NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2005

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with Hong Kong Accounting Standard 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 on the historical cost basis except for investment properties and 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 the annual financial statements of the Company and its subsidiaries (the "Group") for the year ended 31 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), Hong Kong Accounting Standards (HKASs) and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the HKICPA that are effective for accounting periods beginning on or after 1 January 2005. The application of the new HKFRSs has resulted in a change in the presentation of the income statement, balance sheet and the statement of changes in equity. In particular, the presentation of minority interests have been changed. 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:

(1) Business Combinations

In the current period, the Group has applied HKFRS 3 "Business Combinations", which is effective for business combinations for which the agreement date is on or after 1 January 2005. The principal effects of the application of HKFRS 3 to the Group are summarised below:

Goodwill

In previous periods, goodwill arising on acquisitions prior to 1 April 2001 was held in reserves, and goodwill arising on acquisitions after 1 April 2001 was capitalised and amortised over its estimated useful life. The Group has applied the relevant transitional provisions in HKFRS 3. Goodwill previously recognised in reserves of approximately HK$1,452,000 has been transferred to the Group's retained earnings on 1 April 2005. With respect to goodwill previously capitalised on the balance sheet, the Group has discontinued amortising such goodwill from 1 April 2005 onwards and goodwill will be tested for impairment at least annually. Goodwill arising on acquisitions after 1 April 2005 is measured at cost less accumulated impairment losses (if any) after initial recognition. As a result of this change in accounting policy, no amortisation of goodwill has been charged in the current period. Comparative figures for 2004 have not been restated.

(2) Share-based Payments

In the current period, the Group has applied HKFRS 2 "Share-based Payment" which requires an expense to be recognised where the Group buys goods or obtains services in exchange for shares or rights over shares ("equity-settled transactions"), or in exchange for other assets equivalent in value to a given number of shares or rights over shares ("cash-settled transactions"). 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 recognise the financial effect of these share options until they were exercised. The Group has applied HKFRS 2 to share options granted on or after 1 April 2005. In relation to share options granted before 1 April 2005, the Group has not applied HKFRS 2 to those share options granted on or before 7 November 2002 and share options that were granted after 7 November 2002 and had vested before 1 April 2005 in accordance with the relevant transitional provisions. As there were no unvested share options at 1 April 2005, there is no financial impact to the Group for the prior and current periods.

(3) 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". The application of HKAS 32 has had no material impact on how financial instruments of the Group are presented for current or prior periods. HKAS 39, which is effective for annual periods beginning on or after 1 April 2005, generally does not permit to recognise, derecognise or measure financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 39 are summarised below:

Derivatives financial instruments

From 1 April 2005 onwards, all derivatives financial instruments that are within the scope of HKAS 39 are required to be carried at fair value at each balance sheet date. Under HKAS 39, derivatives financial instruments are deemed as held-for-trading financial assets or financial liabilities. Changes in fair values of such derivatives financial instruments are recognised in profit or loss for the period in which they arise. Net gain arising from changes in fair value of derivatives financial instruments of approximately HK$3,444,000 has been recognised in profit and loss for the period.

Derecognition

HKAS 39 provides more rigorous criteria for the derecognition of financial assets than the criteria applied in previous periods. Under HKAS 39, a financial asset is derecognised when and only when, either the contractual rights to the asset's cash flows expire, or the asset is transferred and the transfer qualifies for derecognition in accordance with HKAS 39. The decision as to whether a transfer qualifies for derecognition is made by applying a combination of risks and rewards and control tests. The Group has applied the relevant transitional provisions and applied the revised accounting policy prospectively for transfers of financial assets on or after 1 April 2005. As a result, the Group's bill receivables discounted and factoring financing facilities with full recourse which were derecognised prior to 1 April 2005 have not been restated. As at 30 September 2005, the Group's bills receivables discounted with full recourse and factoring financing facilities utilised with full recourse have not been derecognised. Instead, the related borrowings of approximately HK$113,181,000 as at 30 September, 2005 have been recognised on the balance sheet date. This change has had no material effect on the results for the current period.

(4) Owner-occupied Leasehold Interest in Land

In previous periods, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the cost model. In the current period, the Group has applied HKAS 17 "Leases". Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis. This change in accounting policy has been applied retrospectively (see Note 3 for the financial impact).

Alternatively, where the allocation between the land and buildings elements cannot be made reliably, the leasehold interests in land continue to be accounted for as property, plant and equipment.

(5) Investment Properties

In the current period, the Group has, for the first time, applied HKAS 40 "Investment Property". The Group has elected to use the fair value model to account for its investment properties which requires gains or losses arising from changes in the fair value of investment properties to be recognised directly in the profit or loss for the period in which they arise. In previous periods, investment properties under the predecessor Standard were measured at open market values, with revaluation surplus or deficits credited or charged to investment property revaluation reserve unless the balance on this reserve was insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on the investment property revaluation reserve was charged to the income statement. Where a decrease had previously been charged to the income statement and revaluation subsequently arose, that increase was credited to the income statement to the extent of the decrease previously charged. The Group has applied the relevant transitional provisions in HKAS 40 and elected to apply HKAS 40 from 1 April 2005 onwards. The amount held in investment property revaluation reserve at 1 April 2005 of approximately HK$2,657,000 has been transferred to the Group's accumulated profits (see Note 3 for the financial impact).

The Group has not early applied the following new standards or interpretations that have been issued but are not yet effective.

HKAS 1 (Amendment)	Capital Disclosures
HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 (Amendment)	The Fair Value Option
HKAS 39 and HKFRS 4 (Amendments)	Financial Guarantee Contracts
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS 7	Financial Instruments: Disclosures
HKFRS-Int 4	Determining whether an Arrangement Contains a Lease
HKFRS-Int 5	Rights to Interests Arising from Decommission, Restoration and Environmental Rehabilitation Funds
HK (IFRIC) – Int 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment

3. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES

The effects of the changes in the accounting policies described above on the results for the current and prior periods are as follows:

	Effect of	Six months ended 30 September 2005 HK$'000	2004 HK$'000
Decrease in amortisation of goodwill	HKFRS 3	323	–
Decrease in depreciation	HKAS 17	167	167
Net gain arising from changes in fair value of derivatives financial instruments measured at fair value through profit or loss	HKAS 39	3,443	–
Gain arising from changes in fair value of investment properties	HKAS 40	4,567	–
		8,500	167

The effect of the application of the new HKFRSs as at 31 March 2005 and 1 April 2005 are summarised below:

	As at 31 March 2005 (original stated)	Effect of HKAS 17	As at 31 March 2005 (restated)	Effect of HKAS 39	Effect of HKAS 40	Effect of HKFRS 3	As at 1 April 2005 (restated)
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Balance sheet items							
Property, plant and equipment	1,021,537	(15,014)	1,006,523	–	–	–	1,006,523
Prepaid lease payments	–	15,878	15,878	–	–	–	15,878
Derivative financial instruments							
– assets	–	–	–	765	–	–	765
– liabilities	–	–	–	(1,394)	–	–	(1,394)
Total effect on assets and liabilities	1,021,537	864	1,022,401	(629)	–	–	1,021,772
Accumulated profits	484,506	864	485,370	(629)	2,657	(1,452)	485,946
Investment property revaluation reserve	2,657	–	2,657	–	(2,657)	–	–
Goodwill reserve	(1,452)	–	(1,452)	–	–	1,452	–
Total effect on equity	485,711	864	486,575	(629)	–	–	485,946

The financial effects of the application of the new HKFRS to the Group's equity at 1 April 2004 are summarised below:

	As originally stated	Effect of HKAS 17	As restated
	HK$'000	HK$'000	HK$'000
Accumulated profits and total effect on equity	342,983	530	343,513

4. SEGMENT INFORMATION

Business segments

The Group is currently engaged in two business activities: (i) production and sale of knitted fabric and dyed yarn and provision of related subcontracting services and (ii) trading of garment products and provision of quality inspection services. These activities are the basis on which the Group reports its primary segment information.

Segment information about these businesses is presented below:

Six months ended 30 September 2005

	Production and sale of knitted fabric and dyed yarn and provision of related subcontracting services HK$'000	Trading of garment products and provision of quality inspection services HK$'000	Consolidated HK$'000
TURNOVER			
External sales	942,617	478,728	1,421,345
RESULT			
Segment result	128,515	31,245	159,760
Unallocated corporate income			5,998
Unallocated corporate expenses			(5,444)
Profit from operations			160,314

Six months ended 30 September 2004

	Production and sale of knitted fabric and dyed yarn and provision of related subcontracting services HK$'000	Trading of garment products and provision of quality inspection services HK$'000	Consolidated HK$'000 (Restated)
TURNOVER			
External sales	910,618	373,814	1,284,432
RESULT			
Segment result	107,189	24,136	131,325
Unallocated corporate income			297
Unallocated corporate expenses			(5,459)
Profit from operations			126,163

5. **PROFIT FROM OPERATIONS**

	Six months ended 30 September	
	2005 HK$'000	2004 HK$'000 (Restated)
Profit from operations has been arrived at after charging (crediting):		
Depreciation of property, plant and equipment	44,669	31,143
Impairment loss recognised on property, plant and equipment	–	1,000
Net gain arising from changes in fair value of derivatives financial instruments	3,443	–
Interest income	(471)	(22)

6. TAXATION

	Six months ended 30 September	
	2005	2004
	HK$'000	HK$'000
The tax charge comprises:		
Current tax:		
Hong Kong	4,862	5,265
Other jurisdictions	5,330	1,141
Taxation attributable to the Company and its subsidiaries	10,192	6,406

Hong Kong Profits Tax is calculated at 17.5% of the estimated assessable profit for both periods.

Taxation arising in jurisdictions other than Hong Kong is calculated at the rates prevailing in the respective jurisdictions.

7. DISTRIBUTIONS

The directors have determined that an interim dividend of HK6.5 cents (2005: HK5.5 cents) per share, which is in cash form with a scrip dividend option, should be paid to shareholders of the Company whose names appeared in the Company's Register of Members on 6 January 2006.

8. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the ordinary equity holders of the parent is based on the following data:

	Six months ended 30 September	
	2005	2004
	HK$'000	HK$'000
		(Restated)
Earnings		
Profit for the period attributable to equity holders of the parent for the purposes of basic and diluted earnings per share	122,390	103,131
	'000	'000
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	567,272	558,225
Effect of dilutive potential ordinary shares in respect of share options	529	7,850
Weighted average number of ordinary shares for the purposes of diluted earnings per share	567,801	566,075

9. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent approximately HK$203 million on additions to property, plant and equipment. Certain property, plant and equipment of the Group with an aggregate net book value of approximately HK$12,352,000 (31 March 2005: HK$12,730,000) were pledged to banks as security for the credit facilities granted to the Group.

10. MOVEMENTS IN INVESTMENT PROPERTIES

During the period, the Group acquired investment properties at a cost of approximately HK$19,443,000. The investment properties of the Group were valued at 30 September 2005 by Savills (Hong Kong) Limited, an independent firm of professional valuers, on an open market, existing use basis. The surplus arising on revaluation of investment properties amounting to HK$4,657,000 (six months ended 30 September 2004: Nil) has been credited directly to the income statement. Certain investment properties of the Group with an aggregate net book value of approximately HK$68,400,000 (31 March 2005: HK$44,500,000) were pledged to banks as security for the credit facilities granted to the Group.

11. TRADE RECEIVABLES

The Group allows an average credit period of 90 to 120 days to its trade customers.

The following is an aged analysis of trade receivables at the reporting date:

	30 September 2005 HK$'000	31 March 2005 HK$'000
0-60 days	412,177	309,672
61-90 days	105,912	60,673
91-120 days	52,357	37,035
Over 120 days	49,565	46,690
	620,011	454,070

12. TRADE PAYABLES

The following is an aged analysis of trade payables at the reporting date:

	30 September 2005 HK$'000	31 March 2005 HK$'000
0-60 days	252,133	319,293
61-90 days	53,119	17,257
Over 90 days	45,539	16,097
	350,791	352,647

13. BANK BORROWINGS

	30 September 2005 HK$'000	31 March 2005 HK$'000
Bank loans	897,449	823,168
Bills discounted with recourse and factoring financing facilities utilised with recourse	113,181	–
Import loans and trust receipts	200,434	192,543
Mortgage loans	36,228	23,357
	1,247,292	1,039,068
Less: Amount due within one year included in current liabilities	(548,231)	(351,785)
Amount due after one year	699,061	687,283

During the period, the Group drew bank loans of HK$103 million, which represented the remaining portion of a syndicated loan facility of HK$688 million arranged in December 2004 which bears interest at Hong Kong Interbank Offered Rate plus 0.55% per annum with a tenor of 4$^1/_2$ years. The proceeds were used to refinance the existing indebtedness and to provide general corporate funding to the Group.

14. CONTINGENCIES AND CAPITAL COMMITMENTS

	30 September 2005 HK$'000	31 March 2005 HK$'000
Bills discounted with recourse	–	56,089
Factoring financing facilities utilised with recourse	–	133,584
	–	189,673
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the financial statements	22,401	120,683

15. RELATED PARTY DISCLOSURES

(a) During the period, V-Apparel International Limited ("V-Apparel"), a wholly-owned subsidiary of the Company entered into a tenancy agreement with Giant Step Limited ("Giant Step") for leasing of premises located in Hong Kong. Giant Step is owned by, among other person, Mr. Choi Lin Hung and two companies held under the family trusts of Mr. Li Ming Hung and Mr. Chen Tien Tui. Mr. Choi, Mr. Li and Mr. Chen are directors of the Company. During the period, V-Apparel paid rental expenses of HK$384,000 to Giant Step.

(b) During the period, 江門市新會區冠華針織廠有限公司, a wholly owned subsidiary of the Company entered into a master sale and purchase agreement ("Master Supply Agreement") with 南京新一棉紡織印染有限公司 Nanjing Synergy Textiles Limited ("Nanjing Synergy"). Nanjing Synergy has been owned under the family trusts of each of Mr. Li Ming Hung and Mr. Chen Tien Tui in equal shares since 9 September 2005. Pursuant to the Master Supply Agreement, Nanjing Synergy agreed to supply yarn to the Group. During the period, the Group purchased yarn of HK$15,823,000 from Nanjing Synergy.

16. EVENTS AFTER THE BALANCE SHEET DATE

On 7 October 2005, the Company paid the 2005 final dividend of HK5.5 cents per share amounting to HK$17,581,490 by way of cash dividend and HK$13,618,462 by way of scrip alternative to the shareholders.