Notes to the Condensed Consolidated Financial Statements

1. Basis of preparation

The unaudited interim financial statements have been prepared in accordance with the Statement of Standard Accounting Practice (the "SSAP") 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants (the "HKSA") and Appendix 16 of the Listing Rules of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

2. Principal accounting policies

The principal accounting policies and methods of computation adopted in the preparation of the unaudited interim financial statements are consistent with those followed in the latest audited annual financial statements, except as described below:

Dividend proposed or declared after the balance sheet date

In prior years, dividend proposed or declared after the balance sheet date was recognised as liabilities at the balance sheet date. Under the SSAP 9 (Revised) "Events After the Balance Sheet Date" issued by the HKSA, dividend proposed or declared after the balance sheet date is no longer recognised as a liability at the balance sheet date, but is disclosed as a separate component of the shareholders' fund. The change in accounting policy has been applied retrospectively, resulting in a prior year adjustment. As a result of the change, the shareholders' fund and the current liabilities as at 31st March, 2001 were increased and decreased by HK$114,903,000 respectively. *(See note 10)*

Trademarks

Trademarks are stated at costs less any accumulated amortisation and any impairment losses. Amortisation is calculated on a straight line basis to write off the costs over their estimated useful lives. Following the introduction of the new SSAP 29 "Intangible Assets" and SSAP 31 "Impairment of Assets" issued by the HKSA, the directors have reassessed the useful lives of the trademarks held by the Group and decided to change their original estimates from 30 years to 20 years for prudence purpose. As a result of the change, the amortisation of trademarks of current period was HK$1,450,000 (2000: HK$873,000).

Leases

The Group has adopted the SSAP 14 (Revised) "Leases" during the period. The SSAP mainly prescribes the accounting policy and disclosure requirements in respect of finance and operating leases. The adoption of the revised SSAP does not have any impact on the financial statements of the Group except that the disclosure of operating lease commitments has been revised according to the new disclosure requirements. *(See note 14)*

Business combinations

In prior years, goodwill arising from acquisitions was charged against reserves and was written back to the profit and loss account upon the disposal of the relevant subsidiary or associate. According to the newly introduced SSAP 30 "Business Combinations", goodwill arising from acquisitions is capitalised and amortised over its estimated useful life of not more than 20 years on a straight-line basis. Negative goodwill arising from acquisition is treated as a deduction from assets and will be recognised as income based on the situation giving rise to the negative goodwill. The Group has adopted the accounting policy in current period and has taken advantage of the transitional provisions of the SSAP 30 of not restating any goodwill written off in prior years.

3. Principal activities

The Group's principal activities during the period include the production, dyeing and sale of knitted fabric and yarn, the retailing and distribution of casual apparel and accessories, the provision of repair and maintenance services for motors and generators and the trading of generators. There was no change in the principal activities of the Group during the period.

4. Segmental information

An analysis of the Group's turnover and profit from operating activities by principal activity and geographical area during the period is shown as follows:

	Turnover Six months ended 30th September		**Profit/(loss) from operating activities Six months ended 30th September**	
	2001 (Unaudited) ***HK$'000***	2000 (Unaudited) *HK$'000*	**2001 (Unaudited)** ***HK$'000***	2000 (Unaudited) *HK$'000*
By activity:				
Production, dyeing and sale of knitted fabric and yarn	**1,526,524**	1,353,754	**257,518**	193,212
Retailing and distribution of casual apparel and accessories	**945,964**	720,293	**19,916**	39,016
Repair and maintenance services for motors and generators, and trading of generators	**11,952**	15,928	**(1,423)**	1,062
	2,484,440	2,089,975	**276,011**	233,290
By geographical area:				
United States of America ("US")	**785,112**	705,462	**132,445**	100,686
Mainland China	**739,883**	650,239	**61,342**	71,737
Japan	**374,386**	242,895	**63,157**	34,667
Hong Kong	**301,656**	253,585	**11,654**	5,936
Elsewhere	**283,403**	237,794	**7,413**	20,264
	2,484,440	2,089,975	**276,011**	233,290

5. Profit from operating activities

The Group's profit from operating activities is arrived at after charging/(crediting):

	Six months ended 30th September	
	2001	2000
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Cost of inventories sold	**1,747,033**	1,523,390
Depreciation:		
Owned fixed assets	**72,857**	57,376
Leased fixed assets	**—**	62
Staff costs including directors' remuneration	**190,886**	142,424
Amortisation of trademarks	**1,450**	873
Operating lease rentals for land and buildings	**166,243**	99,280
Operating lease rentals for plant and machinery	**4,760**	4,686
Auditors' remuneration	**643**	637
Provision for doubtful debts	**(3)**	8,636
Loss on disposal of fixed assets	**1,090**	1,408
Exchange losses, net	**1,715**	991
Net rental income	**(2,078)**	(2,102)
Interest income	**(5,266)**	(4,208)

6. Tax

Hong Kong profits tax is provided at the rate of 16.0% (2000: 16.0%) on the estimated assessable profits arising in Hong Kong for the period.

Taxes on profits in respect of subsidiaries operating overseas have been calculated at the rates of tax prevailing in the respective tax jurisdictions in which they operate based on existing legislation, interpretations and practices in respect thereof.

	Six months ended 30th September	
	2001	2000
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Group:		
Hong Kong and PRC profits tax:		
Current period provision	**26,549**	19,369
Deferred tax	**3,712**	1,350
	30,261	20,719
Associate	**2,958**	2,265
	33,219	22,984

7. Earnings per share

(a) *Basic earnings per share*

The calculation of the basic earnings per share is based on the net profit from ordinary activities attributable to shareholders of HK$270,622,000 (2000: HK$232,261,000) and the weighted average number of 1,276,310,956 (2000: 1,277,676,716) shares in issue during the period.

(b) *Diluted earnings per share*

The calculation of the diluted earnings per share is based on the followings:

	Six months ended 30th September	
	2001 (Unaudited) *HK$'000*	2000 (Unaudited) *HK$'000*
Net profit from ordinary activities attributable to shareholders	**270,622**	232,261
Weighted average number of ordinary shares used in calculation of basic earnings per share	**1,276,310,956**	1,277,676,716
Deemed issue of ordinary shares for no consideration arising from share options	**38,152,447**	17,770,423
Weighted average number of ordinary shares used in calculation of diluted earnings per share	**1,314,463,403**	1,295,447,139

8. Trade and bills receivables

	At 30th September 2001 (Unaudited) *HK$'000*	At 31st March 2001 (Audited) *HK$'000*
Trade and bills receivables	**525,935**	406,749
Less: Provision for doubtful debts	**(4,870)**	(5,089)
Trade and bills receivables	**521,065**	401,660
The ageing analysis of trade and bills receivables was as follows:		
Within 90 days	**500,328**	383,897
Over 90 days	**20,737**	17,763
	521,065	401,660

The trading terms with customers are largely on credit. Invoices are normally payable within 90 days of issuance, except for certain well-established customers, where the terms are extended up to 120 days subject to the approval of directors. The Group seeks to maintain strict control over its outstanding receivables and has a credit control policy to minimize credit risk. Overdue balances are regularly reviewed by directors.

9. Trade and bills payables

The ageing analysis of trade and bills payables was as follows:

	At 30th September 2001 (Unaudited) *HK$'000*	At 31st March 2001 (Audited) *HK$'000*
Within 90 days	**553,438**	504,072
Over 90 days	**60,364**	19,953
	613,802	524,025

10. Reserves

	At 31st March 2001 (Audited) HK$'000 (As originally stated)	Prior period adjustment (Unaudited) HK$'000 (Note 2)	At 31st March 2001 (Unaudited) HK$'000 (Restated)	Exercise of share options (Unaudited) HK$'000	Transfer on repurchase of own shares (Unaudited) HK$'000	Transfer on foreign exchange adjustment (Unaudited) HK$'000	Retained profits for the period (Unaudited) HK$'000	Final dividend paid for 2000/2001 (Unaudited) HK$'000	Interim dividend proposed for 2001/2002 (Unaudited) HK$'000	At 30th September 2001 (Unaudited) HK$'000
Share premium account	305,960	—	305,960	4,670	(11,930)	—	—	—	—	298,700
Capital redemption reserve	1,228	—	1,228	—	259	—	—	—	—	1,487
Contributed surplus	3,986	—	3,986	—	—	—	—	—	—	3,986
Goodwill on acquisition	(110,603)	—	(110,603)	—	—	—	—	—	—	(110,603)
Exchange fluctuation reserve	(10,360)	—	(10,360)	—	—	(124)	—	—	—	(10,484)
Investment property revaluation reserve	7,238	—	7,238	—	—	—	—	—	—	7,238
Asset revaluation reserve	7,840	—	7,840	—	—	—	—	—	—	7,840
Retained profits	1,302,404	—	1,302,404	—	(259)	—	270,622	—	(101,812)	1,470,955
Dividend reserve	—	114,903	114,903	—	—	—	—	(114,903)	101,812	101,812
Total	1,507,693	114,903	1,622,596	4,670	(11,930)	(124)	270,622	(114,903)	—	1,770,931

11. Related party transactions

(a) During the period, the Group had the following transactions with its associates:

	Notes	Six months ended 30th September 2001 (Unaudited) HK$'000	2000 (Unaudited) HK$'000
Sales to Megawell Industrial Limited & its subsidiaries ("Megawell Group")	*(i)*	**283,974**	163,659
Purchases from Megawell Group	*(ii)*	**104,682**	79,621

11. Related party transactions *(continued)*

Notes:

(i) The sales to Megawell Group were made according to the prices and conditions offered to the major customers of the Group.

(ii) The directors consider that the purchases from Megawell Group were made according to the prices and conditions similar to those offered to other customers of the associate.

In addition, the Company and the Group have provided certain guarantees of banking facilities granted to the associate, as detailed in note 12 to the financial statements.

(b) As at 30th September, 2001 Nice Dyeing Factory Limited, a wholly-owned subsidiary of the Company, provided advances of HK$231,880,000 (31st March, 2001: HK$297,291,000) to Baleno Kingdom Limited, a non-wholly owned subsidiary, at prime rate minus 1.25% per annum (31st March, 2001: prime rate minus 1.25% per annum). The advances are unsecured and have no fixed terms of repayment. The principal purpose of these advances is to finance the non-wholly owned subsidiary's operations.

12. Contingent liabilities

Contingent liabilities not provided for in the financial statements were:

	Group	
	At 30th September 2001 (Unaudited) ***HK$'000***	At 31st March 2001 (Audited) *HK$'000*
Guarantees of banking facilities granted to an associate	**14,000**	14,000
Export bills discounted with recourse	**56,694**	97,942
Bank guarantee in lieu of rental deposits	**2,214**	—
	72,908	111,942

At 30th September, 2001, irrevocable and unconditional guarantees aggregating HK$1,222 million (31st March, 2001: HK$1,091 million) have been given by the Company in respect of an associate's and certain subsidiaries' banking facilities and borrowings aggregating HK$65,625,000 (31st March, 2001: HK$50,204,000).

13. Capital commitments

The aggregate commitments for capital expenditure not being provided for in the financial statements were:

	At 30th September 2001 (Unaudited) ***HK$'000***	At 31st March 2001 (Audited) *HK$'000*
In respect of fixed assets,		
authorised but not contracted for	**40,689**	—
contracted for but not provided for	**97,153**	43,131
In respect of investment in subsidiaries in the PRC,		
contracted for but not provided for	**23,837**	65,323
	161,679	108,454

14. Operating lease commitments

At 30th September, 2001, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	At 30th September 2001 (Unaudited) ***HK$'000***	At 31st March 2001 (Unaudited) *HK$'000* *(Restated)*
In respect of land and buildings:		
Within one year	**260,210**	328,835
In the second to fifth year, inclusive	**358,118**	442,832
After five years	**134,208**	148,953
	752,536	920,620
In respect of plant and machinery:		
Within one year	**9,430**	9,423
In the second to fifth year, inclusive	**33,003**	33,924
After five years	**26,403**	30,155
	68,836	73,502

15. Comparative figures

As a result of the adoption of certain new or revised accounting policies, certain comparative figures have been reclassified to conform with the current period presentation.