NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT

1. Basis of preparation

This interim financial report is unaudited, but has been reviewed by KPMG in accordance with the Statement of Auditing Standards 700 "Engagements to review interim financial reports", issued by the Hong Kong Society of Accountants ("HKSA") except that they have not reviewed the comparative information relating to the six months ended 31 August 2000. KPMG's independent review report to the board of directors is included on page 11.

The interim financial report has been prepared in accordance with the requirements of the Main Board Listing Rules of The Stock Exchange of Hong Kong Limited, including compliance with Statement of Standard Accounting Practice ("SSAP") 25 "Interim financial reporting" issued by the HKSA.

The financial information relating to the six months ended 31 August 2000 included in the interim financial report were reviewed by Deloitte Touche Tohmatsu ("DTT"). DTT expressed an unqualified review opinion on those financial information in their report dated 21 November 2000.

The financial information relating to the financial year ended 28 February 2001 included in the interim financial report does not constitute the Company's statutory accounts for that financial year but is derived from those accounts. DTT have expressed an unqualified opinion on those accounts in their report dated 15 June 2001. However, they have drawn the attention of the Company's shareholders to the fundamental uncertainty relating to the going concern. Statutory accounts for the year ended 28 February 2001 and interim financial report for the six months ended 31 August 2000 are available from the Company's registered office.

KPMG was first appointed as auditors of the Company in 2001 upon the retirement of DTT.

The accounting policies and method of computation used in the preparation of the interim financial report are consistent with those used in the annual accounts for the year ended 28 February 2001 except for the change in accounting policies as described in note 3.

2. Going concern

Pursuant to the restructuring agreement dated 3 August 2000 (the "Restructuring Agreement") entered into by the Group and its bankers, the Group was required to reduce its bank borrowings by fixed instalments of HK$34 million by 28 February 2001 and to make minimum fixed repayments of HK$24 million on an annual basis from 3 November 2000. Furthermore, the Group is required to dispose of its non-core assets to reduce the Group's bank borrowings. The Group had repaid HK$104.9 million up to 31 August 2001. The Restructuring Agreement shall apply for a period of five years and three months or up to an earlier date when the bank borrowings are reduced to HK$150 million. As part of the Restructuring Agreement, the majority participating lenders may give 14 days' notice to terminate the restructuring period.

2. Going concern *(continued)*

Pursuant to the subscription agreement for the Company's preference shares dated 31 December 1997, the Group is required to redeem the 22,220 convertible non-voting redeemable preference shares by 28 February 2002 for HK$231.4 million. The Group is currently negotiating with the holder of the Company's preference shares for the final resolution of the redemption of the preference shares without cash payment. The negotiation is now at an advanced stage. The directors are of the opinion that agreement can be reached with the holder of preference shares.

Provided that the Group's banker continue to support the Group, and that agreement can be reached with the holder of preference shares, the directors are satisfied that the Group will be able to meet in full its financial obligations as they fall due in the foreseeable future. Accordingly, the directors are satisfied that it is appropriate to prepare the interim financial report on a going concern basis, notwithstanding the Group's financial position as at 31 August 2001. Should the Group be unable to continue in business as a going concern, adjustments would have to be made to restate the values of assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities, respectively. The effect of these adjustments have not been reflected in the interim financial report.

3. Change in accounting policies

(a) SSAP 30 "Business combinations"

In prior year, capital reserve or goodwill arising on consolidation, representing the excess or deficit of the cost of investments in subsidiaries and associates over the appropriate share of the fair value of the net tangible assets at the date of acquisition, was taken to reserves in the year in which it arose. On disposal, the attributable amount of capital reserve or goodwill was included in calculating the profit or loss on disposal.

With effect from 1 January 2001, with the introduction of SSAP 30 "Business combinations" issued by the HKSA, the Group adopted an accounting policy to recognise goodwill as an asset and amortise it to the profit and loss account on a straight-line basis over its estimated useful life. Negative goodwill which relates to an expectation of future losses and expenses that are identified in the plan of acquisition and can be measured reliably, but which have not yet been recognised, is recognised in the profit and loss account when the future losses and expenses are recognised. Any remaining negative goodwill, but not exceeding the fair values of the non-monetary assets acquired, is recognised in the profit and loss account over the weighted average useful life of those non-monetary assets that are depreciable/amortisable. Negative goodwill in excess of the fair values of the non-monetary assets acquired is recognised immediately in the profit and loss account. On disposal of a consolidated enterprise, any attributable amount of purchased goodwill not previously amortised through the profit and loss account is included in the calculation of the profit and loss on disposal.

The Group has taken advantage of the transitional provisions in SSAP 30 which do not require restatement of goodwill or negative goodwill taken to reserves prior to 1 January 2001, and there is no financial effect to the Group for the prior periods.

(b) SSAP 31 "Impairment of assets"

Under SSAP 31 "Impairment of assets", the Group should assess at each balance sheet date whether there is any indication that an asset may be impaired. If any such indication exists, the Group should estimate the recoverable amount of the asset. Recoverable amount is the higher of an asset's net selling price and its value in use. Impairment losses should be recognised in the profit and loss account. However, any impairment arising on goodwill previously written off against reserves should be treated as a change in accounting policy in accordance with SSAP 2 "Net profit or loss for the period, fundamental errors and change in accounting policies". As a result of this change, the respective accumulated losses at 1 March 2000 and 1 March 2001 were restated and increased by HK$24.7 million representing an impairment loss on goodwill written off to the prior year's consolidated profit and loss account.

4. Segmental Information

The analysis of the geographical operations of the Company and its subsidiaries during the financial period is as follows:

	Group turnover Six months ended 31 August		**(Loss)/profit from ordinary activities before taxation Six months ended 31 August**	
	2001	2000	**2001**	2000
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong	**309,745**	352,089	**(26,638)**	10,688
Mainland China	**88,492**	161,773	**15,828**	46,381
Others	**67,223**	63,387	**2,573**	1,352
	465,460	577,249	**(8,237)**	58,421
Finance costs			**(11,851)**	(17,496)
Cost of financial restructuring			**(6,141)**	(13,573)
Gain/(loss) on disposal and revaluation of properties			**3,966**	(23,240)
Gain on disposal of associate and investment			**2,991**	–
Impairment loss recognised in respect of investments in securities			**(441)**	(2,571)
Share of net (losses)/profits of associates			**(2)**	64
			(19,715)	1,605

5. (Loss)/profit from ordinary activities before taxation

(Loss)/profit from ordinary activities before taxation is arrived at after charging/(crediting):

	Six months ended 31 August	
	2001	2000
	HK$'000	*HK$'000*
Interest on bank borrowings	**11,851**	17,496
Depreciation	**8,764**	10,710
Loss on sale of fixed assets	**256**	1,654
Unrealised loss on other securities carried at fair value	**441**	2,571
Provision for loss on leasing of property	**6,100**	–
Provision for sales return	**3,000**	–
Provision for other receivables	**2,100**	3,762
Gain on disposal of associate and investment	**(2,991)**	–
Gain on disposal of properties held for sales	**(3,966)**	–

6. Taxation

Taxation in the consolidated profit and loss account represents:

	Six months ended 31 August	
	2001	2000
	HK$'000	*HK$'000*
Hong Kong taxation	**374**	482
Share of associates' taxation	**–**	10
	374	492

The provision for Hong Kong profits tax is calculated by applying the estimated annual effective tax rate of 16% (2000: 16%) to the profits for the six months ended 31 August 2001.

No provision has been made for overseas profits tax as the Group sustained a loss for taxation purposes during the period.

7. Dividends

Dividends represent accrued dividends on 22,220 6.5% convertible non-voting redeemable preference shares of US$1,000 each.

The board resolved not to pay an interim dividend for ordinary shares for the six months ended 31 August 2001 (2000: Nil)

8. Loss per shares

(a) *Basic loss per share*

The calculation of loss per share is based on the loss attributable to ordinary shareholders of HK$27,104,000 (2000: HK$16,054,000) and 391,889,263 ordinary shares (2000: 391,889,263 ordinary shares) in issue during the period.

(b) *Diluted loss per share*

Diluted loss per share is not shown as all the potential ordinary shares (i.e. the employee share options and redeemable preference shares) are anti-dilutive.

9. Properties held for sale

Properties held for sale are stated at the estimated net realisable value.

10. Inventories

Included in inventories are raw materials of HK$12,347,000 (at 28 February 2001: HK$12,396,000), work in progress of HK$2,651,000 (at 28 February 2001: Nil) and finished goods of HK$94,005,000 (at 28 February 2001: HK$81,411,000) stated net of a general provision made in order to state these inventories at the lower of their cost and estimated net realisable value.

11. Trade and other receivables

Included in trade and other receivables are debtors (net of provisions for bad and doubtful debts) with the following ageing analysis:

	At 31 August 2001 *HK$'000*	At 28 February 2001 *HK$'000*
0 to 30 days	**46,623**	25,398
31 to 60 days	**30,100**	46,660
61 to 90 days	**15,149**	35,373
Over 90 days	**22,024**	17,096
Total debtors	**113,896**	124,527
Other receivables, deposits and prepayments	**46,005**	48,053
	159,901	172,580

Apart from retail customers, the Group allows an average credit period of 45 days to other customers.

12. Trade and other payables

Included in trade and other payables are creditors with the following ageing analysis:

	At 31 August 2001 *HK$'000*	At 28 February 2001 *HK$'000*
0 to 30 days	**39,623**	27,212
31 to 60 days	**22,547**	14,741
61 to 90 days	**22,466**	29,518
Over 90 days	**36,918**	32,396
Total creditors	**121,554**	103,867
Other payables and accruals	**76,546**	72,524
	198,100	176,391

13. Share capital

	No. of shares *('000)*	**Amount** *HK$'000*
Issued and fully paid:		
At 1 March 2001 and 31 August 2001		
– ordinary shares of HK$0.25 each	391,889	97,972
– preference shares of US$1,000 each	22	171,916
		269,888

The preference shares are entitled to cumulative dividend and rank in priority to the ordinary shares in the Company as to dividends and return of capital. The preference shares are convertible into ordinary shares of the Company at any time after the second anniversary of 28 February 1998 (the "Issue Date") up to the fourth anniversary of the Issue Date, and the number of the Company's ordinary shares to be allotted and issued to the holders upon full conversion will be equal to the principal amount of the preference shares divided by the initial conversion price of HK$2.25, subject to adjustment. All the preference shares in issue on the maturity date, the fourth anniversary of the Issue Date, will be redeemed by the Company. The Group is currently negotiating with the holder of its preference shares for the final resolution of the redemption of preference shares without cash payment.

13. Share capital *(continued)*

A summary of the share options granted under the share option scheme is as follows:

Exercise price per share	Number of share options outstanding as at 1 March 2001 and 31 August 2001
HK$2.79	4,305,000
HK$0.25	26,590,000
	30,895,000

No option was granted, cancelled nor exercised during the period.

14. Reserves

	Share premium HK$'000	Special reserve HK$'000	Capital reserve HK$'000	Land and buildings revaluation reserve HK$'000	Exchange reserve HK$'000	Capital redemption reserve HK$'000	Accumu-lated losses HK$'000	Total HK$'000
At 1 March 2001								
– as previously reported	86,037	336,362	73,420	22,481	(4,452)	13,119	(683,581)	(156,614)
– prior period adjustment *(note 3)*	–	–	24,721	–	–	–	(24,721)	–
– as restated	86,037	336,362	98,141	22,481	(4,452)	13,119	(708,302)	(156,614)
Exchange differences on translation of accounts of subsidiaries	–	–	–	–	(2,736)	–	–	(2,736)
Loss for the period	–	–	–	–	–	–	(21,486)	(21,486)
Dividends *(note 7)*	–	–	–	–	–	–	(5,618)	(5,618)
At 31 August 2001	86,037	336,362	98,141	22,481	(7,188)	13,119	(735,406)	(186,454)

15. Contingent liabilities

At 31 August 2001, the Group has given guarantees to banks in respect of general banking and other credit facilities granted to third parties amounting to HK$35,000,000 (at 28 February 2001: HK$35,000,000).

16. Pledge of assets

Under the Restructuring Agreement as disclosed in note 2, debentures have been executed during the six months ended 31 August 2001 by the Group in favour of its bankers charging, by way of fixed and floating charges, all of the undertakings, properties and assets of the Company and 28 of its subsidiaries as security for, inter alia, all obligations and liabilities, actual or contingent, from time to time owing by the Group to the bankers. Rental revenue of the Group is also charged in favour of the Group's bankers.

17. Comparative figures

Certain comparative figures have been restated to reflect the changes in accounting policies as set out in note 3 in the interim financial report.

18. Approval of interim financial report

The interim financial report was approved by the board on 23 November 2001.