

Notes to the Condensed Consolidated Financial Information

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

This unaudited condensed consolidated financial information (“Interim Financial Report”) has been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” and other relevant Hong Kong Financial Reporting Standards (“HKFRS”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) as well as the disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “Listing Rules”). The Interim Financial Report has not been audited, but has been reviewed by the Group’s audit committee.

This Interim Financial Report should be read in conjunction with the 2005 annual report.

2. EFFECT OF ADOPTING NEW HKFRS

The accounting policies and methods of computation used in the preparation of this Interim Financial Report are consistent with those used in the annual financial statements for the year ended 31 December 2005 except for changes in accounting policies made thereafter in adopting certain new standards, amendments to standards and interpretations which are relevant to the Group’s operations as follows:

HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plan and Disclosures
HKAS 21 (Amendment)	Net Investment in a Foreign Operation
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 (Amendment)	The Fair Value Option
HKAS 39 and HKFRS 4 (Amendment)	Financial Guarantee Contracts
HKFRS-Int 4	Determining whether an Arrangement contains a Lease
HKFRS-Int 5	Rights to interests arising from Decommissioning, Restoration and Environmental Rehabilitation funds
HK(IFRIC)-Int 6	Liabilities arising from Participating in a Specific Market — Waste Electrical and Electronic Equipment

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2. EFFECT OF ADOPTING NEW HKFRS (Continued)

The adoption of the above new/revised HKFRSs, HKASs and interpretations has no material impact on the Group's results.

The Group has not early adopted any new/revised HKFRSs, HKASs and interpretations which have been issued on or before 30 June 2006 but are not effective for the financial year ending on 31 December 2006. The Group is in the process of assessing their impact on the Group's results and operations.

3. SEGMENT INFORMATION

(a) Primary reporting format — business segments

At 30 June 2006, the Group is organised on a worldwide basis into two main business segments:

- (1) Manufacture and sale of garments on an original equipment manufacturing ("OEM") basis; and
- (2) Retailing of branded fashion apparel.

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3. SEGMENT INFORMATION (Continued)**(a) Primary reporting format — business segments (Continued)**

	Six months ended 30 June 2006 (Unaudited)		
	OEM garment sales HK\$'000	Retailing of branded fashion apparel HK\$'000	Total HK\$'000
Gross segment sales	837,371	88,895	926,266
Elimination of inter-segment sales	(2,383)	(1,091)	(3,474)
Turnover	834,988	87,804	922,792
Other income	16,794	79	16,873
	851,782	87,883	939,665
Segment results	201,802	24,645	226,447
Unallocated gains			29,099
Operating profit			255,546
Finance costs	(1,026)	(540)	(1,566)
Share of profit of associates	1,340	—	1,340
Profit before income tax			255,320
Income tax expense			(34,072)
Profit for the period			221,248

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3. SEGMENT INFORMATION (Continued)**(a) Primary reporting format — business segments (Continued)**

	Six months ended 30 June 2005 (Unaudited)		
	OEM garment sales HK\$'000	Retailing of branded fashion apparel HK\$'000	Total HK\$'000
Gross segment sales	948,915	82,453	1,031,368
Elimination of inter-segment sales	(9,889)	—	(9,889)
Turnover	939,026	82,453	1,021,479
Other income	1,092	72	1,164
	<u>940,118</u>	<u>82,525</u>	<u>1,022,643</u>
Segment results	287,154	(66)	287,088
Unallocated gains			8,179
Operating profit			295,267
Finance costs	(4,012)	(221)	(4,233)
Share of profit of associates	6,183	—	6,183
Profit before income tax			297,217
Income tax expense			(48,929)
Profit for the period			<u>248,288</u>

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3. SEGMENT INFORMATION (Continued)**(a) Primary reporting format — business segments (Continued)**

	Six months ended 30 June 2006 (Unaudited)			Six months ended 30 June 2005 (Unaudited)		
	OEM garment sales HK\$'000	branded fashion apparel HK\$'000	Total HK\$'000	OEM garment sales HK\$'000	of branded fashion apparel HK\$'000	Total HK\$'000
Depreciation	10,624	1,060	11,684	11,098	960	12,058
Amortisation	1,924	17	1,941	2,328	11	2,339
Provision for impairment of receivables	—	154	154	240	1,341	1,581
(Reversal of provision)/ provision for inventory	—	(3,174)	(3,174)	—	21,309	21,309
Capital expenditure	28,131	572	28,703	35,502	1,218	36,720

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3. SEGMENT INFORMATION (Continued)**(b) Secondary reporting segment — geographical segments**

The Group primarily operates in Hong Kong and the People's Republic of China ("PRC"). Sales are made to overseas customers as well as customers in the PRC.

The Group's sales are mainly made to the customers located in the following geographical areas:

	Six months ended 30 June	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
North America	721,844	847,404
European Union	34,672	45,823
The PRC (including Hong Kong)	143,846	103,924
Other countries	22,430	24,328
	922,792	1,021,479

The Group's capital expenditure, based on where the assets are located, are located in the following geographical areas:

	Six months ended 30 June	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
The PRC		
— Mainland China	26,292	36,683
— Hong Kong	2,411	37
	28,703	36,720

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4. OTHER INCOME

	Six months ended 30 June	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Interest income	16,663	934
Rental income	210	230
	16,873	1,164

5. OTHER GAINS — NET

	Six months ended 30 June	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Gain on disposal of property, plant and equipment	9,373	—
Fair value gain on investment properties	—	360
Government grants	983	3,299
Exchange gain	368	1,558
Others	1,502	1,798
	12,226	7,015

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6. OPERATING PROFIT

The following items have been (credited)/charged to the operating profit during the interim period:

	Six months ended 30 June	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Amortisation of leasehold land and land use rights	380	519
Amortisation of trademark	1,561	1,820
Depreciation of property, plant and equipment	11,684	12,058
Employee benefit expenses	129,614	108,160
(Reversal of provision)/provision for inventory	(3,174)	21,309
Provision for impairment of receivables	154	1,581

7. FINANCE COSTS

	Six months ended 30 June	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Interest on bank loans and overdrafts	1,566	4,233

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8. INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 17.5%) on the estimated assessable profits for the period. Taxation on profits arising from other jurisdictions has been calculated on the estimated assessable profits for the period at the rates prevailing in the relevant jurisdictions.

	Six months ended 30 June	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Hong Kong profits tax	19,139	35,410
PRC enterprise income tax	14,391	15,556
Deferred income tax expense/(credit)	542	(2,037)
Income tax expense	34,072	48,929

9. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share for the six months period ended 30 June 2006 are based on the profit attributable to equity holders of the Company for the period of HK\$ 220,660,000 (2005: HK\$240,259,000). The basic earnings per share is based on the weighted average of 2,063,756,906 (2005: 1,490,000,000) shares in issue during the period.

Notes to the Condensed Consolidated Financial Information

9. EARNINGS PER SHARE (Continued)

In determining the weighted average number of ordinary shares in issue for 2005, a total of 1,490,000,000 ordinary shares were deemed to be in issue since 1 January 2005 after taking into consideration of the effect of the group reorganisation and capitalisation issue. The 1,490,000,000 ordinary shares comprised of 100,000,000 shares to be issued pursuant to the group reorganisation, which was completed on 18 November 2005 and 1,390,000,000 shares to be issued pursuant to the capitalisation issue, which were issued by the Company on 18 November 2005 at par value to the then existing shareholders of the Company in proportion to the respective shareholding by the capitalisation of HK\$139,000,000 from the share premium account.

The diluted earnings per share is based on 2,073,301,916 (2005: N/A) shares, which is the weighted average number of shares in issue during the period plus the weighted average number of shares deemed to be issued at no consideration if all outstanding options had been exercised. No disclosure of diluted earnings per share for the six months period ended 30 June 2005 has been made as there were no potential dilutive ordinary shares outstanding.

10. DIVIDENDS

	Six months ended 30 June	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
2005 final dividend paid	94,990	—
Interim dividend, paid (Note (i))	—	15,270
Declared interim dividend of HK6.4 cents (2005: Nil) per ordinary share (Note (ii))	132,160	—
	132,160	15,270

Notes to the Condensed Consolidated Financial Information

10. DIVIDENDS (Continued)

Notes:

(i) Interim dividend

Dividend for the six months ended 30 June 2005 represented the dividend declared and paid by Zhejiang Huading Group Company Limited to its then shareholders.

(ii) Declared interim dividend

At a meeting held on 7 September 2006, the directors declared a special dividend of 1.0 HK cent per ordinary share in addition to an interim dividend of 5.4 HK cents per ordinary share. These declared dividends are not reflected as dividend payable in the Interim Financial Report.

11. CAPITAL EXPENDITURE

	(Unaudited)					Leasehold land and land use rights
	Goodwill	Trademarks	Total	Investment	Property,	
			intangible assets	properties	plant and equipment	
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Opening net book amount as at 1 January 2005	—	29,655	29,655	4,310	274,714	43,622
Acquisition of subsidiaries	1,414	—	1,414	—	5,995	293
Additions	—	—	—	—	26,224	2,794
Exchange differences	—	—	—	—	(931)	(46)
Disposals	—	—	—	—	(9,256)	—
Depreciation/Amortisation charge (Note 6)	—	(1,820)	(1,820)	—	(12,058)	(519)
Fair value gain	—	—	—	360	—	—
Closing net book amount as at 30 June 2005	1,414	27,835	29,249	4,670	284,688	46,144
Opening net book amount as at 1 January 2006	1,414	26,274	27,688	4,940	237,783	36,128
Acquisition of subsidiaries	—	—	—	—	248	—
Additions	—	—	—	—	28,455	—
Exchange differences	—	—	—	—	2,674	339
Disposals	—	—	—	—	(4,368)	(7,254)
Depreciation/Amortisation charge (Note 6)	—	(1,561)	(1,561)	—	(11,684)	(380)
Closing net book amount as at 30 June 2006	1,414	24,713	26,127	4,940	253,108	28,833

Notes to the Condensed Consolidated Financial Information

12. TRADE AND BILLS RECEIVABLE

	As at 30 June 2006 (Unaudited) HK\$'000	As at 31 December 2005 (Audited) HK\$'000
Trade and bills receivable	157,142	235,479
Less: Provision for impairment of receivables	(3,486)	(4,555)
	153,656	230,924

The ageing analysis of trade and bills receivable is as follows:

	As at 30 June 2006 (Unaudited) HK\$'000	As at 31 December 2005 (Audited) HK\$'000
0 to 30 days	81,889	167,341
31 to 60 days	56,108	49,356
61 to 90 days	14,723	11,750
Over 90 days	4,422	7,032
	157,142	235,479

For OEM garment sales, the Group's trade receivables from its customers are generally settled by way of letters of credit or telegraphic transfer with credit periods of less than 90 days. The grant of open account terms without security coverage is generally restricted to large or long-established customers with good repayment history. Sales to these customers comprise a significant proportion of the Group's OEM garment sales. On the other hand, for new customers and existing customers with short trading history, letters of credit issued by these customers are normally demanded for settlement purposes.

Notes to the Condensed Consolidated Financial Information

12. TRADE AND BILLS RECEIVABLE (Continued)

For sales of branded fashion apparel to franchisees, the Group normally requests payments in advance or deposits from such customers, with the remaining balances settled immediately upon delivery of goods. The Group also grants open account terms of 30 credit days to long-established customers with good repayment history.

Retail sales are in cash or by credit cards or collected by department stores on behalf of the Group. The department stores are normally required to settle the proceeds to the Group within 2 months from the date of sale.

Bills receivable are with average maturity dates of within 2 months.

13. SHARE CAPITAL**(a) Authorised and issued capital**

Details of share capital of the Company as at 30 June 2006 are as follows:

	Authorised ordinary shares (Unaudited)		
	Par value	Number of shares	Total
	HK\$	'000	HK\$'000
At 31 December 2005 and			
30 June 2006	0.1	10,000,000	1,000,000

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13. SHARE CAPITAL (Continued)**(a) Authorised and issued capital (Continued)**

		Issued and fully paid ordinary shares (Unaudited)		
		Number of		
	Note	Par value HK\$	shares '000	Total HK\$'000
At 31 December 2005		0.1	1,990,000	199,000
Issue of shares	(i)	0.1	75,000	7,500
At 30 June 2006		0.1	2,065,000	206,500

Note:

- (i) On 4 January 2006, the Company issued 75,000,000 ordinary shares of HK\$0.10 each at HK\$2.025 per share under an over-allotment arrangement in connection with the listing of the Company's shares on the Stock Exchange of Hong Kong Limited on 15 December 2005 and raised gross proceeds of approximately HK\$151,875,000.

(b) Share option scheme

Pursuant to the Pre-IPO Share Option Deed (the "Pre-IPO Share Option Scheme") entered into by the Company with an employee on 18 November 2005, the employee has been conditionally granted the option prior to 15 December 2005 to subscribe for up to 10,000,000 shares of HK\$0.10 each in the share capital of the Company.

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13. SHARE CAPITAL (Continued)**(b) Share option scheme (Continued)**

Details of the options granted under the Pre-IPO Share Option Scheme outstanding as at 30 June 2006 and 31 December 2005 are as follows:

	Date of grant	Expiry date	Exercise Price	Number of shares subject to the options	
				30 June 2006 (Unaudited)	31 December 2005 (Audited)
Senior Management	15 December 2005	15 December 2013	HK\$0.10	10,000,000	10,000,000

During the period, no share options were granted, cancelled or exercised. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

14. RESERVES

	(Unaudited)					Total HK\$'000
	Capital reserve HK\$'000	Contributed surplus HK\$'000	Statutory reserves HK\$'000	Exchange reserves HK\$'000	Retained earnings HK\$'000	
At 1 January 2005	32,654	(6,962)	16,533	(956)	389,379	430,648
Currency translation differences	(30)	—	—	(3,747)	—	(3,777)
Capital contribution to subsidiaries	—	17	—	—	—	17
Profit for the period	—	—	—	—	240,259	240,259
Dividend	—	—	—	—	(15,270)	(15,270)
Profit appropriation	—	—	12,058	—	(12,058)	—
At 30 June 2005	32,624	(6,945)	28,591	(4,703)	602,310	651,877

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14. RESERVES (Continued)

	(Unaudited)							Total HK\$'000
	Share premium HK\$'000	Capital reserve HK\$'000	Contributed surplus HK\$'000	Statutory reserves HK\$'000	Share based compensation reserve HK\$'000	Exchange reserves HK\$'000	Retained earnings HK\$'000	
At 1 January 2006	763,773	7,746	(4,624)	24,971	1,902	13,788	433,805	1,241,361
Currency translation differences	—	(6)	—	—	—	8,089	—	8,083
Profit for the period	—	—	—	—	—	—	220,660	220,660
Issue of shares	144,375	—	—	—	—	—	—	144,375
Share issuance costs	(4,898)	—	—	—	—	—	—	(4,898)
Employee share option scheme: — value of employee services	—	—	—	—	951	—	—	951
Dividend relating to 2005	—	—	—	—	—	—	(94,990)	(94,990)
Profit appropriation	—	—	—	17,487	—	—	(17,487)	—
At 30 June 2006	903,250	7,740	(4,624)	42,458	2,853	21,877	541,988	1,515,542

15. TRADE AND BILLS PAYABLE

The ageing analysis of trade and bills payable is as follows:

	As at 30 June 2006 (Unaudited) HK\$'000	As at 31 December 2005 (Audited) HK\$'000
0 to 30 days	67,374	108,996
31 to 60 days	29,871	49,702
61 to 90 days	8,005	8,359
Over 90 days	20,617	15,662
	125,867	182,719

Notes to the Condensed Consolidated Financial Information

16. COMMITMENTS**(a) Capital commitments**

Capital expenditure contracted for but not yet incurred is as follows:

	As at 30 June 2006 (Unaudited) HK\$'000	As at 31 December 2005 (Audited) HK\$'000
Property, plant and equipment	26,841	10,547

(b) Operating lease commitments

The Group leases various retail outlets, offices, warehouses and plant and equipment under non-cancellable operating lease agreements. The leases have varying terms, escalation claims and renewal rights.

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16. COMMITMENTS (Continued)**(b) Operating lease commitments (Continued)**

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

	As at 30 June 2006 (Unaudited) HK\$'000	As at 31 December 2005 (Audited) HK\$'000
Land and buildings		
Amounts payable		
— Not later than 1 year	16,200	6,246
— Later than 1 year and not later than 5 years	7,275	4,465
	23,475	10,711
Plant and equipment		
Amounts payable		
— Not later than 1 year	110	132
— Later than 1 year and not later than 5 years	—	44
	110	176
	23,585	10,887

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17. SIGNIFICANT RELATED PARTY TRANSACTIONS**(a) Transactions with related parties:**

In the opinion of the Directors, the transactions below were conducted in the normal course of business and the pricing of these transactions was determined based on mutual negotiation and agreement between the Group and the related parties.

		Six months ended 30 June	
		2006	2005
		(Unaudited)	(Unaudited)
		HK\$'000	HK\$'000
(i)	Transactions with associates of the Group		
	— Purchases of accessories	4,185	4,179
	— Subcontracting charges paid	13,986	18,003
(ii)	Transactions with companies in which the substantial shareholders of a non-wholly owned subsidiary of the Company have equity interest		
	— Purchases of silk fabric	716	1,122

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17. SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)**(b) Key management compensation**

	Six months ended 30 June	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Salaries and other short-term employee benefits	5,797	3,112
Share-based payments	951	—
	6,748	3,112

18. EVENTS AFTER THE BALANCE SHEET DATE

On 5 September 2006, Concept Creator Fashion Limited, a wholly-owned subsidiary of the Company, entered into a conditional sale and purchase agreement in respect of a proposed acquisition of 92% of the equity interest of Zhejiang Huading Group Company Limited at a consideration of approximately RMB174.3 million (equivalent to approximately HK\$169.2 million). The proposed acquisition constitutes a connected and discloseable transaction for the Company and will be subject to the approval of the independent shareholders of the Company. The Company issued an announcement on 6 September 2006 on the details of this proposed acquisition.