

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2006

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 and with 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 consolidated financial statements have been prepared on the historical cost basis except for investment properties and derivatives financial instruments, which are measured at fair values.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the annual consolidated financial statements of the Company and its subsidiaries (the "Group") for the year ended 31 March 2006.

In the current interim period, the Group has applied, for the first time, a number of new standard, amendments and interpretations ("new HKFRSs") issued by the HKICPA, which are either effective for accounting periods beginning on or after 1 December 2005, 1 January 2006 or 1 March 2006. The adoption of the new HKFRSs had no material effect on how the results for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

3. POTENTIAL IMPACT ARISING ON NEW ACCOUNTING STANDARDS NOT YET EFFECTIVE

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

| | |
|--------------------|---|
| HKAS 1 (Amendment) | Capital disclosures ¹ |
| HKFRS 7 | Financial instruments: Disclosures ¹ |
| HK(IFRIC)-INT 8 | Scope of HKFRS 2 ² |
| HK(IFRIC)-INT 9 | Reassessment of Embedded Derivatives ³ |
| HK(IFRIC)-INT 10 | Interim financial reporting and impairment ⁴ |

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

² Effective for annual periods beginning on or after 1 May 2006

³ Effective for annual periods beginning on or after 1 June 2006

⁴ Effective for annual periods beginning on or after 1 November 2006

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 (ii) trading and manufacturing of garment products. 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 2006

| | Production and sale of knitted fabric and dyed yarn HK\$'000 | Trading and manufacturing of garment products HK\$'000 | Consolidated HK\$'000 |
|--------------------------------|--|--|--------------------------|
| REVENUE | | | |
| External sales | <u>1,236,546</u> | <u>584,628</u> | <u>1,821,174</u> |
| RESULTS | | | |
| Segment results | <u>172,743</u> | <u>37,668</u> | <u>210,411</u> |
| Unallocated corporate income | | | 19,596 |
| Unallocated corporate expenses | | | (7,024) |
| Finance costs | | | <u>(27,754)</u> |
| Profit before taxation | | | 195,229 |
| Income tax expense | | | <u>(20,214)</u> |
| Profit for the period | | | <u>175,015</u> |

Six months ended 30 September 2005

| | Production and sale of knitted fabric and dyed yarn HK\$'000 | Trading and manufacturing of garment products HK\$'000 | Consolidated HK\$'000 |
|--------------------------------|--|--|--------------------------|
| REVENUE | | | |
| External sales | <u>942,617</u> | <u>478,728</u> | <u>1,421,345</u> |
| RESULTS | | | |
| Segment results | <u>125,700</u> | <u>31,245</u> | <u>156,945</u> |
| Unallocated corporate income | | | 8,813 |
| Unallocated corporate expenses | | | (5,444) |
| Finance costs | | | <u>(13,659)</u> |
| Profit before taxation | | | 146,655 |
| Income tax expense | | | <u>(10,192)</u> |
| Profit for the period | | | <u>136,463</u> |

5. INCOME TAX EXPENSE

The tax charge comprises:

Current tax:

Hong Kong Profits Tax calculated at 17.5% of the estimated assessable profit for the current period

8,943

4,862

Enterprise income tax in the Peoples' Republic of China (the "PRC") attributable to the subsidiaries

9,966

5,330

18,909

10,192

Deferred tax

Current period

1,305

-

20,214

10,192

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

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

6. PROFIT FOR THE PERIOD

Profit for the period has been arrived at after charging (crediting):

Depreciation of property, plant and equipment

63,502

44,669

Release of prepaid lease payment

397

167

Changes in fair value of

derivative financial instruments

(5,946)

3,443

Interest income

(1,520)

(471)

Six months ended 30 September

2006

2005

HK\$'000

HK\$'000

Six months ended 30 September

2006

2005

HK\$'000

HK\$'000

7. DISTRIBUTIONS

On 25 August 2006, the Company approved a final dividend of HK\$38,616,000 representing HK6.0 cents per share in respect of financial year ended 31 March 2006. On 25 August 2005, the Company approved a final dividend of HK\$31,200,000 representing HK5.5 cents per share in respect of financial year ended 31 March 2005. The amounts of these final dividends recommended were in cash form with a scrip option.

In respect of the six months ended 30 September 2006, the directors have determined that an interim dividend of HK\$46,919,000 representing HK7.2 cents per share (six months ended 30 September 2005: HK\$37,331,000 representing HK6.5 cents per share), which is in cash form with a scrip option, should be paid to shareholders of the Company whose names appeared in the Company's Register of Members on 11 January 2007.

8. EARNINGS PER SHARE

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

| | Six months ended 30 September | |
|--|-------------------------------|----------------|
| | 2006 | 2005 |
| | HK\$'000 | HK\$'000 |
| Earnings | | |
| Profit for the period attributable to equity holders of the Company for the purposes of basic and diluted earnings per share | <u>156,367</u> | <u>122,390</u> |
| | '000 | '000 |
| Number of shares | | |
| Weighted average number of ordinary shares for the purposes of basic earnings per share | <u>643,601</u> | <u>567,272</u> |
| Effect of dilutive potential ordinary shares in respect of share options | <u>2,289</u> | <u>529</u> |
| Weighted average number of ordinary shares for the purposes of diluted earnings per share | <u>645,890</u> | <u>567,801</u> |

9. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent approximately HK\$189 million (six months ended 30 September 2005: HK\$203 million) on additions to property, plant and equipment. Certain property, plant and equipment of the Group with an aggregate carrying value of approximately HK\$12,455,000 (31 March 2006: HK\$12,851,000) 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 an investment property at a cost of HK\$25,000,000 (six months ended 30 September 2005: HK\$19,443,000). The investment properties of the Group were valued at 30 September 2006 by Savills (Hong Kong) Limited, an independent firm of professional valuers, on an open market, existing use basis. The changes in fair value of investment properties amounting to HK\$10,330,000 (six months ended 30 September 2005: HK\$4,657,000) has been credited to the condensed consolidated income statement. Certain investment properties of the Group with an aggregate carrying value of approximately HK\$103,200,000 (31 March 2006: HK\$91,700,000) 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 2006 HK\$'000 | 31 March 2006 HK\$'000 |
|---------------|----------------------------------|------------------------------|
| 0-60 days | 607,564 | 527,271 |
| 61-90 days | 103,080 | 80,826 |
| 91-120 days | 75,399 | 56,242 |
| Over 120 days | 46,205 | 42,293 |
| | <u>832,248</u> | <u>706,632</u> |

For a cash flow management purpose, the Group discounted and factored certain bills receivables to banks with recourse in exchange for cash. The discounted and factored bills as at 30 September 2006 amounted to approximately HK\$292,825,000 (31 March 2006: HK\$191,248,000) and pursuant to HKAS 39, such bills and the related proceeds from banks were included in the "Trade receivables" and "Bank borrowings" at the balance sheet date.

12. TRADE PAYABLES

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

| | 30 September 2006 HK\$'000 | 31 March 2006 HK\$'000 |
|--------------|----------------------------------|------------------------------|
| 0-60 days | 429,163 | 377,796 |
| 61-90 days | 64,141 | 44,425 |
| Over 90 days | 45,115 | 52,743 |
| | <u>538,419</u> | <u>474,964</u> |

13. BANK BORROWINGS

| | 30 September 2006 HK\$'000 | 31 March 2006 HK\$'000 |
|---|----------------------------------|------------------------------|
| Bank loans | 966,355 | 930,080 |
| Bills discounted with recourse and debts factored with recourse | 292,825 | 191,248 |
| Import loans and trust receipts loans | 386,543 | 282,208 |
| Mortgage loans | 33,100 | 34,942 |
| | <u>1,678,823</u> | <u>1,438,478</u> |
| Less: Amount due within one year included in current liabilities | <u>(1,187,119)</u> | <u>(837,287)</u> |
| Amount due after one year | <u>491,704</u> | <u>601,191</u> |

During the period, the Group obtained new loans in the amount of approximately HK\$168,373,000 (six months ended 30 September 2005: HK\$182,827,000). The Group repaid bank loans in the amount of approximately HK\$133,940,000 for the period (six months ended 30 September 2006: HK\$90,127,000). The loans carry interest at market rates ranging from 3.8% to 4.7% per annum. The proceeds were used for the expansion of the Group's operation.

14. CAPITAL COMMITMENTS

At the balance sheet date, the Group had capital expenditure committed as follows:

| | 30 September 2006 HK\$'000 | 31 March 2006 HK\$'000 |
|--|----------------------------------|------------------------------|
| Contracted but not provided for in the condensed consolidated financial statements in respect of acquisition of: | | |
| property, plant and equipment | 84,029,000 | 74,919,000 |
| investment properties | 78,460,000 | - |
| | <u>162,489,000</u> | <u>74,919,000</u> |

15. RELATED PARTY DISCLOSURES

- (i) During the period, the Group paid operating lease rentals amounting to approximately HK\$54,000 (six months ended 30 September 2005: HK\$54,000) to Verdure Enterprises Limited ("Verdure"). Verdure is owned by a discretionary trust, the objects of which include Mr. Li Ming Hung, a director of the Company and his family.
- (ii) In a previous year, the Group entered into a tenancy agreement for a term of three years commencing from 1 July 2005 with Giant Step Limited ("Giant Step") for leasing premise from Giant Step to the Group in Hong Kong. The issued share capital of Giant Step is directly or indirectly owned as to 25% by each of a discretionary trust whose discretionary objects are the family members of Mr. Li Ming Hung, a discretionary trust whose discretionary objects are the family members of Mr. Chen Tien Tui (the two trusts are collectively referred to as the "Trusts") and Mr. Choi Lin Hung, a director of the Company. During the period, the agreement was terminated and the Group did not pay any rental expenses (six months ended 30 September 2005: HK\$384,000) to Giant Step.
- (iii) In a previous year, the Group 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"). The entire equity interest of Nanjing Synergy is indirectly owned by the Trusts in equal share. Pursuant to the Master Supply Agreement, Nanjing Synergy agreed to supply yarn to the Group and the purchase during the period was approximately HK\$58,041,000 (six months ended 30 September 2005: HK\$15,823,000). As at 30 September 2006, the aggregate amount of purchase deposits paid by the Group to Nanjing Synergy was approximately HK\$76,777,000 (31 March 2006: HK\$65,447,000) included in deposits, prepayments and other receivables.



16. EVENTS AFTER THE BALANCE SHEET DATE

Subsequent to the balance sheet date, the Group had the following significant transactions:

- (i) On 13 October 2006, the Company paid the 2006 final dividend by way of cash and scrip of HK\$19,744,000 and HK\$18,872,000, respectively.
- (ii) Subsequent to 30 September 2006, the Group acquired three investment properties for an aggregate consideration of approximately HK\$87,177,000.