,000 for the six months ended 30th June 2005 (2004: HK$18,141,000).

b. Purchase of finished garments from associated companies amounted to approximately HK$216,700,000 for the six months ended 30th June 2005 (2004: HK$123,559,000).

c. Key management compensation

	Unaudited Six months ended	
	30th June 2005 HK$'000	30th June 2004 HK$'000
Salaries, fees and other short-term employee benefits	**9,374**	11,089
Post-employment and other long-term benefits	**706**	725
	10,080	11,814

18. EVENTS AFTER BALANCE SHEET DATE

On 17th August 2005 and 25th August 2005, the Group entered into a conditional agreement (the "S&P Agreement") and an option agreement (the "Option Agreement"), respectively to acquire a 19.00% interest (in aggregate) in Hua Thai Manufacturing Public Company Limited ("Hua Thai") (such 19.00% interest comprises approximately 14.48% voting shares in Hua Thai and 451,880 non-voting depository receipts ("NVDRs") representing approximately 4.52% of Hua Thai's issued shares) from two related parties for an aggregate consideration of Thai Baht 189,970,000 less HK$1.00 (equivalent to approximately HK$35,905,000). The acquisition under the S&P Agreement is conditional upon the approval by the Company's shareholders at the Special General Meeting to be held on 6th October 2005. After the said acquisition and the exercise of the Option under the Option Agreement, the Group's equity interests in Hua Thai will be increased from 36.43% (currently an associated company) to approximately 50.91% (a subsidiary) of Hua Thai's issued shares and NVDRs representing approximately 4.52% of Hua Thai's total issued shares. Further details of the acquisitions are contained in the Company's circular to shareholders dated 8th September 2005.