

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2006

1. BASIS OF PREPARATION

The Company was incorporated on 27 May 2004 as an exempted company with limited liability in the Cayman Islands under the Companies Law Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands.

Pursuant to the Group Reorganisation to rationalise the structure of the Group in preparation for the listing of the Company's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company issued shares in exchange for the entire issued share capital of Full Prosper and thereby became the holding company of the Group on 13 June 2006. Details of the Group Reorganisation are set out in the Prospectus. The condensed consolidated financial statements have been prepared as if the current structure had been in existence during the period.

The shares of the Company have been listed on the Stock Exchange with effect from 13 July, 2006.

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 and with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the HKICPA.

2. PRINCIPAL ACCOUNTING POLICIES

The unaudited condensed consolidated financial statements have been prepared under the historical cost basis except for certain financial instruments, which are measured at fair value.

The accounting policies adopted in these unaudited condensed consolidated financial statements are consistent with those followed in the underlying financial statements used in the preparation of the Group's accountants' report for the year ended 31 December 2005 as set out in the Prospectus.

In the current period, the Group has applied, for the first time, a number of new standards, amendments and interpretations ("INTs") (hereinafter collectively referred to as "new HKFRSs") issued by the HKICPA that are effective for accounting periods beginning on or after 1 December 2005 or 1 January 2006. The application of the new HKFRSs has had no material effect on how the results for the current and prior accounting periods are prepared and presented. Accordingly, no prior period adjustments have been required.

The Group has not early applied the following new standard, amendment and interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these new standards, amendment or interpretations will have no material impact on the results of operations and financial position of the Group.

HKAS 1 (Amendment)	Capital disclosures ¹
HKFRS 7	Financial instruments: Disclosures ¹
HK(IFRIC) – INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies ²
HK(IFRIC) – INT 8	Scope of HKFRS 2 ³
HK(IFRIC) – INT 9	Reassessment of embedded derivatives ⁴

¹ Effective for annual periods beginning on or after 1 January 2007.

² Effective for annual periods beginning on or after 1 March 2006.

³ Effective for annual periods beginning on or after 1 May 2006.

⁴ Effective for annual periods beginning on or after 1 June 2006.

3. REVENUE

Revenue represents net amounts received and receivable for goods sold by the Group to outside customers and services provided to outside customers less returns and allowances. Over 90.0% of the revenue is derived from the sale of apparel and accessories such that no business segment is presented. Also, most of the revenue is derived from Europe and no geographical segment information is required to present. An analysis of the Group's revenue for the periods is as follows:

	Six months ended 30 June	
	2006 HK\$'000 (unaudited)	2005 HK\$'000 (unaudited)
Sale of apparel and accessories	236,483	159,027
Distribution and retailing of apparel and footwear	26,101	6,023
Royalty fee income	172	148
	262,756	165,198

4. FINANCE COSTS

	Six months ended 30 June	
	2006	2005
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Interest on:		
Bank borrowings and overdrafts wholly repayable		
– within five years	9,714	4,813
– over five years	148	–
Obligations under finance leases	42	15
Loan from shareholder of a jointly controlled entity	56	–
	<u>9,960</u>	<u>4,828</u>

5. PROFIT BEFORE TAX

	Six months ended 30 June	
	2006	2005
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Profit before tax has been arrived at after charging:		
Depreciation of property, plant and equipment	4,195	1,740
Prepaid lease payment released	305	403
Loss on disposal of property, plant and equipment	<u>145</u>	<u>–</u>

6. INCOME TAX EXPENSE

Hong Kong Profits Tax is calculated at the rate of 17.5% (six months ended 30 June 2005: 17.5%) of the estimated assessable profit for six months ended 30 June 2006. Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

	Six months ended 30 June	
	2006	2005
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Current tax:		
Hong Kong	200	1,040
Other jurisdictions	4,175	1,450
	4,375	2,490
Underprovision in prior years:		
Hong Kong	1	–
Other jurisdictions	66	–
	67	–
	4,442	2,490

7. RESULT FOR THE PERIOD

The Group experiences seasonal fluctuations in its turnover and has generally recorded higher turnover from May to August when overseas customers normally commence preparations for the launch of new winter collections.

8. DIVIDEND

The Board has determined that an interim dividend of HK3 cents per share (six months ended 30 June 2005: Nil) should be paid to the shareholders whose names appear in the register of members of the Company on 23 October 2006. The interim dividend is estimated to be approximately HK\$7,571,400, which is calculated based on 252,380,000 shares in issue on 13 September 2006.

9. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the profit attributable to equity holders of the Company and on the basis of 180,000,000 shares of the Company in issue and issuable throughout during the period ended 30 June 2006 (six months ended 30 June 2005: 119,601,326 shares) (see note 15 for details of share capital of the Company).

10. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the period, the Group's construction in progress increased by approximately HK\$5,682,000. In addition, the Group spent approximately HK\$2,397,000 and HK\$320,000 in respect of the leasehold improvement and buildings, respectively. Also, the Group spent approximately HK\$4,254,000 on furniture, fixture and equipment and approximately HK\$1,577,000 on plant and machinery for the expansion of its production capacity.

During the period, the Group disposed of property, plant and equipment with a carrying amount of approximately HK\$1,150,000 for a consideration of approximately HK\$1,005,000, resulting in a loss on disposal of approximately HK\$145,000.

11. TRADE RECEIVABLES

The Group allows an average credit period of 60 to 90 days to its trade customers. The following is an aged analysis of trade receivables at the balance sheet date:

	30 June 2006 HK\$'000 (unaudited)	31 December 2005 HK\$'000
0 – 90 days	164,310	86,852
91 – 180 days	47	4,873
181 – 360 days	4,938	1,724
	169,295	93,449

12. AMOUNT DUE FROM A MINORITY SHAREHOLDER

The Group allows a credit period of 90 days for sales made to the minority shareholder. The following is an aged analysis of amount due from a minority shareholder at the balance sheet date:

	30 June 2006 HK\$'000 (unaudited)	31 December 2005 HK\$'000
0 – 90 days	15,829	9,608
91 – 180 days	799	976
181 – 360 days	344	–
	16,972	10,584

13. TRADE PAYABLES

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

	30 June 2006 HK\$'000 (unaudited)	31 December 2005 HK\$'000
0 – 90 days	62,412	37,838
91 – 180 days	4,867	3,181
181 – 360 days	1,616	2,012
Over 360 days	394	130
	69,289	43,161

14. BANK BORROWINGS

During the period, the Group raised new bank borrowings, which mainly represent by trade facility loan, bear interest at 5.5% to 8.9% per annum and are payable within one year, to finance the expanding business of the Group.

	30 June 2006 HK\$'000 (unaudited)	31 December 2005 HK\$'000
Bank borrowings are repayable as follows:		
Within one year	302,542	191,059
More than one year, but not exceeding two years	51,662	38,854
More than two years, but not exceeding three years	2,376	2,355
More than three years, but not exceeding four years	2,000	2,397
More than four years, but not exceeding five years	787	1,183
More than five years	1,057	1,455
	360,424	237,303
Less: Amounts due within one year shown under current liabilities	(302,542)	(191,059)
	57,882	46,244

15. SHARE CAPITAL

	Number of ordinary shares		Amount	
	30 June 2006	31 December 2005	30 June 2006 HK\$'000	31 December 2005 HK\$'000
Ordinary shares of HK\$0.1 each:				
Authorised:				
At beginning of period/year	1,000,000	1,000,000	100	100
Increase on 13 June 2006	1,999,000,000	–	199,900	–
At end of period/year	2,000,000,000	1,000,000	200,000	100
Issued and fully paid:				
At beginning of period/year	1	1	–	–
Issue of shares upon Group Reorganisation	39,999,999	–	4,000	–
At end of period/year	40,000,000	1	4,000	–

The following changes in the share capital of the Company took place during the period:

- (a) Pursuant to the resolutions in writing of the sole shareholder of the Company passed on 13 June 2006, the authorised share capital of the Company was increased from HK\$100,000 to HK\$200,000,000 by the creation of an additional 1,999,000,000 shares.
- (b) As consideration for the acquisition of the entire issued share capital of Full Prosper and its subsidiaries, the Company issued 39,999,999 shares of HK\$0.1 each, credited as fully paid under the Group Reorganisation which took place on 13 June 2006. The difference between the deemed consideration and the aggregate par value of the share issued has been debited to special reserve.

The share capital as at 31 December 2005 represented the share capital of Full Prosper, the then holding company of the subsidiaries now comprising the Group before the Group Reorganisation.

Pursuant to the resolutions in writing of the shareholders of the Company passed on 15 June 2006, and conditional on the share premium account of the Company being credited as a result of the offer of shares for the listing of the Company's share (see note 1), the directors of the Company were authorised to capitalise HK\$14,000,000 standing to the credit of the share premium account of the Company by applying such sum in paying up in full at par 140,000,000 shares of the Company for allotment and issue to holders of the shares whose names appear on the register of members of the Company at the close of business on 14 June 2006 (or as they may direct) in proportion (as nearly as possible without involving fractions) to their then existing shareholdings in the Company. Subsequent to the balance sheet date, the Company issued 140,000,000 shares of HK\$0.1 each by the capitalisation of share premium of HK\$14,000,000.

16. CAPITAL COMMITMENTS

	30 June 2006 HK\$'000 (unaudited)	31 December 2005 HK\$'000
Capital commitment contracted for but not provided in respect of acquisition of property, plant and equipment	4,038	11,665

17. RELATED PARTY TRANSACTIONS

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

Name of related party	Nature of transactions	Six months ended 30 June	
		2006 HK\$'000 (unaudited)	2005 HK\$'000 (unaudited)
Morgan S.A. ⁺	Sales of apparel	28,287	20,047
Long Wise (Holdings) Limited ⁺	Service fee paid	141	126
STF (China) Limited*	Sales of apparel and footwear	1,050	–
	Sales of property, plant and equipment	–	2,094
	Interest income received	56	–
	Management fee income received	90	102
Lotto China Limited*	Rental income received	66	–

⁺ The company is a minority shareholder of the Company's subsidiary.

^{*} The company is a jointly controlled entity of the Company.

Mr. Ngok Yan Yu, a director of the Company, acts as personal guarantor for bank borrowings of approximately HK\$313,029,000 and HK\$254,353,000 granted to the Group at 30 June 2006 and 31 December 2005, respectively. The amount utilised by the Group was approximately HK\$299,836,000 and HK\$200,704,000 at 30 June 2006 and 31 December 2005, respectively.

J&B Holdings Ltd, a related company in which Mr. Ngok Yan Yu has beneficial interests, acts as guarantor for bank borrowings of approximately HK\$180,735,000 and HK\$166,218,000 granted to the Group at 30 June 2006 and 31 December 2005, respectively. The amount utilised by the Group was approximately HK\$167,157,000 and HK\$141,788,000 at 30 June 2006 and 31 December 2005, respectively.

J&B Assets Management Limited, a related company in which Mr. Ngok Yan Yu has beneficial interests, acts as guarantor for bank borrowings of approximately HK\$91,294,000 and HK\$28,039,000 granted to the Group at 30 June 2006 and 31 December 2005, respectively. This related company also pledged certain of its buildings for bank borrowing granted to the Group at 30 June 2006 and 31 December 2005. The amount utilised by the Group was approximately HK\$117,580,000 and HK\$21,970,000 at 30 June 2006 and 31 December 2005, respectively.

Stonefly S.P.A., a shareholder of STF (China) Limited ("STF China"), acts as a joint guarantor with a subsidiary of the Company, Hembly Garment Manufacturing Limited, for bank borrowings of approximately HK\$19,200,000 and HK\$18,000,000 granted to STF China at 30 June 2006 and 31 December 2005, respectively. The amount utilised by STF China was approximately HK\$8,458,000 and HK\$9,012,000 at 30 June 2006 and 31 December 2005, respectively.

18. EVENTS AFTER THE BALANCE DATE

- (a) In August 2006, a wholly-owned subsidiary of the Company, Primeline Investment Limited has entered into an agreement with a joint venturer to set up a jointly controlled entity for the manufacturing and outsourcing of products with trademark held by such joint venturer. Details of this transaction are disclosed in the Company's announcement dated 30 August 2006.
- (b) In September 2006, another wholly-owned subsidiary of the Company, Limei International Limited has entered into an agreement with another joint venturer to set up a jointly controlled entity for the manufacturing and distribution of products with trademark held by such joint venturer. Details of this transaction are disclosed in the Company's announcement dated 1 September 2006.