

# Financial Information

## 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 25 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants and Appendix 16 of the Rules Governing the Listing of Securities (the “Listing Rules”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

### 2. Principal accounting policies

The principal accounting policies adopted in the preparation of these unaudited condensed consolidated interim financial statements are consistent with those used in the Group’s audited financial statements for the year ended 31 March 2004.

### 3. Segment information

Segment information is presented by way of two segment formats: (a) on a primary segment reporting basis, by business segment; and (b) on a secondary segment reporting basis, by geographical segment.

The Group’s operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group’s business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of other business segments. Summary details of the business segments are as follows:

- (i) the production, dyeing and sale of knitted fabric and yarn segment;
- (ii) the casual apparel and accessory retailing and distribution segment; and
- (iii) others mainly comprise the Group’s motor and generator repair and maintenance and trading segment and the franchise services segment.

In determining the Group’s geographical segments, revenues are attributable to segments based on the location of the markets.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

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## (a) Business segments

The following table presents revenue and profit information for the Group's business segments for the six months ended 30 September:

	Production, dyeing and sale of knitted fabric and yarn		Casual apparel and accessory retailing and distribution		Others		Eliminations		Consolidated	
	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000
Segment revenue:										
Sales to external customers	2,272,210	1,819,964	1,302,901	1,036,759	25,139	21,621	—	—	3,600,250	2,878,344
Intersegment sales	—	—	—	—	1,084	967	(1,084)	(967)	—	—
Other revenue	9,045	6,071	3,913	2,587	750	535	(606)	(584)	13,102	8,609
Total	2,281,255	1,826,035	1,306,814	1,039,346	26,973	23,123	(1,690)	(1,551)	3,613,352	2,886,953
Segment results	223,597	164,727	12,780	9,553	6,982	6,540	2,181	3,054	245,540	183,874
Interest income									5,356	1,507
Profit from operating activities									250,896	185,381
Share of profit of an associate									18,503	18,325
Finance costs									(3,760)	(1,739)
Profit before tax									265,639	201,967
Tax									(25,832)	(20,859)
Profit before minority interests									239,807	181,108
Minority interests									(2,925)	(971)
Net profit from ordinary activities attributable to shareholders									236,882	180,137

## (b) Geographical segments

The following table presents revenue information for the Group's geographical segments for the six months ended 30 September:

	USA		Mainland China		Japan		Hong Kong		Others		Consolidated	
	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000
Segment revenue:												
Sales to external customers	1,593,901	1,189,828	911,107	753,123	167,010	190,889	396,070	377,205	532,162	367,299	3,600,250	2,878,344

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## 4. Depreciation and amortisation

During the period, depreciation of fixed assets and amortisation of trademarks of the Group amounted to HK\$106,105,000 and HK\$1,463,000 (2003: HK\$87,880,000 and HK\$1,460,000), respectively.

## 5. Tax

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 17.5%) on the estimated assessable profits arising in Hong Kong for the period.

Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	<b>Six months ended 30 September</b>	
	<b>2004 (Unaudited) HK\$'000</b>	<b>2003 (Unaudited) HK\$'000</b>
Hong Kong and the People's Republic of China (the "PRC") taxes:		
Current period provision	23,848	19,203
Share of tax attributable to an associate	1,984	1,656
Tax charge for the period	<u>25,832</u>	<u>20,859</u>

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## 6. Earnings per share

### (a) Basic earnings per share

The calculation of basic earnings per share was based on the net profit from ordinary activities attributable to shareholders for the period of HK\$236,882,000 (2003: HK\$180,137,000) and the weighted average number of 1,325,289,623 (2003: 1,324,398,924) shares in issue during the period.

### (b) Diluted earnings per share

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

	<b>Six months ended 30 September</b>	
	<b>2004 (Unaudited) HK\$'000</b>	<b>2003 (Unaudited) HK\$'000</b>
Net profit from ordinary activities attributable to shareholders	<u><b>236,882</b></u>	<u><b>180,137</b></u>
	<b>Number of shares</b>	<b>Number of shares</b>
Weighted average number of shares in issue during the period used in the calculation of basic earnings per share	<b>1,325,289,623</b>	<b>1,324,398,924</b>
Weighted average number of shares deemed to be issued for no consideration on deemed exercise of all share options outstanding during the period	<u><b>9,914,379</b></u>	<u><b>5,522,014</b></u>
Weighted average number of shares used in the calculation of diluted earnings per share	<u><u><b>1,335,204,002</b></u></u>	<u><u><b>1,329,920,938</b></u></u>

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## 7. Trade and bills receivable

An aged analysis of trade and bills receivable, net of provisions, is as follows:

	At 30 September 2004 (Unaudited) HK\$'000	At 31 March 2004 (Audited) HK\$'000
Within 90 days	524,947	515,387
Over 90 days	13,666	19,447
	<u>538,613</u>	<u>534,834</u>

The trading terms with customers are largely on credit. Invoices are normally payable within 90 days of issue, 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.

## 8. Trade and bills payable

An aged analysis of trade and bills payable is as follows:

	At 30 September 2004 (Unaudited) HK\$'000	At 31 March 2004 (Audited) HK\$'000
Within 90 days	790,715	730,696
Over 90 days	34,470	27,632
	<u>825,185</u>	<u>758,328</u>

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## 9. Related party transactions

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

		<b>Six months ended 30 September</b>	
	<i>Notes</i>	<b>2004 (Unaudited) HK\$'000</b>	<b>2003 (Unaudited) HK\$'000</b>
Sales to Megawell Industrial Limited ("Megawell")	(i)	150,900	126,342
Purchases from Megawell	(ii)	<u>131,814</u>	<u>109,961</u>

*Notes:*

- (i) The sales to Megawell, the associate of the Group, were made according to the prices and terms offered to the major customers of the Group.
- (ii) The directors consider that the purchases from Megawell were made according to the prices and terms similar to those offered to other customers of the associate.

In addition, the Group have provided certain guarantees of banking facilities granted to the associate, as detailed in note 10.

- (b) As at 30 September 2004, Nice Dyeing Factory Limited, a wholly-owned subsidiary of the Company, has provided advances of HK\$423,272,000 (31 March 2004: HK\$323,520,000) to Baleno Kingdom Limited, a non wholly-owned subsidiary, at the annual interest rate of Hong Kong Interbank Offered Rate ("HIBOR") plus 2% (31 March 2004: prime rate minus 1.25% and HIBOR plus 2% for the period from April to October 2003, and from November 2003 to March 2004, respectively). The advances are unsecured and have no fixed terms of repayment. The principal purpose of these advances is to finance the operations of Baleno Kingdom Limited.

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- (c) As at 30 September 2004, the outstanding shareholder loan of HK\$361,367,000 (31 March 2004: HK\$360,205,000) is unsecured, interest-bearing at HIBOR plus 0.4% (31 March 2004: HIBOR plus 0.4%) per annum and not repayable within one year, except for an amount of HK\$101,162,000 which is repayable on or before 30 September 2005 (31 March 2004: except for an amount of HK\$100,000,000 which is repayable on or before 31 March 2005). Total interest expenses paid for the shareholder loan was HK\$1,162,000 (2003: nil) for the period.
- (d) A minority shareholder of the Group's 54% owned subsidiary had provided an unconditional guarantee to indemnify the Group from any loss arising from the recoverability of prepayments for purchases made to a supplier of the Group of HK\$16,741,000 (31 March 2004: HK\$16,741,000) as included in the prepayments, deposits and other receivables balance of the Group as at 30 September 2004.

## 10. Contingent liabilities

- (a) Contingent liabilities not provided for in the interim financial statements were as follows:

	At 30 September 2004 (Unaudited) HK\$'000	At 31 March 2004 (Audited) HK\$'000
Bank guarantees given in lieu of property rental deposits	2,288	3,934
Guarantees of banking facilities granted to an associate	12,500	12,500
Export bills discounted with recourse	<u>205,970</u>	<u>255,870</u>

- (b) In respect of possible future long service payments to employees under the Hong Kong Employment Ordinance, the Group has made a provision of HK\$8,193,000 (31 March 2004: HK\$7,955,000) and has a further contingent liability with a maximum possible amount of HK\$7,502,000 as at 30 September 2004 (31 March 2004: HK\$5,320,000).

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- (c) There have been no material changes in contingent liabilities in respect of the Group's litigations since 31 March 2004. Details of the litigations have been set out in note 31(c) and (d) to the financial statements for the year ended 31 March 2004.

## 11. Operating lease arrangements

### (a) *As lessor*

The Group leases its investment properties under operating lease arrangements, with leases negotiated for terms ranging from two to three years. The terms of the leases generally require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At 30 September 2004, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	At 30 September 2004 (Unaudited) HK\$'000	At 31 March 2004 (Audited) HK\$'000
Within one year	2,351	2,717
In the second to fifth years, inclusive	2,357	103
	<u>4,708</u>	<u>2,820</u>

### (b) *As lessee*

The Group leases certain of its land for factories, retail stores, plant and machinery, and staff and directors' quarters under operating lease arrangements. Such leases are negotiated for terms not more than 50 years.



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At 30 September 2004, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	At 30 September 2004 (Unaudited) HK\$'000	At 31 March 2004 (Audited) HK\$'000
Within one year	493,099	415,530
In the second to fifth years, inclusive	729,108	709,874
After five years	381,580	441,511
	<u>1,603,787</u>	<u>1,566,915</u>

## 12. Commitments

### (a) Capital commitments

Commitments for capital expenditure at the balance sheet date were as follows:

	At 30 September 2004 (Unaudited) HK\$'000	At 31 March 2004 (Audited) HK\$'000
In respect of fixed assets, contracted, but not provided for	80,807	84,478
In respect of fixed assets, authorised, but not contracted for	332,361	345,206
In respect of investment in subsidiaries in the PRC, contracted, but not provided for	355,928	722,380
	<u>769,096</u>	<u>1,152,064</u>

- (b) At 30 September 2004, the Group had outstanding foreign exchange forward contracts with an equivalent aggregate principal amount of HK\$3,344 million (31 March 2004: HK\$3,336 million).