NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

31 December 2005

1. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

The unaudited condensed consolidated interim financial statements have been prepared in accordance with Hong Kong Accounting Standard (the "HKAS") No.34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of Appendix 16 to the Rules of Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules").

The principal accounting policies adopted in the preparation of these condensed interim financial statements are consistent with those used in the annual financial statements for the year ended 30 June 2005, except that the Group has changed certain of its accounting policies following its adoption of certain new/revised Hong Kong Financial Reporting Standards ("HKFRSs") and Hong Kong Accounting Standards ("HKASs") (collectively referred to as the "new HKFRSs") which are effective for accounting periods commencing on or after 1 January 2005. Changes to the Group's accounting policies and the effect of adopting these new policies, which have been reflected in these interim financial statements, are set out below. Certain comparative amounts in the condensed interim financial statements have been restated or reclassified to conform to current presentation.

Owner-occupied leasehold interest in land

The principal effect of adoption of HKAS 17 "Leases" is in relation to the classification of the Group's interest in leasehold land. HKAS 17 requires the classification of interest in leasehold land as an operating lease if the title of the land is not passed to the Group by the end of the lease term. Prepaid lease payments for land held under operating leases are recognized as an expense on a straight-line basis over the lease term. The adoption of HKAS 17 results in a change in reclassification of certain of the Group's fixed assets to lease premium for land; and the restatement of certain amount for leasehold land from revalued amount to original cost of payments, which is amortised over the lease term. The effect of respective adoption of this new accounting standard resulted in an increase of non-current portion and current portion of prepaid lease payments by approximately HK$4,620,000 and HK$125,000, respectively; a decrease of fixed assets and fixed assets revaluation reserve of HK$15,990,000 and HK$8,400,000, respectively; a decrease in deferred tax liability of HK$2,263,000; and a decrease in retained earnings of HK$582,000 at the beginning of the period. The comparative amounts have been restated to conform to the revised accounting policies.

1. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Financial instruments

In the current period, the Group adopted for the first time HKAS 32 "Financial Instruments: Disclosure and Presentation" and HKAS 39 "Financial Instruments: Recognition and Measurement". The adoption of these new HKASs has resulted in a change in accounting policy for the recognition, measurement, de-recognition and disclosure of financial instruments. Following the adoption of HKASs 32 and 39, the financial assets of the Group has been classified into the respective categories of financial assets at fair value through profit and loss; available-for-sale financial assets; loans and receivables; and held-to-maturity financial assets. The classification depends on the purpose for which the assets are held.

– Held-to-maturity investments comprised of non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity. The investments are carried at amortized cost using the effective interest method less provision for impairment.

– Financial assets at fair value through profit or loss, including those held for trading, are designated at inception and measured at fair value. Changes in fair value are recognized in the income statement in the period in which they arise. The fair value is based on the quoted market price without any deduction for estimated future selling costs and provisions. Derivatives are also categorized as held for trading unless they are designated as hedges.

– Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are carried at amortized cost using effective interest method, less provision for impairment, if any and accounted for in the income statement.

– Available-for-sale financial assets are non-derivative financial assets so designated and not classified under any of the above categories. These financial assets are carried at fair value and changes in fair value are recognized directly in the equity until the financial asset is de-recognized, at which time the cumulative gain or loss previously recognized in equity shall be recognized in the income statement.

At 30 June 2005, the Group held short term securities investment held for trading purpose that are stated at their fair values on the basis of quoted market prices at the balance sheet date, on an individual investment basis. The gains or losses arising from changes in fair value of a security are credited or charged to the profit and loss account in the period in which they arise. Commencing the current financial period, as a result of the adoption of the new HKASs, the Group has reclassified these securities investment as "financial assets at fair value through profit or loss". The reclassification has no material effect on the results of the Group for the current and prior periods.

1. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Share-based payments

In the current period, the Group has applied HKFRS 2 "Share-based Payments" which requires an expense to be recognized where the Group buys goods or obtain 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"). Prior to the application of HKFRS 2, the Group did not recognize the financial effect of share options until they are exercised. As a result of the adoption of this new HKFRS, the Group's accounting policy has been revised for the recognition of the fair value of share options granted as an expense. In respect of share options outstanding as at 30 June 2005, in accordance with the relevant transitional provisions of HKFRS 2, the Group was not required to account for these outstanding share options in accordance with this new HKFRS, as they were either granted on or before 7 November 2002 or granted after 7 November 2002 and fully vested before 1 July 2005. The Group however has evaluated that had the provisions of HKFRS 2 been applied to its outstanding share options there will be no material financial impact on the results of the Group for current or prior accounting periods.

Investment properties

In prior financial periods, changes in fair value of the Group's investment properties are dealt with as movements in the investment property revaluation reserve, unless the total of this reserve is insufficient to cover a deficit when the excess will be charged to the income statement. Commencing the current period, the Group has adopted HKAS 40 "Investment property" and according to its provisions has elected to use the fair value model that requires gains or losses arising from changes in the fair value of investment properties to be recognized directly in the profit and loss for the period in which they arise. The retrospective adoption of the new HKAS resulted in an increase of retained profits brought forward of approximately HK$208,000 and decrease of investment property revaluation reserve of approximately HK$208,000. Comparative figures have also been restated to conform to the revised accounting policies.

1. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Potential impact on new HKFRSs not yet effective

The Group has commenced considering the potential impact of the following new standards or interpretations that have been issued but are not yet effective, but is not yet in a position to determine whether these standards or interpretations would have a significant impact on how its results of operations and financial position are prepared and presented. These standards and interpretations may result in changes in the future as to how the results and financial position are prepared and presented.

HKAS 1 (Amendment)	Capital disclosures[1]
HKAS 19 (Amendment)	Actuarial gains and Losses, group plans and disclosures[2]
HKAS 21 (Amendment)	Net Investment in a foreign operation[2]
HKAS 39 (Amendment)	Cash flow hedge accounting of forecast intragroup transactions[2]
HKAS 39 (Amendment)	The fair value option[2]
HKAS 39& HKFRS 4 (Amendments)	Financial guarantee contracts[2]
HKFRS 6	Exploration for and evaluation of mineral resources[2]
HKFRS 7	Financial instruments: disclosures[1]
HK(IFRIC) – INT 4	Determining whether an arrangement contains a lease[2]
HK(IFRIC) – INT 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds[2]
HK(IFRIC) – INT 6	Liabilities arising from participating in a specific market – waste electrical and electronic equipment[3]
HK(IFRIC) – INT 7	Applying the restatement approach under HKAS 29 financial reporting in hyperinflationary economies[4]

1 *Effective for annual periods beginning on or after 1 January 2007.*
2 *Effective for annual periods beginning on or after 1 January 2006.*
3 *Effective for annual periods beginning on or after 1 December 2005.*
4 *Effective for annual periods beginning on or after 1 March 2006.*

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	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue:								
External sales	**65,063**	58,687	**7,359**	13,485	**–**	–	**72,422**	72,172
Inter-segment sales	**3,647**	15,356	**–**	1,686	**(3,647)**	(17,042)	**–**	–
Total revenue	**68,710**	74,043	**7,359**	15,171	**(3,647)**	(17,042)	**72,422**	72,172
Segment results	**15**	(8,521)	**2,663**	(135)			**2,678**	(8,656)
Unallocated revenue and other net gain/(loss)							**379**	(1,531)
Unallocated expenses							**(1,992)**	(13,510)
Profit/(Loss) from operation							**1,065**	(23,697)
Finance costs							**(75)**	(90)
Share of profits of jointly-controlled entities							**1,463**	786
Profit/(Loss) before taxation							**2,453**	(23,001)
Income tax							**–**	(258)
Net profit/(loss) for the period							**2,453**	(23,259)

(b) Business segments

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

4. PROFIT/(LOSS) FROM OPERATIONS

The Group's profit/(loss) from operations are arrived at after charging/(crediting):

	Six months ended 31 December	
	2005	2004
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Amortisation of goodwill	**–**	5,256
Amortisation of prepaid lease payment	**60**	124
Depreciation of property plant and equipment	**3,280**	3,468
Realised loss on disposal of short term investment	**450**	–
Interest income	**(1,434)**	(444)
Unrealised gain on short term investments	**–**	(84)
Unrealised loss on short term investments	**1,081**	2,550

5. FINANCE COSTS

	Six months ended 31 December	
	2005	2004
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Interest on bank loans and overdrafts	**72**	80
Interest on a finance lease	**3**	10
	75	90

6. INCOME TAX

	Six months ended 31 December	
	2005	2004
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Current:		
Hong Kong	–	–
Elsewhere	–	117
Deferred	–	141
Tax charge for the period	–	258

No provision for Hong Kong profits tax was made as the Group had no assessable profit in Hong Kong.

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. EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings per share for six months ended 31 December 2005 is based on the Group's net profit for the period of approximately HK$2,453,000 (2004: net loss of HK$23,259,000 as adjusted) and the weighted average number of 2,938,736,296 (2004: 2,453,139,293) ordinary shares in issue during the period.

The calculation of diluted earnings per share for six months ended 31 December 2005 is based on the Group's net profit for the period of approximately HK$2,453,000 and the weighted average number of 2,940,473,991 ordinary shares after adjusting for the effects of all dilutive potential ordinary shares of the Company's share options 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. PROPERTY, PLANT AND EQUIPMENT

During the period, additions of property, plant and equipment amounted to approximately HK$5,666,000 (2004: HK$1,265,000) inclusive of construction in progress in the amount of HK$5,611,000.

9. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

	31 December 2005 (Unaudited) *HK$'000*	30 June 2005 (Audited) *HK$'000*
Share of net assets, unlisted	**20,166**	19,509

Particulars of the jointly-controlled entity which account principally for the results and net assets shared by the Group are as follow:

Name	Legal entity	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.*)	Sino-foreign equity joint venture	The 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.*)	Sino-foreign equity joint venture	The PRC	68.5%	Development and sale of nano materials and transfer of related technology

* *For identification only*

10. 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 2005 (Unaudited) ***HK$'000***	30 June 2005 (Audited) *HK$'000*
0 – 30 days	**18,721**	18,189
31 – 60 days	**6,341**	5,731
61 – 90 days	**7,218**	5,422
Over 90 days	**10,150**	11,377
	42,430	40,719

11. 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 2005 (Unaudited) ***HK$'000***	30 June 2005 (Audited) *HK$'000*
0 – 30 days	**1,532**	1,950
31 – 60 days	**88**	39
61 – 90 days	**384**	34
Over 90 days	**1,013**	846
	3,017	2,869

12. SHARE CAPITAL

	31 December 2005 (Unaudited) *HK$'000*	30 June 2005 (Audited) *HK$'000*
Authorised:		
5,000,000,000 ordinary shares of HK$0.10 each	**500,000**	500,000
Issued and fully paid:		
2,938,607,600 (30 June 2005: 2,941,487,600) ordinary shares of HK$0.10 each	**293,861**	294,149

During the period, the Company repurchased on the Stock Exchange of Hong Kong Limited in aggregate 2,880,000 of its ordinary shares of HK$0.1 each at a total consideration before expenses of approximately HK$307,000. All these repurchased shares were cancelled during the period.

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 2005 annual report. The Company has not granted any share options under its existing share option scheme during the period.

At 31 December 2005, the Company had 7,200,000 share options outstanding and exercisable at a price of HK$0.1 per share. These outstanding share options were granted under a previously effective share option scheme, which was terminated on 23 November 2001. The share options however remain outstanding and exercisable. The exercise in full of outstanding 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.

At 31 December 2005, the Company had 217,000,000 share options outstanding and exercisable at a price of HK$0.24 per share. These outstanding share options were granted under a share option scheme approved and adopted by shareholders of the Company on 23 November 2001. The exercise in full of outstanding share options, the expiry date of which being 23 November 2011, would result in issue and allotment of 217,000,000 additional ordinary shares in the Company under its present capital structure.

13. RESERVES

	Share Premium account HK$'000	Subscription right reserve HK$'000	Investment property revaluation 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 2005									
As originally stated	73,538	24,543	208	13,716	1,859	3,504	(1,598)	41,655	157,425
Prior year adjustments *(note)*	–	–	(208)	(8,400)	–	–	–	(374)	(8,982)
As restated	73,538	24,543	–	5,316	1,859	3,504	(1,598)	41,281	148,443
Net profit for the period	–	–	–	–	–	–	–	2,453	2,453
Repurchase of shares	(21)	–	–	–	–	–	–	–	(21)
Share of reserve movement of Jointly-controlled entities	–	–	–	(1,198)	–	–	–	–	(1,198)
Exchange difference on foreign operations	–	–	–	–	–	–	884	–	884
At 31 December 2005	73,517	24,543	–	4,118	1,859	3,504	(714)	43,734	150,561

Note: The prior year adjustments are principally the result of the adoption of various new HKFRSs that first became effective for the Group commencing the current period.

14. COMMITMENTS

As at 31 December 2005, the Group had the following capital commitments contracted but not provided for:

	31 December 2005 (Unaudited) *HK$'000*	30 June 2005 (Audited) *HK$'000*
Group		
Contractor costs	**7,280**	–
Investment in jointly-controlled entities	**7,892**	7,600
Group's share of capital commitments of jointly-controlled entities		
Contractor costs	**587**	13,935
	15,759	21,535

15. COMPARATIVE AMOUNTS

Following the adoption of certain new HKFRSs, which became effective for the first time during the six months ended 31 December 2005, the presentation in the current period's financial statements has been modified in order to conform to the requirements of those new accounting standards. Comparative amounts have been reclassified and restated in order to achieve a consistent presentation. The principal balances being reclassified and restated are set out in note 1 "Basis of preparation and principal accounting policies" to these interim financial statements.