

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2002

1. GENERAL

The Company is an exempted company with limited liability incorporated in Bermuda. Its shares are listed on The Stock Exchange of Hong Kong Limited.

The Company is an investment holding company. Its principal subsidiaries are engaged in the design, manufacture, distribution, wholesale and retail of ladies' intimate apparel, principally brassieres.

2. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE

In the current year, the Group has adopted for the first time a number of new and revised Statements of Standard Accounting Practice ("SSAP") issued by the Hong Kong Society of Accountants ("HKSA"). Adoption of the accounting standards has led to a number of changes in the Group's accounting policies. The revised accounting policies are set out in note 3. In addition, the new and revised accounting standards have introduced additional and revised disclosure requirements which have been adopted in these financial statements.

The adoption of these new and revised accounting standards has resulted in the following changes to the Group's accounting policies which have affected the amounts reported for the current or prior periods.

Segment reporting

In the current year, the Group has changed the basis of identification of reportable segments to that required by SSAP 26 "Segment Reporting". Segment disclosures for the year ended 30 June 2001 have been amended so that they are presented on a consistent basis.

Goodwill

In adopting SSAP 30 "Business Combination", the Group has elected to restate 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 SSAP 30 have also been recognised retrospectively. The adoption of this accounting policy has no financial impact on the results for the year ended 30 June 2002 and 2001 as the goodwill amounting to HK\$21,260,000 previously eliminated against reserves was impaired prior to 1 July 2000.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2002

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong, which follow the historical cost convention as modified for the revaluation of certain leasehold properties and other securities.

The principal accounting policies adopted are as follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 30 June each year.

The results of subsidiaries, associates and jointly controlled entity acquired and disposed of during the year are included in the consolidated income statement from and up to their effective dates of acquisition or disposal, respectively.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, associate or jointly controlled entity at the date of acquisition.

Goodwill is recognised as an asset and is amortised on a straight-line basis over its estimated economic life. Goodwill arising on the acquisition of an associate or a jointly controlled entity is included within the carrying amount of the associate or jointly controlled entity. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet.

On disposal of a subsidiary, associate or jointly controlled entity, the attributable amount of unamortised goodwill is included in the determination of the gain or loss on disposal.

Revenue recognition

Sales of goods are recognised when goods are delivered and title has passed.

Income from sale of securities is recognised on a trade-date basis when the sales agreement becomes unconditional.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2002

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Revenue recognition – continued

Service income is recognised at the time when services are rendered.

Interest income from bank deposits is accrued on a time basis by reference to the principal outstanding and at the interest rate applicable. Other interest income is recognised in the income statement as above, on an accrual basis, except in the case of receivables which are considered to be doubtful, at which stage interest accrual ceases.

Property, plant and equipment

(a) Construction in progress

Construction in progress is stated at cost less any identified impairment loss, as appropriate.

(b) Other fixed assets

Property, plant and equipment are stated at cost or valuation less depreciation and amortisation and any identified impairment loss, as appropriate.

Certain of the Group's land and buildings are stated at valuation less depreciation and amortisation and any subsequent impairment loss. Advantage has been taken of the transitional relief provided by paragraph 72 of the SSAP 17 "Property, Plant and Equipment" issued by the HKSA from the requirement to make revaluation on a regular basis of the Group's land and buildings and accordingly no further revaluation of land and buildings is carried out. On the subsequent sale of these land and buildings, the attributable revaluation surplus not yet transferred to retained profits in prior years is transferred to retained profits.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2002

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Property, plant and equipment – continued

(b) Other fixed assets – continued

Depreciation and amortisation is provided to write off the cost or valuation of items of property, plant and equipment other than construction in progress over their estimated useful lives, using the straight-line method, at the following rates per annum:

Freehold land	Nil
Leasehold land	Over the remaining unexpired terms of the leases
Buildings	2% – 6.5%
Leasehold improvements	5% – 30%
Furniture, fixtures and equipment	10% – 45%
Motor vehicles	20% – 30%

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

The gain or loss arising on the disposal or retirement of an asset is determined at the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

Subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss, as appropriate.

Associates

An associate is an enterprise over which the Group is in a position to exercise significant influence in management, including participation in financial and operating policy decisions.

The consolidated income statement includes the Group's share of the post-acquisition results of associates for the year. The consolidated balance sheet includes the Group's share of net assets of the associates and any interest capitalised in respect of financing the associates in accordance with the Group's accounting policies, less provision, if any.

The Company's interests in associates are included in the Company's balance sheet at cost less any identified impairment loss, as appropriate.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2002

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Jointly controlled entities

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and over which none of the participating parties has unilateral control.

Joint venture arrangements which involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities.

The Group's interests in jointly controlled entities are included in the consolidated balance sheet at the Group's share of the net assets of the jointly controlled entities. The Group's share of the post-acquisition results of jointly controlled entities is included in the consolidated income statement.

The Company's interest in jointly controlled entities are included in the Company's balance sheet at cost, less any identified impairment loss, as appropriate.

Investments in securities

Investments in securities are recognised on a trade-date basis and are initially measured at cost, less any identified impairment loss, as appropriate.

All securities other than held-to-maturity debt securities are measured at subsequent reporting dates at fair value.

Where securities are held for trading purposes, unrealised gains and losses are included in net profit or loss for the period. For other securities, unrealised gains and losses are dealt with in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss is included in net profit or loss for the period.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2002

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another accounting standard, in which case the impairment loss is treated as a revaluation decrease under that accounting standard.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another accounting standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that other accounting standard.

Taxation

The charge for taxation is based on the results for the year after adjusting for items which are non-assessable or disallowed. Certain items of income and expense are recognised for tax purposes in a different accounting period from that in which they are recognised in the financial statements. The tax effect of the resulting timing differences, computed using the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or an asset will crystallise in the foreseeable future.

Leases

A lease is classified as a finance lease whenever the terms of the lease transfer substantially all the risks and rewards of ownership of the leased asset to the Group. An asset held under a finance lease is capitalised at its fair value at the date of inception of the lease. The resulting leasing commitment is shown as a liability of the Group on the balance sheet. The finance costs, which represent the difference between the total leasing commitment and the fair values of the assets acquired, are charged to the income statement as finance charges on an actuarial basis over the period of the lease.

All other leases are classified as operating leases and their rentals payable are charged to the income statement on a straight-line basis over the term of the relevant lease.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2002

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Foreign currencies

Transactions in foreign currencies are translated into Hong Kong dollars at the approximate rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated into Hong Kong dollars at the rates ruling on the balance sheet date. Gains and losses arising on exchange are dealt with in the income statement.

On consolidation, the financial statements of overseas subsidiaries and associates are translated into Hong Kong dollars at the rates ruling on the balance sheet date. All exchange differences arising on consolidation are dealt with in the translation reserve.

Textile quota entitlements

The cost of textile quota entitlements is charged to the income statement at the time of utilisation.

4. TURNOVER AND SEGMENT INFORMATION

Turnover represents the net amounts received and receivable for goods sold by the Group to outside customers during the year.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2002

4. TURNOVER AND SEGMENT INFORMATION – continued

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:

(a) Business segments

TURNOVER AND RESULTS YEAR ENDED 30 JUNE 2002

	Manufacturing business HK\$'000	Branded business HK\$'000	Elimination HK\$'000	Consolidated HK\$'000
TURNOVER				
External sales	817,792	29,054	–	846,846
Inter-segment sales (note)	9,607	–	(9,607)	–
Total sales	<u>827,399</u>	<u>29,054</u>	<u>(9,607)</u>	<u>846,846</u>
RESULTS				
Segment results	<u>99,645</u>	<u>(3,617)</u>	<u>–</u>	96,028
Unallocated corporate expenses				(12,323)
Interest income				722
Profit from operations				84,427
Finance costs				(15,095)
Gain on deemed disposal of interest in a subsidiary				10,400
Profit before taxation				79,732
Taxation				(5,582)
Profit before minority interests				74,150
Minority interests				(2,733)
Profit attributable to shareholders				<u>71,417</u>
BALANCE SHEET AT 30 JUNE 2002				
ASSETS				
Segment assets	336,843	28,705		365,548
Interest in a jointly controlled entity	682	–		682
Unallocated corporate assets				16,297
Consolidated total assets				<u>382,527</u>
LIABILITIES				
Segment liabilities	140,858	2,949		143,807
Unallocated corporate liabilities				172,254
Consolidated total liabilities				<u>316,061</u>
OTHER INFORMATION YEAR ENDED 30 JUNE 2002				
Capital expenditure	24,268	968		25,236
Depreciation and amortisation of property, plant and equipment	16,863	453		17,316
Loss on disposal of property, plant and equipment	1,356	199		1,555
Gain on deemed disposal of interest in a subsidiary	<u>10,400</u>	<u>–</u>		<u>10,400</u>

Note: Inter-segment sales are charged at prices determined by management with reference to market prices.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2002

4. TURNOVER AND SEGMENT INFORMATION – continued

(a) Business segments – continued

TURNOVER AND RESULTS YEAR ENDED 30 JUNE 2001

	Manufacturing business HK\$'000	Branded business HK\$'000	Elimination HK\$'000	Consolidated HK\$'000
TURNOVER				
External sales	887,272	32,193	–	919,465
Inter-segment sales (<i>note</i>)	13,549	–	(13,549)	–
Total sales	<u>900,821</u>	<u>32,193</u>	<u>(13,549)</u>	<u>919,465</u>
RESULTS				
Segment results	<u>91,090</u>	<u>131</u>	<u>–</u>	91,221
Unallocated corporate expenses				(10,646)
Interest income				<u>970</u>
Profit from operations				81,545
Finance costs				<u>(24,756)</u>
Profit before taxation				56,789
Taxation				<u>(6,480)</u>
Profit before minority interests				50,309
Minority interests				<u>(2,651)</u>
Profit attributable to shareholders				<u>47,658</u>
BALANCE SHEET AT 30 JUNE 2001				
ASSETS				
Segment assets	285,364	27,897		313,261
Unallocated corporate assets				<u>24,611</u>
Consolidated total assets				<u>337,872</u>
LIABILITIES				
Segment liabilities	138,362	2,661		141,023
Unallocated corporate liabilities				<u>216,546</u>
Consolidated total liabilities				<u>357,569</u>
OTHER INFORMATION YEAR ENDED 30 JUNE 2001				
Capital expenditure	18,885	320		19,205
Depreciation and amortisation				
of property, plant and equipment	18,126	658		18,784
Impairment loss recognised in respect				
of property, plant and equipment	5,916	–		5,916
Loss on disposal of property, plant and equipment	<u>979</u>	<u>–</u>		<u>979</u>

Note: Inter-segment sales are charged at prices determined by management with reference to market prices.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2002

4. TURNOVER AND SEGMENT INFORMATION – continued

(b) Geographical segments

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

YEAR ENDED 30 JUNE 2002

	Sales revenue by geographical market HK\$'000	Contribution to profit from operations HK\$'000
United States of America	614,075	76,691
Europe	99,136	8,848
Asia (excluding Hong Kong)	81,186	8,713
Australia and New Zealand	31,929	4,523
Hong Kong	20,520	(2,747)
	<u>846,846</u>	<u>96,028</u>
Unallocated corporate expenses		(12,323)
Interest income		<u>722</u>
Profit from operations		<u>84,427</u>

The Group's operations are principally located in Hong Kong, the People's Republic of China ("PRC"), Thailand and Philippines.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2002

4. TURNOVER AND SEGMENT INFORMATION – continued

(b) Geographical segments – continued

The following is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets HK\$'000	Additions to property, plant and equipment HK\$'000
Hong Kong	154,467	2,736
The PRC	152,213	11,389
Thailand	59,694	9,333
Philippines	4,783	1,498
Others	11,370	280
	<u>382,527</u>	<u>25,236</u>

YEAR ENDED 30 JUNE 2001

	Sales revenue by geographical market HK\$'000	Contribution to profit from operations HK\$'000
United States of America	691,763	62,694
Europe	85,624	12,461
Asia (excluding Hong Kong)	78,267	10,312
Australia and New Zealand	38,196	5,559
Hong Kong	25,615	195
	<u>919,465</u>	<u>91,221</u>
Unallocated corporate expenses		(10,646)
Interest income		970
Profit from operations		<u>81,545</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2002

4. TURNOVER AND SEGMENT INFORMATION – continued

(b) Geographical segments – continued

The following is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets HK\$'000	Additions to property, plant and equipment HK\$'000
Hong Kong	162,220	4,002
The PRC	121,404	6,608
Thailand	45,915	7,947
Philippines	5,385	648
Others	2,948	–
	<u>337,872</u>	<u>19,205</u>

5. OTHER OPERATING INCOME

Other operating income includes:

	2002 HK\$'000	2001 HK\$'000
Interest income	722	970
Gain on disposal of investment in securities, listed	2,267	–
Net exchange gain	<u>4,831</u>	<u>–</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2002

6. PROFIT FROM OPERATIONS

	2002 HK\$'000	2001 HK\$'000
Profit from operations has been arrived at after charging:		
Auditors' remuneration	1,417	1,420
Cost of textile quota entitlements	15,489	37,982
Depreciation and amortisation on:		
Owned assets	16,133	18,300
Assets held under finance leases	1,183	484
Impairment loss recognised in respect of property, plant and equipment	–	5,916
Loss on disposal of property, plant and equipment	1,555	979
Minimum lease payments paid under operating leases in respect of:		
Land and buildings	15,838	14,847
Other assets	–	351
Net exchange loss	–	4,802
Staff costs, including directors' emoluments	<u>175,872</u>	<u>159,268</u>

7. DIRECTORS' REMUNERATION AND HIGHEST PAID INDIVIDUALS

	2002 HK\$'000	2001 HK\$'000
Fees to Non-executive Directors	–	–
Remuneration to Executive Directors		
Fees	–	–
Salaries and other benefits	8,985	8,686
Retirement benefits scheme contributions	24	14
	<u> </u>	<u> </u>

Emoluments of the Directors were within the following bands:

	Number of Directors	
	2002	2001
Nil to HK\$1,000,000	6	7
HK\$4,000,001 – HK\$4,500,000	1	2
HK\$4,500,001 – HK\$5,000,000	1	–
	<u> </u>	<u> </u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2002

7. DIRECTORS' REMUNERATION AND HIGHEST PAID INDIVIDUALS – continued

Details of emoluments paid by the Group to the five highest paid individuals (including Directors, details of whose emoluments are set out above, and employees) are as follows:

	2002 HK\$'000	2001 HK\$'000
Salaries and other benefits	12,989	12,705
Retirement benefits scheme contributions	60	21
	<u>13,049</u>	<u>12,726</u>

Emoluments of the five highest paid individuals were within the following bands:

	Number of individuals	
	2002	2001
HK\$1,000,001 – HK\$1,500,000	3	3
HK\$4,000,001 – HK\$4,500,000	1	2
HK\$4,500,001 – HK\$5,000,000	1	–
	<u>2</u>	<u>2</u>
Number of Directors	2	2
Number of employees	3	3
	<u>5</u>	<u>5</u>

8. FINANCE COSTS

	2002 HK\$'000	2001 HK\$'000
Interest on:		
Bank borrowings wholly repayable within five years	7,758	16,831
Convertible loan notes	7,116	7,824
Finance leases	221	101
	<u>15,095</u>	<u>24,756</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2002

9. GAIN ON DEEMED DISPOSAL OF INTEREST IN A SUBSIDIARY

During the year, Elastex Manufacturing Company Limited (“Elastex”), a subsidiary of the Company, issued 126,677 ordinary shares to an outsider for a consideration of HK\$17,999,000 which resulted a gain of HK\$10,400,000 in a deemed disposal of 40% of the Company’s interest in that subsidiary. Elastex has changed its name to Charming Elastic Fabric Company Limited on 9 August 2002.

10. TAXATION

	2002 HK\$'000	2001 HK\$'000
Hong Kong Profits Tax calculated at 16% on the estimated assessable profit for the year	4,500	5,603
Overprovision for Hong Kong Profits Tax in prior years	(534)	–
Taxation in other jurisdictions calculated at the rates prevailing in the respective jurisdictions	1,133	804
Underprovision for taxation in other jurisdictions in prior years	483	73
	<u>5,582</u>	<u>6,480</u>

11. EARNINGS PER SHARE

The computation of basic and diluted earnings per share is as follows:

	2002 HK\$'000	2001 HK\$'000
Profit for the purpose of basic earnings per share	71,417	47,658
Interest on convertible loan notes	7,116	7,824
	<u>78,533</u>	<u>55,482</u>

	Number of shares	
	2002	2001
Number of shares for the purpose of basic earnings per share	739,434,795	735,608,744
Effect of dilutive potential shares on the convertible loan notes	382,707,614	386,533,665
	<u>1,122,142,409</u>	<u>1,122,142,409</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2002

11. EARNINGS PER SHARE – continued

The Company's share options were not taken into account in the computation of diluted earnings per share as the exercise price of options outstanding during the two years ended 30 June 2002 was higher than the average market price of the Company's shares.

12. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings HK\$'000	Leasehold improvements HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Construction in progress HK\$'000	Total HK\$'000
THE GROUP						
COST OR VALUATION						
At 1 July 2001	36,310	35,091	133,815	7,642	–	212,858
Currency realignment	85	488	2,054	111	–	2,738
Additions	–	3,713	17,527	2,261	1,735	25,236
Disposals	–	(294)	(3,443)	(822)	–	(4,559)
At 30 June 2002	36,395	38,998	149,953	9,192	1,735	236,273
Comprising						
At cost	34,934	38,998	149,953	9,192	1,735	234,812
At valuation – 1992	1,461	–	–	–	–	1,461
	<u>36,395</u>	<u>38,998</u>	<u>149,953</u>	<u>9,192</u>	<u>1,735</u>	<u>236,273</u>
DEPRECIATION AND IMPAIRMENT						
At 1 July 2001	15,622	27,042	94,050	6,098	–	142,812
Currency realignment	77	209	856	52	–	1,194
Provide for the year	1,320	3,819	10,961	1,216	–	17,316
Eliminated on disposals	–	(127)	(1,094)	(748)	–	(1,969)
At 30 June 2002	17,019	30,943	104,773	6,618	–	159,353
NET BOOK VALUES						
At 30 June 2002	19,376	8,055	45,180	2,574	1,735	76,920
At 30 June 2001	20,688	8,049	39,765	1,544	–	70,046

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2002

12. PROPERTY, PLANT AND EQUIPMENT – continued

Notes:

- (a) The net book value of the Group's property interests as at the balance sheet date comprises:

	2002 HK\$'000	2001 HK\$'000
Land and buildings outside Hong Kong under:		
Long lease	4,619	4,805
Medium-term lease	13,496	14,337
Short lease	252	420
Land and buildings in Hong Kong under medium-term lease	<u>1,009</u>	<u>1,126</u>
	<u>19,376</u>	<u>20,688</u>

- (b) The net book values of the Group's property, plant and equipment in respect of assets held under finance leases are as follows:

	2002 HK\$'000	2001 HK\$'000
Furniture, fixtures and equipment	1,828	1,877
Motor vehicles	<u>1,700</u>	<u>977</u>
	<u>3,528</u>	<u>2,854</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2002

13. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2002	2001
	HK\$'000	HK\$'000
Unlisted shares	125,002	125,002
Capital contribution	5,460	5,460
	130,462	130,462
Impairment loss recognised	(5,460)	(5,460)
	125,002	125,002
Amounts due from subsidiaries	178,024	175,173
	303,026	300,175

The value of unlisted shares is based on the underlying net assets of Top Form (B.V.I.) Limited and its subsidiaries at the time they became members of the Group pursuant to the group reorganisation in 1991.

Details of the principal subsidiaries as at 30 June 2002 are set out in note 40.

14. INTERESTS IN ASSOCIATES

	THE GROUP	THE COMPANY
	2002 & 2001	2002 & 2001
	HK\$'000	HK\$'000
Share of net assets	13,015	–
Interest capitalised	2,407	–
	15,422	–
Capital contribution, at cost	–	15,422
	15,422	15,422
Less: Impairment loss recognised	(15,422)	(15,422)
	–	–

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2002

14. INTERESTS IN ASSOCIATES – continued

Details of the Group's associates as at 30 June 2002 are as follows:

Name of company	Place of incorporation/ registration	Proportion of nominal value of issued ordinary share capital/ registered capital held by the Group	Principal activities
Shenzhen Fenghua Weaving Tape Factory Company Limited 深圳豐華織帶廠有限公司	the PRC	25%	Inactive
Yingkou Xinfu Industrial Park Development Company Limited 營口鑫發工業園開發有限公司	the PRC	30%*	Industrial land development

* Directly held by the Company

Under a debt restructuring agreement entered into with the Group's bankers in January 1998, the Group is obliged to advance the net proceeds to be realised from the sale of certain of the Group's portfolio of property investments, which includes its investment in an associate in Yingkou in the PRC, to Almswood International Limited ("Almswood"). Almswood is a company wholly owned by Lo Kit Lun, Frank, who acted as a former Non-executive Director of the Company in previous years until 18 August 2000. In the opinion of the Directors, the recoverability of the amounts loaned and to be loaned to Almswood is in question and, accordingly, full allowance has been made against the value of the underlying investments.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2002

15. INTERESTS IN A JOINTLY CONTROLLED ENTITY

	THE GROUP	
	2002	2001
	HK\$'000	HK\$'000
Share of net assets	–	–
Amount due from a jointly controlled entity	682	–
	<u>682</u>	<u>–</u>
	<u>682</u>	<u>–</u>

Details of the Group's jointly controlled entity as at 30 June 2002 is as follows:

Name of company	Place of incorporation	Proportion of nominal value of issued ordinary share capital held by the Group	Principal activities
Datel Asia Limited	Hong Kong	50%	Trading and distribution of computer softwares

16. INVESTMENT IN SECURITIES

	THE GROUP	
	2002	2001
	HK\$'000	HK\$'000
Other securities at market value, shares listed overseas	4,355	13,306
	<u>4,355</u>	<u>13,306</u>

NOTES TO THE FINANCIAL STATEMENTS

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17. LOANS RECEIVABLE

	THE GROUP AND THE COMPANY 2002 & 2001 HK\$'000
Loans receivable	53,141
Less: allowance	(53,141)
	<u> </u>
	<u> </u>
	—

As part of the Group's debt restructuring agreement entered into with its bankers in January 1998, the Company had advanced an aggregate amount of HK\$53,141,000 to Almswood and has an obligation to make further advances to Almswood from the net proceeds to be realised from the sale of the Group's property investments in Shanghai, Chengdu and Yingkou in the PRC.

The loan bears interest at the highest of the interest rates charged by the banks on overdraft facilities to the Group or, if none, at the cost of funding the loans by the Group. Interest receivable for the year on the loans to Almswood amounting to HK\$3,868,000 (2001: HK\$5,048,000) has not been accrued, as the Directors question the ability of Almswood to repay the loans or the interest thereon. The repayment by Almswood of the principal and interest is subordinated to Lo Kit Lun, Frank's, Almswood and its subsidiaries' indebtedness to certain banks ("banks' indebtedness").

The loans extended by the Company to Almswood are to be repaid in 10 equal semi-annual instalments commencing from the sixth month after Almswood's indebtedness to the banks has been fully repaid or, at the discretion of the Board of the Company, commencing no later than the thirteenth month after Almswood's indebtedness to the banks has been fully repaid. Under the existing payment profile of the indebtedness, full repayment of the banks' indebtedness is scheduled in the fifth year from the date of drawdown on 23 January 1998.

Under an agreement with its bankers, Almswood was committed to commence repayment of its bank indebtedness by January 2000. The Directors understand that Almswood has yet to obtain additional external funding to enable it to meet its financial obligations, including those to its bankers and to the Group. In the opinion of the Directors, the recoverability of amounts loaned and to be loaned to Almswood is dependent upon Almswood obtaining sufficient additional external funding, which was in question, and accordingly, provisions were made for the loans receivable of HK\$53,141,000 and against the Group's property and other investments with an aggregate carrying value of HK\$59,138,000 in the previous years.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2002

18. INVENTORIES

	THE GROUP	
	2002	2001
	HK\$'000	HK\$'000
Raw materials	51,197	47,242
Work in progress	43,501	27,617
Finished goods	37,473	35,670
	132,171	110,529
	125,451	91,374
At cost	125,451	91,374
At net realisable value	6,720	19,155
	132,171	110,529

19. DEBTORS, DEPOSITS AND PREPAYMENTS

Included in the balance are trade debtors of HK\$50,555,000 (2001: HK\$64,085,000). The Group allows an average credit period of 30 days to its trade customers.

An aged analysis of trade debtors is as follows:

	THE GROUP	
	2002	2001
	HK\$'000	HK\$'000
Within 30 days	47,073	61,340
Over 30 days and under 60 days	1,401	896
Over 60 days and under 90 days	947	682
Over 90 days	1,134	1,167
	50,555	64,085

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2002

20. AMOUNT DUE FROM A MINORITY SHAREHOLDER OF A SUBSIDIARY

The amount represents the outstanding consideration receivable from a minority shareholder of a subsidiary in connection with the deemed disposal of a 40% interest in Elastex (note 9).

21. CREDITORS AND ACCRUED CHARGES

Included in the balance are trade creditors of HK\$56,712,000 (2001: HK\$47,644,000).

An aged analysis of trade creditors is as follows:

	THE GROUP	
	2002	2001
	HK\$'000	HK\$'000
Within 30 days	45,150	31,145
Over 30 days and under 60 days	10,479	11,112
Over 60 days and under 90 days	845	5,040
Over 90 days	238	347
	56,712	47,644

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2002

22. SECURED BANK BORROWINGS AND OTHER LIABILITIES

	THE GROUP		THE COMPANY	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Bank borrowings:				
Trust receipts and import loans	51,208	73,550	–	–
Bank loans	16,507	23,507	11,370	15,284
Bank overdrafts	24,985	45,104	6,049	6,057
	<u>92,700</u>	<u>142,161</u>	<u>17,419</u>	<u>21,341</u>
Total bank borrowings (note a)				
Other liability (note b)	531	614	–	–
	<u>93,231</u>	<u>142,775</u>	<u>17,419</u>	<u>21,341</u>
Less: Amount due within one year shown as current liabilities	<u>(92,782)</u>	<u>(142,243)</u>	<u>(17,419)</u>	<u>(21,341)</u>
Amount due after one year	<u>449</u>	<u>532</u>	<u>–</u>	<u>–</u>

Notes:

- (a) All bank borrowings are repayable within one year or upon demand and are all secured.

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.

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, 20 January 2002 and 20 July 2002 were met by the Group.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2002

22. SECURED BANK BORROWINGS AND OTHER LIABILITIES – continued

Notes: – continued

	THE GROUP		THE COMPANY	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
(b) Other liability is unsecured and is repayable:				
Within one year	82	82	–	–
Between one to two years	82	82	–	–
Between two to five years	246	246	–	–
After five years	121	204	–	–
	<u>531</u>	<u>614</u>	<u>–</u>	<u>–</u>

23. OBLIGATIONS UNDER FINANCE LEASES

	Minimum lease payments		Present value of minimum lease payments	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
THE GROUP				
Within one year	1,709	1,441	1,518	1,282
Between one to two years	577	1,037	509	990
Between two to five years	757	–	733	–
	<u>3,043</u>	<u>2,478</u>	<u>2,760</u>	<u>2,272</u>
Less: future finance charges	<u>(283)</u>	<u>(206)</u>	<u>–</u>	<u>–</u>
Present value of lease obligations	<u>2,760</u>	<u>2,272</u>	<u>2,760</u>	<u>2,272</u>
Less: Amount due within one year shown as current liabilities			<u>(1,518)</u>	<u>(1,282)</u>
Amount due after one year			<u>1,242</u>	<u>990</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2002

23. OBLIGATIONS UNDER FINANCE LEASES – continued

It is the Group's policy to lease certain of its furniture, fixtures and equipment and motor vehicles under finance leases. The average lease term is three years. For the year ended 30 June 2002, the average effective borrowing rate was 8.8%. Interest rates are fixed at the contract rate. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent payments.

24. CONVERTIBLE LOAN NOTES

	THE GROUP AND THE COMPANY	
	2002 HK\$'000	2001 HK\$'000
Convertible loan notes ("CLN")		
At the beginning of the year	120,000	120,000
Exchange adjustment	435	–
Converted during the year (note e)	(10,878)	–
	<hr/>	<hr/>
At the end of the year	109,557	120,000
Less: Amount due within one year shown as current liabilities	(109,557)	–
	<hr/>	<hr/>
Amount due after one year	–	120,000
	<hr/> <hr/>	<hr/> <hr/>

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 accrued 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2002

24. CONVERTIBLE LOAN NOTES – continued

- (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 year, US\$1.4 million of CLNs were converted into 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 351,620,947 (2001: 386,533,665) new shares upon full conversion of the remaining CLNs.

25. AMOUNT DUE TO A SUBSIDIARY

The amount due to a subsidiary is unsecured, interest free and is not expected to be repaid in the coming twelve months.

26. DEFERRED TAXATION

	THE GROUP	
	2002	2001
	HK\$'000	HK\$'000
At the beginning of the year	2,372	2,372
Currency realignment	8	–
	<hr/>	<hr/>
At the end of the year	2,380	2,372
	<hr/> <hr/>	<hr/> <hr/>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2002

26. DEFERRED TAXATION – continued

Deferred taxation represents the taxation effect of the following timing differences:

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
Excess of depreciation allowances claimed for tax purposes over accounting depreciation charged in the financial statements	2,673	2,665
Taxation losses	(293)	(293)
	<u>2,380</u>	<u>2,372</u>

The surplus arising from revaluation of the Group's property in Hong Kong does not constitute a timing difference for taxation purposes as any profit realised on subsequent disposal would not be subject to taxation.

At the balance sheet date, the unrecognised deferred taxation asset represents the taxation effect of the following timing differences:

	THE GROUP		THE COMPANY	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Difference between depreciation allowances claimed for tax purposes and accounting depreciation charged in the financial statements	243	188	–	–
Taxation losses	12,700	12,804	3,000	3,000
	<u>12,943</u>	<u>12,992</u>	<u>3,000</u>	<u>3,000</u>

A significant portion of the potential deferred tax asset which principally represents the tax losses of the Company and certain of its subsidiaries available to set off future assessable profits has not been recognised in the financial statements as it is uncertain whether the tax benefit will be realised in the foreseeable future.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2002

26. DEFERRED TAXATION – continued

The amount of unrecognised deferred taxation credit (charge) of the Group for the year is as follows:

	2002 HK\$'000	2001 HK\$'000
Tax effect of timing differences because of:		
Difference between depreciation allowances for tax purposes and depreciation charged in the financial statements	55	(3)
Taxation losses	57	(566)
	<u>112</u>	<u>(569)</u>
Currency realignment	(161)	(362)
	<u>(49)</u>	<u>(931)</u>

27. SHARE CAPITAL

	Number of shares		HK\$'000	
	2002	2001	2002	2001
			HK\$'000	HK\$'000
Shares of HK\$0.10 each				
Authorised:				
At the beginning and the end of the 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 the beginning of the year	735,608,744	735,608,744	73,561	73,561
Issue of shares upon the conversion of CLNs (note 24e)	<u>34,912,718</u>	–	<u>3,491</u>	–
At the end of the year	<u>770,521,462</u>	<u>735,608,744</u>	<u>77,052</u>	<u>73,561</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2002

28. SHARE OPTIONS

At 30 June 2002, the options granted under the share option scheme which lapsed on 19 November 2001 are as follows:

Date of grant	Exercise period	Exercise price HK\$	Number of share options		
			At 1.7.2001	Lapsed on 19.11.2001	At 30.6.2002
23 December 1991	23 December 1993 to 19 November 2001	0.87	4,525,000	(4,525,000)	–
3 September 1992	3 September 1994 to 19 November 2001	1.35	6,000,000	(6,000,000)	–
21 October 1997	21 October 1999 to 19 November 2001	0.23	5,500,000	(5,500,000)	–
			<u>16,025,000</u>	<u>(16,025,000)</u>	<u>–</u>

A new share option scheme was approved and adopted at a special general meeting of the Company held on 22 November 2001, no share options under the new share option scheme were granted, exercised or cancelled during the year.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2002

29. (DEFICIT) RESERVE

	THE GROUP		THE COMPANY	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
SHARE PREMIUM				
At the beginning of the year	242,159	242,159	242,159	242,159
Premium arising on issue of shares upon the conversion of CLNs	7,387	–	7,387	–
At the end of the year	249,546	242,159	249,546	242,159
LEGAL RESERVE				
At the beginning and the end of the year	323	323	–	–
SPECIAL RESERVE				
At the beginning and the end of the year	7,139	7,139	–	–
CONTRIBUTED SURPLUS				
At the beginning and the end of the year	–	–	124,802	124,802
REVALUATION RESERVE				
At the beginning of the year	13,735	3,344	–	–
(Deficit) surplus arising from revaluation of investment in securities	(5,048)	10,391	–	–
Realised on disposal of investment in securities	(3,176)	–	–	–
At the end of the year	5,511	13,735	–	–
TRANSLATION RESERVE				
At the beginning of the year	(5,022)	(6,361)	–	–
Exchange differences arising on translation of overseas operations	1,466	(1,939)	–	–
Realised on liquidation of a subsidiary	–	3,278	–	–
At the end of the year	(3,556)	(5,022)	–	–
DEFICIT				
At the beginning of the year	(363,432)	(411,090)	(562,942)	(563,528)
Profit (loss) attributable to shareholders	71,417	47,658	(515)	586
At the end of the year	(292,015)	(363,432)	(563,457)	(562,942)
DEFICIT	(33,052)	(105,098)	(189,109)	(195,981)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2002

29. (DEFICIT) RESERVE – continued

Legal reserve represents the transfer from retained profits of a subsidiary in Switzerland pursuant to legal requirements in Switzerland.

Special reserve represents the difference between the nominal amount of the share capital issued by the Company in exchange for the nominal amount of the share capital of companies forming the Group, pursuant to the group reorganisation in 1991.

Contributed surplus represents the difference between the combined net assets of the subsidiaries acquired by the Company under the group reorganisation, and the nominal amount of the Company's shares issued.

Under the Company Act 1981 of Bermuda (as amended), the contributed surplus account of the Company is available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

- (a) it is, or would after the payment be, unable to pay its liabilities as they become due; or
- (b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

The Company did not have any reserves available for distribution as at 30 June 2002 (2001: nil).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2002

30. RECONCILIATION OF PROFIT BEFORE TAXATION TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2002	2001
	HK\$'000	HK\$'000
Profit before taxation	79,732	56,789
Interest income	(722)	(970)
Interest expense	15,095	24,756
Depreciation and amortisation	17,316	18,784
Impairment loss recognised in respect of property, plant and equipment	–	5,916
Gain on deemed disposal of interest in a subsidiary	(10,400)	–
Loss on disposal of property, plant and equipment	1,555	979
Gain on disposal of investment in securities	(2,267)	–
Translation loss realised on liquidation of a subsidiary	–	3,278
Decrease in amount due to an associate	(140)	(300)
(Increase) decrease in inventories	(21,642)	57,147
Decrease (increase) in debtors, deposits and prepayments	349	(31,268)
(Increase) decrease in bills receivable	(886)	54
Increase (decrease) in creditors and accrued charges	21,099	(22,637)
Effect of foreign exchange rate changes	1,579	(10)
	100,668	112,518
Net cash inflow from operating activities	100,668	112,518

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2002

31. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	2002 HK\$'000	2001 HK\$'000
TRUST RECEIPTS AND IMPORT LOANS		
At the beginning of the year	73,550	106,540
Currency realignment	1,065	–
Net cash outflow during the year	<u>(23,407)</u>	<u>(32,990)</u>
At the end of the year	<u><u>51,208</u></u>	<u><u>73,550</u></u>
BANK LOANS		
At the beginning of the year	23,507	32,554
Currency realignment	79	–
Repayments during the year	<u>(7,079)</u>	<u>(9,047)</u>
At the end of the year	<u><u>16,507</u></u>	<u><u>23,507</u></u>
OTHER LIABILITY		
At the beginning of the year	614	701
Currency realignment	(1)	–
Repayments during the year	<u>(82)</u>	<u>(87)</u>
At the end of the year	<u><u>531</u></u>	<u><u>614</u></u>
OBLIGATIONS UNDER FINANCE LEASES		
At the beginning of the year	2,272	1,119
Currency realignment	37	(105)
Inception of new finance leases	2,089	1,876
Repayments during the year	<u>(1,638)</u>	<u>(618)</u>
At the end of the year	<u><u>2,760</u></u>	<u><u>2,272</u></u>
MINORITY INTERESTS		
At the beginning of the year	11,840	9,594
Share of profit by minority shareholders	2,733	2,651
Dividends paid to minority shareholders	(450)	(225)
Issue of new ordinary shares in a subsidiary for		
– cash consideration	4,604	–
– non-cash consideration	13,395	–
Gain on deemed disposal of interest in a subsidiary	(10,400)	–
Contribution from a minority shareholder	329	–
Advance from a minority shareholder	415	–
Repayments of advances from minority shareholders	<u>–</u>	<u>(180)</u>
At the end of the year	<u><u>22,466</u></u>	<u><u>11,840</u></u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2002

32. MAJOR NON-CASH TRANSACTIONS

During the year, the Group entered into finance lease arrangements in respect of assets with a total capital value of HK\$2,089,000 (2001: HK\$1,876,000) at the inception of the finance leases.

During the year, HK\$10,878,000 (2001: nil) of CLNs are converted into 34,912,718 ordinary shares of the Company.

Part of the consideration in connection with the issue of new shares of Elastex was settled in the form of property, plant and equipment. Up to 30 June 2002, production facilities and equipment at cost of HK\$7,018,000 have been contributed.

33. ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS

	2002	2001
	HK\$'000	HK\$'000
Bank balances and cash	70,551	53,057
Bank overdrafts	(24,985)	(45,104)
	<u>45,566</u>	<u>7,953</u>

34. CONTINGENT LIABILITIES

	THE GROUP		THE COMPANY	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Export bills discounted with recourse	3,848	9,497	–	–
Guarantees given (extent of facilities utilised) to banks in respect of credit facilities granted to subsidiaries	–	–	79,128	130,317
	<u>–</u>	<u>–</u>	<u>79,128</u>	<u>130,317</u>

As at 30 June 2002, 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 as at 30 June 2002 would be HK\$11,183,000 (2001: HK\$10,865,000). The Company would have no liability as at 30 June 2002 (2001: nil).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2002

35. PLEDGE OF ASSETS

As at 30 June 2002, the Group has pledged certain of its properties with an aggregate carrying value of approximately HK\$1,003,000 (2001: HK\$1,125,000), to secure credit facilities granted to the Group.

The Company and certain of its subsidiaries each has executed a debenture in favour of certain banks so that all the assets, including bank balances and cash, and rights of the Company and the related subsidiaries are provided as securities for the continuation of the banking facilities granted to the Group.

36. CAPITAL COMMITMENTS

	THE GROUP	
	2002	2001
	HK\$'000	HK\$'000
Capital commitments in respect of unpaid capital contributions	–	694
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the financial statements	5,210	45
Capital expenditure in respect of acquisition of property, plant and equipment authorised but not contracted for	44,255	–
	49,465	739

The Company did not have any significant capital commitments as at the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2002

37. OPERATING LEASE COMMITMENTS

As at the balance sheet date, the Group had outstanding commitments under non-cancellable operating leases in respect of land and buildings, which fall due as follows:

	2002	2001
	HK\$'000	HK\$'000
– Within one year	12,732	11,924
– In the second to fifth year inclusive	6,370	10,896
– Over five years	211	397
	<u>19,313</u>	<u>23,217</u>

Leases are negotiated for a range from three to five years with fixed rental over the terms of the relevant leases.

The Company had no operating lease commitments as at the balance sheet date.

38. RETIREMENT BENEFITS SCHEMES

The Group has joined a Mandatory Provident Fund scheme ("MPF Scheme") for all employees in Hong Kong which is registered with the Mandatory Provident Fund Scheme Authority under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rules of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rate specified in the rules. The only obligation of the Group with respect of the MPF Scheme is to make the required contributions under the scheme. No forfeited contribution is available to reduce the contribution payable in the future years.

During the year, the Group made retirement benefit scheme contributions of HK\$1,636,000 (2001: HK\$941,000).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2002

39. RELATED PARTY TRANSACTIONS

During the year, the Group had significant transactions with related parties as follows:

Name of related party	Nature of transactions	2002	2001
		HK\$'000	HK\$'000
Bestform, Inc. and its affiliates (note a)	Sale of finished products (note d)	430,443	499,664
	Purchase of raw materials or semi-finished products (note e)	7,203	18,800
	Interest payable on CLN	<u>1,620</u>	<u>1,767</u>
AIG Asia Direct Investment Fund Ltd. (note b)	Interest payable on CLN	<u>2,517</u>	<u>2,776</u>
American International Assurance Co. (Bermuda) Ltd. (note b)	Interest payable on CLN	<u>2,517</u>	<u>2,776</u>
Charming Industrial Co. Ltd. (note c)	Purchase of raw materials or semi-finished products (note e)	<u>5,995</u>	<u>–</u>

Notes:

- (a) As at 30 June 2002, the balances of trade receivable from Bestform, Inc. and its affiliates amounted to HK\$23,196,000 (2001: HK\$28,391,000) and the balance of interest payable to Bestform, Inc. amounted to HK\$740,000 (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) As at 30 June 2002, the balance of interest payable to each of AIG Asia Direct Investment Fund Ltd. and American International Assurance Co. (Bermuda) Ltd. amounted to HK\$1,015,000 (2001: HK\$1,020,000). AIG Asia Direct Investment Fund Ltd. and American International Assurance Co. (Bermuda) Ltd., both of which are managed by AIG Investment Corporation (Asia) Limited, each holds US\$4.8 million (2001: US\$5.5 million) of the CLN issued by the Company. Lin Sian Zu, John and Tse Koon Hang, Ada, non-executive Directors of the Company, are directors of AIG Investment Corporation (Asia) Limited.
- (c) During the year, the Company disposed of a 40% interest in Elastex to Ko Ching Enterprises Limited which is controlled by Mr. Wong Lok Cheung. Since then, Mr. Wong Lok Cheung became a related party of the Group and Elastex became a 60% owned subsidiary of the Company. At 30 June 2002, the balance of trade payable to Charming Industrial Co., Ltd. ("Charming") amounted to HK\$1,267,000 (2001: nil). Mr. Wong Lok Cheung has certain interests in Charming.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2002

39. RELATED PARTY TRANSACTIONS – continued

- (d) The sales were carried out at market price or, where no market price was available, at cost plus a percentage profit mark-up.
- (e) The purchases were mutually agreed with the suppliers.

40. PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries as at 30 June 2002 are as follows:

Name of company	Place of incorporation/ registration	Nominal value of issued share capital/ registered capital	Proportion of nominal value of issued ordinary share capital/ registered capital held by the Company	Principal activities
Charming Elastic Fabric Company Limited (formerly known as Elastex Manufacturing Company Limited)	Hong Kong	Ordinary – HK\$316,667 Deferred – HK\$810,000	60%	Manufacture of elastic garment straps
Grand Gain Industrial Limited	Hong Kong	Ordinary – HK\$100,000	55%	Laminating business
Longnan County Grand Gain Underwear Company Limited 龍南縣建盈內衣有限公司	The PRC	HK\$5,000,000	55%	Moulding
Longnan County Top Form Underwear Company Limited 龍南縣黛麗斯內衣 有限公司	The PRC	Capital contribution HK\$10,000,000	100%	Manufacture of ladies' underwear

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2002

40. PRINCIPAL SUBSIDIARIES – continued

Name of company	Place of incorporation/ registration	Nominal value of issued share capital/ registered capital	Proportion of nominal value of issued ordinary share capital/ registered capital held by the Company	Principal activities
Marguerite Lee Limited	Hong Kong	Ordinary – HK\$2,500,000	100%	Retail sales of underwear, sleepwear and other intimate apparel
Marguerite Lee (Overseas) Limited	British Virgin Islands	Ordinary – US\$10	100%	Investment holding
Meritlux Industries Philippines, Inc.	Republic of Philippines	Ordinary – Peso 17,500,000	100%	Manufacture of ladies' underwear
Nan Hai Top Form Underwear Company Limited 南海市黛麗斯內衣有限公司	The PRC	Capital contribution – HK\$20,800,000	75%	Manufacture of ladies' underwear
Shenzhen Top Form Underwear Co., Limited 深圳黛麗斯內衣有限公司	The PRC	Capital contribution – HK\$8,616,475	70%	Manufacture and distribution of ladies' underwear

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2002

40. PRINCIPAL SUBSIDIARIES – continued

Name of company	Place of incorporation/ registration	Nominal value of issued share capital/ registered capital	Proportion of nominal value of issued ordinary share capital/ registered capital held by the Company	Principal activities
Top Form Brassiere Co., Limited	Thailand	Ordinary – Baht 80,000,000	100%	Manufacture of ladies' underwear
Top Form Brassiere Mfg. Co., Limited	Hong Kong	Ordinary – HK\$100 Deferred – HK\$4,000,000	100%	Manufacture of ladies' underwear
Top Form (B.V.I.) Limited	British Virgin Islands	Ordinary – US\$50,000	100%*	Investment holding
Top Form (Taiwan) Limited	British Virgin Islands	Ordinary – US\$10	90%	Wholesale of ladies' underwear in Taiwan
Top Prospect Investment Limited	Hong Kong	Ordinary – HK\$2	100%	Property holding in the PRC
Topfull Development Limited	Hong Kong	Ordinary – HK\$2	100%	Property holding in the PRC
Twin Peak Brassiere Company Limited	Thailand	Ordinary – Baht 3,000,000	97%	Manufacture of ladies' underwear
Unique Form Manufacturing Company Limited	Hong Kong	Ordinary – HK\$1,000 Deferred – HK\$200	100%	Retail sales of underwear, sleepwear and other intimate apparel

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2002

40. PRINCIPAL SUBSIDIARIES – continued

Name of company	Place of incorporation/ registration	Nominal value of issued share capital/ registered capital	Proportion of nominal value of issued ordinary share capital/ registered capital held by the Company	Principal activities
Wide Gain Investment Limited	Hong Kong	Ordinary – HK\$2	100%	Investment holding

* Directly held by the Company

Shenzhen Top Form Underwear Company Limited 深圳黛麗斯內衣有限公司 is a joint venture company established in the PRC and was originally for a period of twelve years from 10 November 1987. On 18 September 1998, an extension agreement was entered into between the Group and the joint venture partner to extend the joint venture period for a further 10 years to 28 February 2009. Nan Hai Top Form Underwear Company Limited 南海市黛麗斯內衣有限公司 is also a joint venture company established in the PRC and is for a period of ten years from 1 January 1992. Pursuant to the agreements under which the joint ventures were established, the Group has contributed 70% and 75% of the nominal registered capital of Shenzhen Top Form Underwear Company Limited 深圳黛麗斯內衣有限公司 and Nan Hai Top Form Underwear Company Limited 南海市黛麗斯內衣有限公司, respectively. However, under the joint venture agreements, the Group is entitled to 100% of the joint venture companies' profit after deducting a fixed annual amount attributable to assets contributed by the joint venture partners. The Group is entitled to receive its attributable share of the net assets upon liquidation of the joint ventures.

As at 30 June 2002, all of the deferred shares issued by subsidiaries were held by group companies. The deferred shares carry no right to dividend or to receive notice of or to attend or vote at any general meeting of the respective companies. On winding-up, the holders of the deferred shares are entitled to one half of the remaining assets of the respective companies after the first HK\$100,000,000,000 has been distributed equally amongst the holders of the ordinary shares.

None of the subsidiaries had any debt securities subsisting as at 30 June 2002 or at any time during the year.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2002

40. PRINCIPAL SUBSIDIARIES – continued

All subsidiaries operate principally in their respective places of incorporation unless specified otherwise under the heading “Principal activities”.

The above tables list the subsidiaries of the Company which, in the opinion of the Directors, principally comprised the Group’s results of the year. To give details of other subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.