

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2002

1. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The condensed financial statements have been prepared in accordance with the Statement of Standard Accounting Practice ("SSAP") 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants ("HKSA") and with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

2. PRINCIPAL ACCOUNTING POLICIES

The condensed financial statements have been prepared under the historical cost convention, as modified for the revaluation of certain leasehold properties and investment in securities.

The accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 30 June 2002, except as described below.

In the current period, the Group has adopted, for the first time, the following new and revised SSAPs issued by HKSA. The adoption of these SSAPs has resulted in a change in the format of presentation of the condensed consolidated cash flow statement and has resulted in the adoption of the following new and revised accounting policies.

Foreign Currencies

The revisions to SSAP 11 "Foreign Currency Translation" have eliminated the choice of translating the income statements of overseas operations at the closing rate for the period. They are now required to be translated at average rate. Accordingly, on consolidation, the assets and liabilities of the Group's overseas operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of. This change in accounting policy has been applied retrospectively, resulting in an adjustment of HK\$448,000 and HK\$1,299,000 to the opening balance of retained earnings and the translation reserve as at 1 July 2001 and 1 July 2002, respectively. The change in accounting policy has resulted in the decrease in the Group's profit for the six months ended 31 December 2001 and 2002 by approximately HK\$387,000 and HK\$31,000, respectively.

Cash Flow Statements

In the current period, the Group has adopted SSAP 15 (Revised) "Cash Flow Statements" ("SSAP 15 (Revised)"). Under SSAP 15 (Revised), cash flows are classified under three headings – operating, investing and financing, rather than the previous five headings. Interest income and expenses, which were previously presented under a separate heading, are classified as operating cash flows. Cash flows arising from taxes on income are classified as operating activities, unless they can be separately identified with investing or financing activities. Cash flows of overseas operations have been re-translated at the rates prevailing at the dates of the cash flows rather than the rate of exchange ruling on the balance sheet date. The change in exchange rates used for translation of cash flows of overseas operations have not had any material effect on the comparative amounts shown in the cash flow statement.

Employee Benefits

In the current period, the Group has adopted SSAP 34 "Employee Benefits", which introduces measurement rules for employee benefits. Under SSAP 34, a provision was recognised for the best estimate of long service payments that would be required to be made to the employees of the Group in respect of their service up to the balance sheet date, less any amounts that would be expected to be met out of the Group's retirement benefits schemes. This change in accounting policy has been applied retrospectively, resulting in an adjustment of approximately HK\$1,664,000 and HK\$1,820,000 to the opening balance of retained earnings at 1 July 2001 and 1 July 2002, respectively. The change in policy has resulted in a decrease in the profit for the six months ended 31 December 2001 and 2002 by HK\$131,000 and HK\$140,000 respectively.

3. SEGMENT INFORMATION

The business activities of the Group can be categorised into manufacturing business and branded business. Segment information in respect of these activities is as follows:

Business segments

Six months ended 31 December 2002

| | Manufacturing business <i>HK\$'000</i> | Branded business <i>HK\$'000</i> | Elimination <i>HK\$'000</i> | Consolidation <i>HK\$'000</i> |
|--------------------------------|--|--|---------------------------------------|---|
| Turnover | | | | |
| External sales | 539,280 | 12,293 | – | 551,573 |
| Inter-segment sales | <u>3,173</u> | <u>–</u> | <u>(3,173)</u> | <u>–</u> |
| Total sales | <u>542,453</u> | <u>12,293</u> | <u>(3,173)</u> | <u>551,573</u> |
| Results | | | | |
| Segment results | <u>92,179</u> | <u>(6,264)</u> | <u>–</u> | 85,915 |
| Unallocated corporate expenses | | | | (4,159) |
| Interest income | | | | <u>238</u> |
| Profit from operations | | | | <u>81,994</u> |

Six months ended 31 December 2001

| | Manufacturing business (Restated) <i>HK\$'000</i> | Branded business (Restated) <i>HK\$'000</i> | Elimination (Restated) <i>HK\$'000</i> | Consolidated (Restated) <i>HK\$'000</i> |
|--------------------------------|--|--|--|---|
| Turnover | | | | |
| External sales | 387,989 | 14,440 | – | 402,429 |
| Inter-segment sales | <u>2,698</u> | <u>–</u> | <u>(2,698)</u> | <u>–</u> |
| Total sales | <u>390,687</u> | <u>14,440</u> | <u>(2,698)</u> | <u>402,429</u> |
| Results | | | | |
| Segment results | <u>32,215</u> | <u>(1,082)</u> | <u>–</u> | 31,133 |
| Unallocated corporate expenses | | | | (4,543) |
| Interest income | | | | <u>505</u> |
| Profit from operations | | | | <u>27,095</u> |

Geographical segments

The following table provides an analysis of the Group's sales by geographical market:

Six months ended 31 December 2002

| | Sales revenue by geographical market <i>HK\$'000</i> | Contribution to profit from operations <i>HK\$'000</i> |
|--------------------------------|--|--|
| United States of America | 428,712 | 74,624 |
| Europe | 78,602 | 11,895 |
| Asia (excluding Hong Kong) | 21,030 | 475 |
| Australia and New Zealand | 12,704 | 2,248 |
| Hong Kong | 10,525 | (3,327) |
| | <u>551,573</u> | <u>85,915</u> |
| Unallocated corporate expenses | | (4,159) |
| Interest income | | <u>238</u> |
| Profit from operations | | <u>81,994</u> |

Six months ended 31 December 2001

| | Sales revenue by geographical market <i>HK\$'000</i> | Contribution to profit from operations <i>HK\$'000</i> |
|--------------------------------|--|--|
| United States of America | 285,158 | 23,676 |
| Europe | 48,338 | 4,013 |
| Asia (excluding Hong Kong) | 39,205 | 2,396 |
| Australia and New Zealand | 18,901 | 1,570 |
| Hong Kong | 10,827 | (522) |
| | <u>402,429</u> | <u>31,133</u> |
| Unallocated corporate expenses | | (4,543) |
| Interest income | | <u>505</u> |
| Profit from operations | | <u>27,095</u> |

4. OTHER OPERATING INCOME

Other operating income include:

| | For the six months ended 31 December | |
|---|---|--------------------------------|
| | 2002 <i>HK\$'000</i> | 2001 <i>HK\$'000</i> |
| Gain on disposal of investments in securities | 3,108 | 813 |
| Interest income | 238 | 505 |
| Service income | — | 1,881 |
| | <u> </u> | <u> </u> |

5. PROFIT FROM OPERATIONS

Profit from operations has been arrived at after charging:

| | For the six months ended 31 December | |
|---|---|--------------------------------|
| | 2002 <i>HK\$'000</i> | 2001 <i>HK\$'000</i> |
| Depreciation of property, plant and equipment | 8,762 | 8,642 |
| Cost of textile quota entitlements | 3,922 | 12,738 |
| | <u> </u> | <u> </u> |

6. TAXATION

| | For the six months ended 31 December | |
|--|---|--------------------------------|
| | 2002 <i>HK\$'000</i> | 2001 <i>HK\$'000</i> |
| Hong Kong Profits Tax calculated at 16% on the estimated assessable profit for the period | 8,636 | 2,335 |
| Taxation in other jurisdictions calculated at the rates prevailing in the respective jurisdictions | 1,294 | 951 |
| | <u> </u> | <u> </u> |
| | <u>9,930</u> | <u>3,286</u> |

7. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to shareholders of HK\$65,368,000 (2001: HK\$23,906,000) and on the weighted average of 813,230,541 shares (2001: 735,608,744 shares) in issue during the period.

The computation of diluted earnings per share is as follows:

| | For the six months ended 31 December | |
|--|---|--------------------------------|
| | 2002 <i>HK\$'000</i> | 2001 <i>HK\$'000</i> |
| Profit for the purpose of basic earnings per share | 65,368 | 23,906 |
| Interest on convertible loan notes | <u>2,971</u> | <u>3,712</u> |
| Profit for the purpose of diluted earnings per share | <u><u>68,339</u></u> | <u><u>27,618</u></u> |

| | For the six months ended 31 December | |
|--|---|-----------------------------|
| | 2002 | 2001 |
| | <i>Number of shares</i> | |
| Number of shares for the purpose of basic earnings per share | 813,230,541 | 735,608,744 |
| Effect of dilutive potential shares: | | |
| Convertible loan notes | 308,911,868 | 386,533,665 |
| Share options | <u>768,609</u> | <u>–</u> |
| Number of shares for the purpose of diluted earnings per share | <u><u>1,122,911,018</u></u> | <u><u>1,122,142,409</u></u> |

For the six months ended 31 December 2001, the Company's share options were not taken into account in the computation of diluted earning per share as the exercise price of options was higher than the average market price of the Company's shares.

8. PROPERTY, PLANT AND EQUIPMENT

During the period, the additions and disposals of property, plant and equipment amounted to HK\$28,456,000 and HK\$955,000 respectively (for the six months ended 31 December 2001: HK\$11,633,000 and HK\$857,000 respectively).

9. INTERESTS IN ASSOCIATES

| | 31 December 2002 | 30 June 2002 |
|---|-----------------------------|-------------------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Share of net assets | 13,015 | 13,015 |
| Interest capitalised | 2,407 | 2,407 |
| | 15,422 | 15,422 |
| Less: Provision for impairment in value | (15,422) | (15,422) |
| | — | — |

10. DEBTORS, DEPOSITS AND PREPAYMENTS

Included in the balance were trade debtors of HK\$62,120,000 (At 30 June 2002: HK\$50,555,000). The Group allows an average credit period of 30 days to its trade customers.

The aging analysis of trade debtors was as follows:

| | 31 December 2002 | 30 June 2002 |
|--------------------------------|-----------------------------|-------------------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Within 30 days | 57,944 | 47,073 |
| Over 30 days and under 60 days | 2,334 | 1,401 |
| Over 60 days and under 90 days | 584 | 947 |
| Over 90 days | 1,258 | 1,134 |
| | 62,120 | 50,555 |

11. CREDITORS AND ACCRUED CHARGES

Included in the balance were trade creditors of HK\$45,797,000 (At 30 June 2002: HK\$56,712,000).

The aging analysis of trade creditors were as follows:

| | 31 December 2002 <i>HK\$'000</i> | 30 June 2002 <i>HK\$'000</i> |
|--------------------------------|--|--|
| Within 30 days | 42,061 | 45,150 |
| Over 30 days and under 60 days | 2,437 | 10,479 |
| Over 60 days and under 90 days | 1,003 | 845 |
| Over 90 days | 296 | 238 |
| | <u>45,797</u> | <u>56,712</u> |

12. BANK BORROWINGS AND OTHER LIABILITIES

| | 31 December 2002 <i>HK\$'000</i> | 30 June 2002 <i>HK\$'000</i> |
|--|--|--|
| Bank borrowings | 85,087 | 92,700 |
| Other liabilities | – | 531 |
| | <u>85,087</u> | <u>93,231</u> |
| Less: Amount due within one year and shown as current liabilities | <u>(85,087)</u> | <u>(92,782)</u> |
| Amount due after one year | <u>–</u> | <u>449</u> |

13. CONVERTIBLE LOAN NOTES

| | 31 December 2002 <i>HK\$'000</i> | 30 June 2002 <i>HK\$'000</i> |
|--|--|--|
| Convertible loan notes ("CLN") | | |
| At the beginning of the period/year | 109,557 | 120,000 |
| Exchange adjustment | – | 435 |
| Converted during the period/year (<i>note e</i>) | <u>(48,345)</u> | <u>(10,878)</u> |
| At the end of the period/year | 61,212 | 109,557 |
| Less: Amount due within one year shown as current liabilities | <u>(61,212)</u> | <u>(109,557)</u> |
| Amount due after one year | <u>–</u> | <u>–</u> |

On 23 January 1998, the Company issued US\$15.5 million (equivalent to approximately HK\$120 million) of CLNs. The salient features of the CLNs are set out below:

- (a) The CLNs have a five-year term and, unless converted, the Company shall repay the principal monies outstanding to the noteholders, together with all interest and unpaid thereon up to and including the date of repayment, on a date five years from the date of issue, which is on 20 January 2003.
- (b) Principal and any accrued but unpaid interest of the CLNs rank *pari passu* with the Group's secured indebtedness to the banks and the holders of the CLNs share, on a *pari passu* basis, all securities given to the banks under the debt restructuring exercise.
- (c) The CLNs can be converted into shares of the Company at the conversion price of US\$0.0401 (equivalent to HK\$0.31 per share), and will be subject to adjustment in the event of further issues of shares or other dilutive events, at any time following the first anniversary after the date of issue on 23 January 1998. The minimum principal amount that may be converted on any conversion of the CLNs, will be the lesser of US\$50,000 and the remaining principal amount outstanding under such CLNs.

- (d) Interest is compounded and payable semi-annually. Interest in years one, two and three accrued at a semi-annual rate of 3 per cent. and interest in years four and five accrued at a semi-annual rate of 2.875 per cent.
- (e) During the period/year, US\$6.2 million (year ended 30 June 2002: US\$1.4 million) of CLNs were converted into 155,161,696 ordinary shares (year ended 30 June 2002: 34,912,718 ordinary shares) of the Company at the conversion price of US\$0.0401 (equivalent to HK\$0.31 per share). The new shares issued rank pari passu in all respects with the then existing shares.

Assuming full conversion of the remaining CLNs at the conversion price of HK\$0.31 per share, the Company would be required to issue a total of 196,459,251 (At 30 June 2002: 351,620,947) new shares upon full conversion of the remaining CLNs.

Subsequent to 31 December 2002, US\$5.8 million of CLNs were converted in 145,666,799 shares of the Company at HK\$0.1 par value per share. The remaining balance of CLNs amounted to US\$2.1 million was repaid upon the maturity of CLNs.

14. SHARE CAPITAL

| | 31 December 2002 <i>Number of shares</i> | 30 June 2002 | 31 December 2002 <i>HK\$'000</i> | 30 June 2002 <i>HK\$'000</i> |
|--|--|-----------------|--|------------------------------------|
| Shares of HK\$0.10 each | | | | |
| Authorised: | | | | |
| At the beginning and end of period/year | 1,500,000,000 | 1,500,000,000 | 150,000 | 150,000 |
| Issued and fully paid: | | | | |
| At the beginning and end of period/year | 770,521,462 | 735,608,744 | 77,052 | 73,561 |
| Issue of shares upon the conversion of CLNs (note 13e) | 155,161,696 | 34,912,718 | 15,516 | 3,491 |
| At the end of period/year | 925,683,158 | 770,521,462 | 92,568 | 77,052 |

15. CONTINGENT LIABILITIES

| | 31 December 2002 <i>HK\$'000</i> | 30 June 2002 <i>HK\$'000</i> |
|---------------------------------------|--|--|
| Export bills discounted with recourse | <u>477</u> | <u>3,848</u> |

16. CAPITAL COMMITMENTS

| | 31 December 2002 <i>HK\$'000</i> | 30 June 2002 <i>HK\$'000</i> |
|--|--|--|
| Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the financial statements | 4,578 | 5,210 |
| Capital expenditure in respect of acquisition of property, plant and equipment authorised but not contracted for | <u>42,500</u> | <u>44,255</u> |
| | <u><u>47,078</u></u> | <u><u>49,465</u></u> |

17. RELATED PARTY TRANSACTIONS

During the period, the Group had significant transactions with related parties and connected transactions as follows:

| Name of related party | Nature of transactions | For the six months ended 31 December | |
|--|---|---|-------------------|
| | | 2002 HK\$'000 | 2001 HK\$'000 |
| Bestform, Inc. and its affiliates (note a) | Sale of finished products (note e) | 332,422 | 195,078 |
| | Purchase of raw materials or semi finished products (note f) | 928 | 4,503 |
| | Interest payable on CLN | 793 | 838 |
| | | <u> </u> | <u> </u> |
| Van de Velde N.V. (note b) | Sales of finished products (note e) | 9,186 | – |
| | Interest payable on CLN | 151 | – |
| | | <u> </u> | <u> </u> |
| AIG Asia Direct Investment Fund Ltd. (note c) | Interest payable on CLN | 976 | 1,316 |
| | | <u> </u> | <u> </u> |
| American International Assurance Co. (Bermuda) Ltd. (note c) | Interest payable on CLN | 876 | 1,316 |
| | | <u> </u> | <u> </u> |
| Charming Industrial Co. Ltd. (note d) | Purchase of embroidery services for brassiere products (note f) | 3,268 | 281 |
| | | <u> </u> | <u> </u> |

In addition, Guliano Pte. Limited (“Guliano”) had issued guarantees to bankers in respect of the banking facilities granted to the Company during the period. Guliano is owned by Van de Velde N.V. (“VdV”), High Union Holdings Inc. and Fung On Holdings Limited. Certain Directors of the Company are directors and/or controlling shareholders of the companies.

Notes:

- (a) At 31 December 2002, the balances of trade receivable from Bestform, Inc. (“Bestform”) and its affiliates amounted to HK\$38,102,000 (At 30 June 2002: HK\$23,196,000) and the balance of interest payable to Bestform amounted to HK\$747,000 (At 30 June 2002: HK\$740,000). Bestform is a beneficial owner of 66,000,000 shares of the Company and holds US\$3.5 million of the CLN issued by the Company.

- (b) On 9 September 2002, Messrs. Lucas Laureys and Herman Van de Velde, who are directors and controlling shareholders of VdV, became Directors of the Company. At 31 December 2002, the balance of trade receivable from VdV amounted to HK\$1,189,000 and the balance of interest payable to VdV amounted to HK\$201,000. VdV holds US\$1 million of CLNs issued by the Company.
- (c) At 31 December 2002, the balance of interest payable to each of AIG Asia Direct Investment Fund Ltd. ("ADIF") and American International Assurance Co. (Bermuda) Ltd. ("AIAB"), respectively, amounted to HK\$802,000 (At 30 June 2002: HK\$1,015,000). ADIF and AIAB, both are managed by AIG Investment Corporation (Asia) Limited, each holds US\$1.7 million (At 30 June 2002: US\$4.8 million) of the CLNs issued by the Company. Mr. Lin Sian Zu, John and Ms. Tse Koon Hang, Ada, non-executive Directors of the Company, are directors of AIG Investment Corporation (Asia) Limited.
- (d) In November 2001, the Company disposed of a 40% interest in Charming Elastic Fabric Company Limited (formerly Elastex Manufacturing Company Limited) to Ko Ching Enterprises Limited which is controlled by Mr. Wong Lok Cheung ("Mr. Wong"). Since then, Mr. Wong became a connected party of the Group and Charming Elastic Fabric Company Limited became a 60% owned subsidiary of the Company. At 31 December 2002, the balance of trade payable to Charming Industrial Co., Ltd. ("Charming") amounted to HK\$389,000 (At 30 June 2002: HK\$1,267,000). Mr. Wong has certain interests in Charming.
- (e) The sales were carried out at market price or, where no market price was available, at cost plus a percentage profit mark-up.
- (f) The purchase price were mutually agreed with the supplier.