

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

1. Basis of preparation

The unaudited condensed interim financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and the Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

2. Principal accounting policies

The condensed financial statements have been prepared under the historical cost convention except for certain financial instruments, which are measured at fair values.

The accounting policies used in the condensed financial statements are consistent with those followed in the preparation of annual audited financial statements of the Company and its subsidiaries (the "Group") for the year ended 31st March, 2005 except as described below.

In the current period, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), HKASs and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the HKICPA that are effective for accounting periods beginning on or after 1st January, 2005. The application of new HKFRSs has resulted in a change in the presentation of the income statement, balance sheet and the statement of changes in equity. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current or prior accounting periods are prepared and presented.

Share-based payment

In the current period, the Group has applied HKFRS 2 "Share-based Payment" which requires an expense to be recognized where the Group buys goods or obtains services in exchange for shares or rights over shares. The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of directors' and employees' share options of the Company determined at the date of grant of the share options over the vesting period. Prior to the application of HKFRS 2, the Group did not recognize the financial effect of these share options until they were exercised. The Group has applied HKFRS 2 to share options granted after 1st April, 2005. In accordance with the relevant transitional provisions, the Group has not applied HKFRS 2 to share options that were granted after 7th November, 2002 and had vested before 1st April, 2005. The adoption of HKFRS 2 has had no material effect on the results for the current or prior periods.

2. Principal accounting policies (Continued)

Financial instruments

In the current period, the Group has applied HKAS 32 "Financial Instruments : Disclosure and Presentation" and HKAS 39 "Financial Instruments: Recognition and Measurement". HKAS 32 requires retrospective application. HKAS 39, which is effective for annual periods beginning on or after 1st January, 2005, generally does not permit the recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 32 and HKAS 39 are summarized below:

Classification and measurement of financial assets and financial liabilities

The Group has applied the relevant transitional provisions in HKAS 39 with respect to classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

At 31st March, 2005, the Group classified and measured its debt and equity securities in accordance with benchmark treatment of Statement of Standard Accounting Practice 24 ("SSAP 24"). Under SSAP 24, investments in debt or equity securities are classified as "investment securities", "other investments" or "held-to-maturity investments" as appropriate. "Investment securities" are carried at cost less impairment losses (if any) while "other investments" are measured at fair value, with unrealized gains or losses included in the profit or loss. "Held-to-maturity investments" are carried at amortised cost less impairment losses (if any). From 1st April, 2005 onwards, the Group classifies and measures its debt and equity securities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables", or "held-to-maturity financial assets". The classification depends on the purpose for which the assets are acquired. "Financial assets at fair value through profit or loss" and "available-for-sale financial assets" are carried at fair value, with changes in fair values recognized in profit or loss and equity respectively. For "available-for-sale financial assets" that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, it will be measured at cost less impairment, if any. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortized cost using the effective interest method.

On 1st April, 2005, the Group classified and measured its other investment in accordance with the requirements of HKAS 39. Other investment classified under current assets with carrying amount of HK\$4,162,000 at 31st March, 2005 was reclassified to financial assets at fair value through profit or loss on 1st April, 2005.

2. Principal accounting policies (Continued)

Financial assets and financial liabilities other than debt and equity securities

From 1st April, 2005 onwards, the Group classifies and measures its financial assets and financial liabilities other than debt and equity securities (which were previously outside the scope of SSAP 24) in accordance with the requirements of HKAS 39. As mentioned above, financial assets under HKAS 39 are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables" or "held-to-maturity financial assets". Financial liabilities are generally classified as "financial liabilities at fair value through profit or loss" or "financial liabilities other than financial liabilities at fair value through profit or loss (other financial liabilities)". "Financial liabilities at fair value through profit or loss" are measured at fair value except for a derivative liability that is linked to and must be settled by delivery of an unquoted equity instrument whose fair value cannot be reliably measured, which shall be measured at cost. "Other financial liabilities" are carried at amortized cost using the effective interest method.

3. Summary of the effects of the changes in accounting policies

The cumulative effects of the application of the new HKFRSs as at 31st March, 2005 and 1st April, 2005 are summarized below:

	As at 31st March, 2005 HK\$'000	Effect of HKAS 32 & 39 HK\$'000	As at 1st April, 2005 HK\$'000
Balance sheet items			
Other investment	4,162	(4,162)	–
Financial assets at fair value through profit or loss	–	4,162	4,162
Total effects on assets and liabilities	<u>4,162</u>	–	<u>4,162</u>
Total effects on equity	<u>133,786</u>	–	<u>133,786</u>

4. Segment information

Primary reporting format – business segments

The analysis of Group turnover and profit from operations by business segment for the period is as follows:

	Manufacturing business		Retail business		Inter-segment elimination		Consolidated	
	Six months ended 30th September, 2005	2004	Six months ended 30th September, 2005	2004	Six months ended 30th September, 2005	2004	Six months ended 30th September, 2005	2004
	Unaudited HK\$'000	Unaudited HK\$'000	Unaudited HK\$'000	Unaudited HK\$'000	Unaudited HK\$'000	Unaudited HK\$'000	Unaudited HK\$'000	Unaudited HK\$'000
Revenue								
External	123,066	95,877	6,223	-	-	-	129,289	95,877
Inter-segment	510	-	-	-	(510)	-	-	-
	123,576	95,877	6,223	-	(510)	-	129,289	95,877
Segment results	37,592	28,569	(1,000)	-	(178)	-	36,414	28,569
Unallocated income							905	354
Unallocated expenses							(11,996)	(7,756)
Profit before taxation							25,323	21,167
Taxation							(2,328)	(1,721)
Profit attributable to shareholders							22,995	19,446

4. Segment information (Continued)

Secondary reporting format – geographical segments

	Turnover	
	Six months ended 30th September,	
	2005	2004
	Unaudited	Unaudited
	HK\$'000	HK\$'000
Japan	52,114	46,291
Europe	29,850	20,464
The United States of America	9,213	7,193
Hong Kong	18,739	7,123
The People's Republic of China, other than Hong Kong (the "PRC")	5,423	4,647
Australia	4,486	4,943
Others	9,464	5,216
	129,289	95,877

5. Profit before taxation

Profit before taxation has been arrived at after charging:

	Six months ended 30th September,	
	2005	2004
	Unaudited	Unaudited
	HK\$'000	HK\$'000
Bad debts written off and provision for bad debts	–	34
Cost of inventories sold		
– material costs	68,274	50,697
– production overheads	17,906	14,379
Depreciation of property, plant and equipment	1,247	849
Operating lease rentals in respect of land and buildings	3,534	1,781
Provision for obsolete inventories	279	149
Staff costs (excluding directors' emoluments)	5,000	3,472
and after crediting:		
Unrealized holding gain on other investment	–	193
Unrealized holding gain on financial assets at fair value through profit or loss	143	–

6. Taxation

	Six months ended 30th September,	
	2005	2004
	Unaudited	Unaudited
	HK\$'000	HK\$'000
Current taxation:		
– Hong Kong Profits Tax	2,162	1,656
– Other jurisdictions	94	–
Deferred taxation	72	65
	<u>2,328</u>	<u>1,721</u>

Hong Kong Profits Tax has been provided at the rate of 17.5% (2004: 17.5%) on the estimated assessable profits for the period.

Taxation for other jurisdictions is calculated on the rates prevailing in the respective jurisdictions.

Pursuant to the relevant laws and regulations in the PRC, the Group's PRC subsidiary is entitled to exemption from PRC income tax for two years commencing from the first profit-making year, and entitled to a 50% relief from the PRC income tax for the following three years.

7. Dividends

	Six months ended 30th September,	
	2005	2004
	Unaudited	Unaudited
	HK\$'000	HK\$'000
2005 interim dividend of HK2.4 cents (2004 : HK2 cents) per share	<u>7,644</u>	<u>6,370</u>

At a board meeting held on 15th December, 2005, the directors declared an interim dividend of HK2.4 cents per share, aggregating a total of HK\$7,644,000 for the six months ended 30th September, 2005. This proposed dividend is not reflected as a dividend payable in the condensed financial statements, but will be reflected as an appropriation of retained earnings for the year ending 31st March, 2006.

The amount of proposed interim dividend is based on 318,500,000 shares in issue at 15th December, 2005.

8. Earnings per share

The calculation of the basic and diluted earnings per share is as follows:

	Six months ended 30th September, 2005 Unaudited	2004 Unaudited
Earnings		
Profit attributable to shareholders (<i>in HK\$'000</i>)	22,995	19,446
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share (<i>in '000</i>)	318,500	318,500
Effect of dilutive potential ordinary shares		
Share options (<i>in '000</i>)	517	227
Weighted average number of ordinary shares for the purpose of diluted earnings per share (<i>in '000</i>)	319,017	318,727
Basic earnings per share (<i>HK cents</i>)	7.2	6.1
Diluted earnings per share (<i>HK cents</i>)	7.2	6.1

9. Trade receivables

Customers are generally granted with credit terms of 30 to 90 days. Longer payment terms might be granted to those customers which have good payment history and long-term business relationship with the Group. Details of the ageing analysis are as follows:

	30th September, 2005 Unaudited HK\$'000	31st March, 2005 Audited HK\$'000
Current to 30 days	13,203	10,958
31-60 days	5,345	3,501
61-90 days	1,721	1,188
91-120 days	174	483
121-365 days	1,384	1,698
Over 365 days	377	86
	22,204	17,914

10. Financial assets at fair value through profit or loss/Other investment

	30th September, 2005 Unaudited HK\$'000	31st March, 2005 Audited HK\$'000
Open-ended mutual funds with guaranteed return, stated at quoted market price	4,305	4,162

11. Trade payables

Details of the ageing analysis are as follows:

	30th September, 2005 Unaudited HK\$'000	31st March, 2005 Audited HK\$'000
Current to 30 days	6,769	6,172
31-60 days	1,824	2,950
61-90 days	559	1,775
91-120 days	9	544
121-365 days	43	65
Over 365 days	100	100
	9,304	11,606

12. Share capital

There was no movement in the share capital of the Company during the period.

13. Contingent liabilities

The Group had no material contingent liabilities as at 30th September, 2005 (31st March, 2005: nil).

14. Related party transactions

During the period, the Group had entered into the following transactions with related parties:

	Six months ended	
	30th September,	
	2005	2004
	Unaudited	Unaudited
	HK\$'000	HK\$'000
Rental expenses paid to Mr. Chan Woon Man and Ms. Tsang Sau Lin for office premises	130	120

Mr. Chan Woon Man is a substantial shareholder of the Company and Ms. Tsang Sau Lin is the wife of Mr. Chan Woon Man.

Pursuant to the new tenancy agreement dated 30th April, 2005 between the landlords and the Company's subsidiary, Sun Ray Manufactory, Limited, the Group leased the property at a monthly rental of HK\$22,000 commencing on 1st May, 2005. The Directors are of the opinion that the leasing transactions are conducted in the ordinary course of business of the Group.

15. Comparative figures

In prior periods, the Group classified the business of trading of leather as the Group's principal activity and the revenue and costs of the business were recognised as the Group's turnover and cost of sales respectively. In view of the fact that the business has become inactive and its contribution to the Group's turnover has become insignificant, the directors has decided to exclude the business from principal activities of the Group and report it as other income of the Group from 1st April 2005 onwards. Hence, net gain from trading of leather has been reported as other income in the Group's financial statements for the six months ended 30th September, 2005. Relevant comparative figures has also been reclassified to conform with the presentation in the current period. The comparative figures of turnover of HK\$354,000 and cost of sales of HK\$265,000 in relation to the business of trading of leather for the six months ended 30th September, 2004 have been reclassified to other income.