

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2001

1. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

As explained in note 13, the Group has obligations to reduce the facilities extended to it by its bankers and also is obliged to repay the holders of the outstanding convertible loans notes by 20 January 2003. During the period, a call option agreement dated 3 October, 2001, entered into among Mr. Lo Kit Lun, Frank ("Mr. Lo"), Pacific Dragon Services Limited ("PDS Limited") and Van De Velde N.V. ("VDV") whereby Mr. Lo and PDS Limited granted VDV an option to acquire the respective interests of Mr. Lo and PDS Limited in the Company with the option exercisable until 3 December, 2001. The acquisition of the Company's issued shares under this agreement resulted in VDV becoming a beneficial shareholder of over 20 per cent. of the Company's issued shares. As a result, an event of default under the convertible loan notes and cross-default under the banking facilities of the Group in connection with the Group's debt restructuring exercise in January 1998 have been triggered.

In preparing the condensed financial statements, the Directors are aware of the implications of the above events and the Group is currently exploring refinancing opportunities with a view to funding the repayment of convertible loan notes and/or the drawn down banking facilities, upon receipt of demand for repayment. Provided that the Group can obtain sufficient facilities from its bankers or from other parties as mentioned above, the Directors are of the opinion that the Group will be able to meet in full its financial obligations as they fall due for the foreseeable future. Accordingly, the condensed financial statements have been prepared on a going concern basis.

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 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 used in the preparation of the interim financial statements are consistent with those adopted by the Group in the annual financial statements for the year ended 30 June 2001, except as described below.

In the current period, the Group has adopted those new and revised SSAPs issued by the Hong Kong Society of Accountants which are applicable to the Group, which include:

Segment reporting

In the current period, the Group has presented the segment information as required by SSAP 26 "Segment Reporting".

Goodwill

In the current period, the Group has adopted SSAP 30 "Business Combination" and has elected to restate goodwill (negative goodwill) previously eliminated against (credited to) reserves. Impairment losses in respect of goodwill that arose between the date of acquisition of the relevant subsidiary and the date of adoption of SSAP30 have also been recognised retrospectively. The adoption of this accounting policy has no financial impact on the results for the six months ended 31 December 2001 and 2000 as the goodwill amounting to HK\$21,260,000 previously eliminated against reserves was impaired prior to 1 July 2000.

3. SEGMENTAL INFORMATION

For management purposes, the Group is currently divided into two divisions, manufacture and distribution, wholesale and retail of ladies' intimate apparel, principally brassieres.

An analysis of the Group's turnover and profit from operations by business segments during the period was as follows:

	Turnover		Profit (loss)	
	For the six months		from operations	
	ended 31 December		For the six months	
	2001	2000	2001	2000
	(Unaudited)		(Unaudited)	
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Manufacture	387,989	410,840	32,733	38,341
Distribution, wholesale and retail	<u>14,440</u>	<u>15,404</u>	<u>(1,082)</u>	<u>(409)</u>
	<u><u>402,429</u></u>	<u><u>426,244</u></u>	31,651	37,932
Unallocated corporate expenses			<u>(4,038)</u>	<u>(4,888)</u>
			<u><u>27,613</u></u>	<u><u>33,044</u></u>

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An analysis of the Group's turnover and profit from operations by geographical segments during the period was as follows:

	Turnover		Profit (loss)	
	For the six months		from operations	
	ended 31 December		For the six months	
	2001	2000	2001	2000
	(Unaudited)		(Unaudited)	
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
United States of America	285,158	302,607	24,057	28,241
Europe	48,338	56,666	4,078	5,288
Asia (excluding Hong Kong)	39,205	33,228	2,441	2,466
Australia and New Zealand	18,901	20,852	1,595	1,946
Hong Kong	<u>10,827</u>	<u>12,891</u>	<u>(520)</u>	<u>(9)</u>
	<u>402,429</u>	<u>426,244</u>	31,651	37,932
Unallocated corporate expenses			<u>(4,038)</u>	<u>(4,888)</u>
			<u>27,613</u>	<u>33,044</u>

4. OTHER REVENUE

Included in other revenue is a gain on disposal of investment in securities of HK\$813,000 (2000: nil), interest income of HK\$505,000 (2000: HK\$533,000) and service income of HK\$1,881,000 (2000: nil).

5. PROFIT FROM OPERATIONS

Profit from operations has been arrived at after charging:

	For the six months ended	
	31 December	
	2001	2000
	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Depreciation of property, plant and equipment	8,642	8,994
Quota costs	<u>12,738</u>	<u>21,232</u>

6. GAIN ON DEEMED DISPOSAL OF INTEREST IN A SUBSIDIARY

During the period, the Group disposed of a 40% interest in its subsidiary, Elastex Manufacturing Company Limited ("Elastex") for a consideration of HK\$17,999,000 resulting a gain on deemed disposal of HK\$10,400,000.

7. TAXATION

	For the six months ended	
	31 December	
	2001	2000
	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<hr/>	<hr/>
Hong Kong Profits Tax calculated at 16% on the estimated assessable profit for the period	2,335	1,800
Taxation in other jurisdictions calculated at the rates prevailing in the respective jurisdictions	<hr/> 951	<hr/> 414
	<hr/> 3,286	<hr/> 2,214

8. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to shareholders of HK\$24,424,000 (2000: HK\$16,700,000) and on the 735,608,744 shares (2000: 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	
	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<hr/>	<hr/>
Profit for the purpose of basic earnings per share	24,424	16,700
Interest on convertible loan notes	<hr/> 3,712	<hr/> 3,680
Profit for the purpose of diluted earnings per share	<hr/> 28,136	<hr/> 20,380

**For the six months
ended 31 December
2001 & 2000**
Number of shares

Number of shares for the purpose of basic earnings per share	735,608,744
Effect of dilutive potential shares on the convertible loan notes	<u>386,533,665</u>
Number of shares for the purpose of diluted earnings per share	<u><u>1,122,142,409</u></u>

The Company's share options were not taken into account in the computation of diluted earning per share as the exercise price of options outstanding from the beginning of the period to the end of exercise period of these options during the six months ended 31 December 2000 and 2001 was higher than the average market price of the Company's shares.

9. PROPERTY, PLANT AND EQUIPMENT

During the period, the additions and disposals of property, plant and equipment amounted to HK\$11,633,000 and HK\$857,000 respectively (for the six months ended 31 December 2000: HK\$9,022,000 and HK\$191,000 respectively).

10. INTERESTS IN ASSOCIATES

	31 December 2001	30 June 2001
	(Unaudited)	(Audited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<u> </u>	<u> </u>
Share of net assets	13,015	13,015
Interest capitalised	<u>2,407</u>	<u>2,407</u>
	15,422	15,422
Less: Provision for impairment in value	<u>(15,422)</u>	<u>(15,422)</u>
	<u> </u>	<u> </u>
	<u> </u>	<u> </u>

11. DEBTORS, DEPOSITS AND PREPAYMENTS

Included in the balance was trade debtors of HK\$57,808,000 (At 30 June 2001: HK\$64,085,000). 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 2001	30 June 2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 30 days	54,804	61,340
Over 30 days and under 60 days	1,077	896
Over 60 days and under 90 days	283	682
Over 90 days	1,644	1,167
	<u>57,808</u>	<u>64,085</u>

12. CREDITORS AND ACCRUED CHARGES

Included in the balance was trade creditors of HK\$48,880,000 (At 30 June 2001: HK\$47,644,000).

The aging analysis of trade creditors was as follows:

	31 December 2001	30 June 2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 30 days	28,683	31,145
Over 30 days and under 60 days	13,287	11,112
Over 60 days and under 90 days	6,066	5,040
Over 90 days	844	347
	<u>48,880</u>	<u>47,644</u>

13. BANK BORROWINGS AND OTHER LIABILITIES

	31 December 2001	30 June 2001
	(Unaudited)	(Audited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Bank borrowings	118,790	142,161
Other liabilities	573	614
	<u>119,363</u>	<u>142,775</u>
Less: Amount due within one year and shown as current liabilities	<u>(118,873)</u>	<u>(142,243)</u>
Amount due after one year	<u>490</u>	<u>532</u>

Following the debt restructuring exercise completed in January 1998, the Group has been granted total credit facilities of HK\$261 million by its bankers, subject to semi-annual reduction in bank commitments of HK\$25 million each starting from January 2000. As of 18 January 2001, the bank commitments have been reduced by HK\$50 million since January 2000.

On 18 January 2001, the Company and certain of its subsidiaries have entered into an agreement with the bankers, whereby the bankers agreed to grant an extension to the bank commitments of HK\$193 million for a further two-year period, subject to continued reduction in bank commitments on a semi-annual interval at HK\$25 million each commencing from 20 January 2001 to 20 January 2003; whilst the balance of the secured obligations will either be fully repaid or refinanced by 20 January 2003.

The obligations due on 20 January 2001, 20 July 2001 and 20 January 2002 were met by the Group.

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14. SHARE CAPITAL

	31 December 2001 (Unaudited)	30 June 2001 (Audited)	31 December 2001 (Unaudited)	30 June 2001 (Audited)
	<i>Number of shares</i>		<i>HK\$'000</i>	<i>HK\$'000</i>
Shares of HK\$0.10 each				
Authorised:				
At beginning and end of period/year	<u>1,500,000,000</u>	<u>1,500,000,000</u>	<u>150,000</u>	<u>150,000</u>
Issued and fully paid:				
At beginning and end of period/year	<u>735,608,744</u>	<u>735,608,744</u>	<u>73,561</u>	<u>73,561</u>

15. (DEFICIT) RESERVE

	31 December 2001	30 June 2001
	(Unaudited)	(Audited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<u> </u>	<u> </u>
SHARE PREMIUM		
At the beginning and end of the period/year	242,159	242,159
LEGAL RESERVE		
At the beginning and end of the period/year	323	323
SPECIAL RESERVE		
At the beginning and end of the period/year	7,139	7,139
REVALUATION RESERVE		
At the beginning of the period/year	13,735	3,344
(Deficit) surplus arising from revaluation of investment in securities	(3,950)	10,391
Realised on disposal of investment in securities	<u>(1,275)</u>	<u> </u>
At the end of the period/year	8,510	13,735
TRANSLATION RESERVE		
At the beginning of the period/year	(5,022)	(6,361)
Exchange differences arising on translation of overseas operations	(939)	(1,939)
Realised on liquidation of a subsidiary	<u> </u>	<u>3,278</u>
At the end of the period/year	<u>(5,961)</u>	<u>(5,022)</u>
DEFICIT		
At the beginning of the period/year	(363,432)	(411,090)
Profit attributable to shareholders	<u>24,424</u>	<u>47,658</u>
At the end of the period/year	<u>(339,008)</u>	<u>(363,432)</u>
NET DEFICIT	<u><u>(86,838)</u></u>	<u><u>(105,098)</u></u>

16. CONTINGENT LIABILITIES

	31 December 2001	30 June 2001
	(Unaudited)	(Audited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Export bills discounted with recourse	<u>5,222</u>	<u>9,497</u>

As at 31 December 2001, certain employees have completed the required number of years of service under Hong Kong laws to be eligible for long service payments on termination of their employment. The Group is only liable to make such payments where the termination meets the required circumstances specified in the relevant laws. The Directors are of the opinion that the circumstances which will give rise to long service payments are unlikely to arise, and accordingly no provision for any future long service payments has been made in these financial statements. If the termination of all these employees were to meet the circumstances required by the relevant laws, the Group's liability at 31 December 2001 would be HK\$11,200,000 (At 30 June 2001: HK\$10,865,000). The Company would have no liability at 31 December 2001 (At 30 June 2001: nil).

17. CAPITAL COMMITMENTS

	31 December 2001	30 June 2001
	(Unaudited)	(Audited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Capital commitments in respect of unpaid capital contributions	9,694	694
Capital expenditure in respect of acquisition of property, plant and equipment contracted but not provided for in the financial statements	<u>–</u>	<u>45</u>
	<u>9,694</u>	<u>739</u>

18. 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	
		2001 (Unaudited) HK\$'000	2000 (Unaudited) HK\$'000
Bestform, Inc. and its affiliates (note a)	Sale of finished products	195,078	196,263
	Purchase of raw materials or semi finished products	4,503	13,855
	Interest payable on convertible loan notes ("CLN")	<u>838</u>	<u>832</u>
AIG Asia Direct Investment Fund Ltd. (note c)	Interest payable on CLN	<u>1,316</u>	<u>1,305</u>
American International Assurance Co. (Bermuda) Ltd. (note c)	Interest payable on CLN	<u>1,316</u>	<u>1,305</u>
Charming Industrial Co. Ltd. (note d)	Purchase of embroidery services for brassiere products	<u>281</u>	<u>-</u>

Notes:

- (a) At 31 December 2001, the balances of trade receivable from Bestform, Inc. and its affiliates amounted to HK\$22,314,000 (At 30 June 2001: HK\$28,391,000) and the balance of interest payable to Bestform, Inc. amounted to HK\$704,000 (At 30 June 2001: HK\$649,000). Bestform, Inc. 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) At 31 December 2001, the balance of trade receivable from Shenzhen Fenghua Weaving Tape Factory Company Limited amounted to HK\$128,000 (At 30 June 2001: trade payable of HK\$140,000). Shenzhen Fenghua Weaving Tape Factory Company Limited is an associate of the Company.

- (c) At 31 December 2001, the balance of interest payable to each of AIG Asia Direct Investment Fund Ltd. and American International Assurance Co. (Bermuda) Ltd., respectively, amounted to HK\$1,106,000 (At 30 June 2001: HK\$1,020,000). AIG Asia Direct Investment Fund Ltd. and American International Assurance Co. (Bermuda) Ltd., both are managed by AIG Investment Corporation (Asia) Limited, each holds US\$5.5 million of the CLN 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) During the period, the Company disposed of a 40% interest in Elastex to Ko Ching Enterprises Limited ("Ko Ching") which is controlled by Mr. Wong Lok Cheung. Since then, Mr. Wong became a connected party of the Group and Elastex became a 60% owned subsidiary of the Company. At 31 December 2001, the balance of trade payable to Charming Industrial Co., Ltd. amounted to HK\$492,000 (At 30 June 2001: nil). Charming Industrial Co. Ltd. is an associate of Mr. Wong.

19. POST BALANCE SHEET EVENT

Subsequent to 31 December 2001, Elastex had placed purchase orders for new machineries amounting to HK\$7,018,000 with independent suppliers. The price payable for these purchases would be settled in full by Ko Ching on behalf of Elastex as part of the settlement of the consideration in relation to the acquisition of the interest in Elastex.

MANAGEMENT DISCUSSION & ANALYSIS

During the six months ended 31 December 2001, the Group's business activities were organized into two operating units and one corporate cost centre.

	Turnover		Profit (loss) before taxation	
	2001	2000	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Manufacturing	387,989	410,840	43,133	38,341
Distribution	14,440	15,404	(1,082)	(409)
Corporate	—	—	(12,677)	(17,375)
	<u>402,429</u>	<u>426,244</u>	<u>29,374</u>	<u>20,557</u>
Total	<u>402,429</u>	<u>426,244</u>	<u>29,374</u>	<u>20,557</u>

The prolonged global recession, exacerbated by the 9.11 disaster in the U.S., has had a dire effect on business. Both operating units weathered through probably the most difficult period that was unseen before in the recent years. Our plants capacities were barely 85% filled, and despite the relatively stable consumer market in China, retailing business in Hong Kong and Taiwan continued to suffer from the down-turned economy, resulting in a decrease in both sales and earning performance as compared with the correspondent period in the previous year.

Total profit before taxation, on the other hand, was up 43% to HK\$29.4 million. The improvement in earning was due to a HK\$10.4 million of non-operating profit on the deemed disposal of the Group's interest in Elastex which is addressed below.

In November, we completed a transaction by which we disposed 40% interest of Elastex, previously a wholly owned subsidiary of the Group producing elastic materials, to an independent party specialized in procurement and distribution of apparel materials. The move bears strategic significance in the Group's future growth. The sales proceeds would entirely be reinvested in Elastex for expansion of capacity and broadening of sales to third party users through the existing distribution network established by the new equity partner.

As at 31 December 2001, the Group had an aggregate bank borrowing of HK\$118.8 million which was reduced from a level of HK\$142.2 million as at 30 June 2001. The reduction was funded by the internal resources generated by our operations and in accordance with the amendment agreement entered into with the banks in January 2001. In general, the solvency position of the Group has improved in the current six months period, as evidenced by the reduction of the deficiency of the shareholders' funds from HK\$31.5 million as at 30 June 2001 to HK\$13.3 million as at 31 December 2001. In December, due to the completion of an agreement for a major change in the ownership of the shares in the Company which triggered an event of default under the terms of the Convertible Loan Notes Agreement, the Company might be required to immediately repay the Convertible Loans if upon demand by the holders of the Convertible Loan Notes. The management has since been negotiating with the holders of the Convertibles Loan Notes and the Group's lending banks with an intention to settle and restructure the Group's financial needs. We are encouraged with the progress of it and we are hopeful that we shall soon see positive results.

Outlook for the second half of the fiscal year is encouraging upon comparison with the first half. Since January, demands for production have resumed to a satisfactory level and our plants capacities are almost fully booked for before August 2002. It must be pointed out, however, that much of these business bookings were secured under squeezed margin and reduced production lead time due to competition. While there are signs and general expectations that an economic upturn may take place later this year, the management remains cautious in business operations in meeting the challenges associated with generally a weak market in the short term.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

The following Director of the Company was granted options to subscribe for shares in the Company on 23 December 1991 and 3 September 1992 at an exercise price of HK\$0.87 and HK\$1.35 respectively:

Name of Director	Date of grant	Exercise period	Exercise price <i>HK\$</i>	Number of share options lapsed		
				At 1.7.2000	on 19.11.2001	At 31.12.2001
Wong Chung Chong, Eddie	23 December 1991	23 December 1993 to 19 November 2001	0.87	3,600,000	(3,600,000)	-
	3 September 1992	3 September 1994 to 19 November 2001	1.35	<u>6,000,000</u>	<u>(6,000,000)</u>	<u>-</u>
				<u>9,600,000</u>	<u>(9,600,000)</u>	<u>-</u>

No options were granted to or exercised by the Directors during the period. All the unexercised options granted to the Director were lapsed on 19 November 2001.

A new share option scheme was approved and adopted at a special meeting of the Company held on 22 November 2001, pursuant to which the Company may grant options to Directors of the Company. Details of the new share option scheme are set out under the section "Share Options" below.

No options under the new share option scheme were granted to or exercised by the Directors during the period.

Save as disclosed above:

- (a) none of the Directors or their spouses or children under the age of 18 had any right to subscribe for securities of the Company, or had exercised any such right during the year; and
- (b) at no time during the period was the Company or any of its subsidiaries a party to any arrangements to enable a Director of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' INTERESTS IN SHARES

As at 31 December, 2001, the interests of the Directors in the share capital of the Company as recorded in the register maintained pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance") were as follows:

Directors	Number of Shares held		
	Personal interests	Family interests	Other interests
Fung Wai Yiu	–	216,000*	66,700,000 *
Wong Chung Chong, Eddie	94,864,380	–	47,000,000 **
Lam Ka Chung, William	200,000	–	–

* 216,000 shares are held by the spouse of Mr. Fung Wai Yiu ("Mr. Fung"). 66,700,000 shares are registered in the name of Fung On Holdings Limited. The shares of Fung On Holdings Limited are held by a family trust of which Mr. Fung and his family members are eligible beneficiaries.

** The shares are registered in the name of High Union Holdings Inc. on behalf of the trustee of a unit trust of which the units are held by a family trust of which the family members of Mr. Wong Chung Chong, Eddie are eligible beneficiaries.

Save as disclosed above and other than certain nominee shares in subsidiaries held by the Directors in trust for the Company and its subsidiaries, no Directors had any interest in the securities of the Company or any of its associated corporations as defined in the SDI Ordinance.