

N O T E S T O T H E A C C O U N T S

1 Principal Accounting Policies

(a) Basis of preparation

The accounts have been prepared under the historical cost convention as modified by the revaluation of investment properties and investments in securities, in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants (“HKSA”).

In the current year, the Group adopted the following Statements of Standard Accounting Practice (“SSAPs”) issued by the HKSA which are effective for accounting periods commencing on or after 1st January 2002 :

SSAP 1(revised)	: Presentation of financial statements
SSAP 11 (revised)	: Foreign currency translation
SSAP 15 (revised)	: Cash flow statements
SSAP 34 (revised)	: Employee benefits

The changes to the Group’s accounting policies and the effect of adopting these new policies are set out in the accounting policies below.

(b) Group accounting

(i) Consolidation

The consolidated accounts include the accounts of the Company and all its subsidiaries made up to 31st December. Subsidiaries are those entities in which the Group has the power to exercise control governing the financial and operating policies of the entity.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

1 Principal Accounting Policies *(con't)*

(b) **Group accounting** *(con't)*

(i) **Consolidation** *(con't)*

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

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any unamortised goodwill/negative goodwill or goodwill/negative goodwill taken to reserves and which was not previously charged or recognised in the consolidated profit and loss account.

In the Company's balance sheet, the investments in subsidiaries are stated at cost less provision, if necessary, for any impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividend income.

(ii) **Jointly controlled entities**

A jointly controlled entity is an entity which through contractual arrangements is subject to joint control by the Group and other parties, and none of the participating parties has unilateral control over the entity.

The consolidated profit and loss account includes the Group's share of the results of jointly controlled entities for the year. The consolidated balance sheet includes the Group's share of the net assets of the jointly controlled entities.

1 Principal Accounting Policies (con't)

(c) Fixed Assets

(i) Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties held on leases with unexpired periods of greater than 20 years are valued annually by independent valuers. The valuations are on an open market value basis related to individual properties and separate values are not attributed to land and buildings. The valuations are incorporated in the annual accounts. Increases in valuation are credited to the investment properties revaluation reserve. Decreases in valuation are first set off against increases on earlier valuations on a portfolio basis and thereafter are debited to operating profit. Any subsequent increases are credited to operating profit up to the amount previously debited.

Investment properties held on leases with unexpired periods of 20 years or less are depreciated over the remaining portion of the leases.

Upon the disposal of an investment property, the relevant portion of the revaluation reserve realised in respect of previous valuations is released from the investment properties revaluation reserve to the profit and loss account.

(ii) Other fixed assets

Other fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

Leasehold land is depreciated over the period of the leases while other fixed assets are depreciated at rates sufficient to write off their cost less accumulated impairment losses over their estimated useful lives on a straight line basis. The principal annual rates are as follows :

1 Principal Accounting Policies (con't)

(c) **Fixed Assets** (con't)

(ii) **Other fixed assets** (con't)

Buildings	4%
Others	20%

Major costs incurred in restoring fixed assets to their normal working condition are charged to the profit and loss account. Improvements are capitalised and depreciated over their expected useful lives to the Group.

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that the assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the value of the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account.

The gain or loss on disposal of fixed assets other than investment properties is the difference between the net sales proceeds and the carrying amount of the assets and is recognised in the profit and loss account.

(d) **Investments in securities**

(i) **Non-trading investments**

Non-trading investments are stated at fair value at the balance sheet date. Fair value represents the quoted market price for securities which are listed or actively traded in a liquid market. For securities which are unlisted and not actively traded, fair value is determined with reference to recent transaction prices and estimated net realisable value. Changes in the fair value of individual investments are credited or debited to the investments revaluation reserve until the investment is sold, or is determined to be impaired.

1 Principal Accounting Policies *(con't)*

(d) **Investments in securities** *(con't)*

(i) **Non-trading investments** *(con't)*

Upon the disposal of an investment, the cumulative gain or loss, representing the difference between the net sales proceeds and the carrying amount of the relevant investment, together with any surplus/deficit transferred from the investments revaluation reserve, is dealt with in the profit and loss account.

Individual investments are reviewed regularly to determine whether they are impaired. When an investment is considered to be impaired, the cumulative loss recorded in the revaluation reserve is taken to the profit and loss account.

(ii) **Trading investments**

Trading investments are carried at fair value at the balance sheet date. Fair value represents the quoted market price for securities which are listed or actively traded in a liquid market. For securities which are unlisted and not actively traded, fair value is determined with reference to recent transaction prices and estimated net realisable value.

At each balance sheet date, the net unrealised gains or losses arising from the changes in fair value of trading investments are recognised in the profit and loss account. Profits or losses on disposal of trading investments, representing the difference between the net sales proceeds and the carrying amounts, are recognised in the profit and loss account as they arise.

(e) **Cash and cash equivalents**

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks and bank overdrafts.

1 Principal Accounting Policies *(con't)*

(f) Revenue recognition

(i) Realised and unrealised gains and losses on trading investments
Realised gains and losses on trading investments are recognised on conclusion of sales contracts. Unrealised gains and losses on trading investments are recognised on the basis set out in note 1(d)(ii).

(ii) Rental and management fee income
Rental and management fee income on operating leases are recognised on a straight line basis over the lease periods.

(iii) Dividend income
Dividend income is recognised when the right to receive payment is established.

(iv) Interest income
Interest income is recognised on an accruals basis.

(v) Commission income
Commission income is recognised upon rendering of the services.

(g) Operating leases

Leases where substantially all the rewards and risks of ownership of the assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the profit and loss account on a straight line basis over the lease periods.

(h) Deferred taxation

Deferred taxation is accounted for at the current tax rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset is expected to be payable or recoverable in the foreseeable future.

1 Principal Accounting Policies (con't)

(i) **Borrowing costs**

Borrowing costs are charged to the profit and loss account in the year in which they are incurred.

(j) **Translation of foreign currencies**

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

The balance sheets of subsidiaries and jointly controlled entities expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the profit and loss accounts are translated at an average rate. Exchange differences are dealt with as a movement in reserves.

In prior years, the profit and loss accounts of foreign enterprises were translated at closing rate. This is a change in accounting policy. However, the translation of the profit and loss accounts of foreign enterprises in prior years has not been restated as the effect of this change is not material to the accounts for the current and prior years.

(k) **Segment reporting**

In accordance with the Group's internal financial reporting, the Group has determined that business segments be presented as the primary reporting format and geographical as the secondary reporting format.

Segment assets consist primarily of fixed assets, investments in securities, receivables and operating cash. Segment liabilities comprise operating liabilities and exclude items such as taxation. Capital expenditure represents additions to fixed assets.

In respect of geographical segment reporting, results from textile and properties are based on the country of operations and the country in which these properties are located respectively. Results from investments are based on the country in which these investments are listed or funded. Total assets and capital expenditure are based on where the assets are located.

1 Principal Accounting Policies *(con't)*

(l) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

2 Turnover and Segment Information

The Group is principally engaged in property investment, investment holding and trading, and textile trading. Turnover recognised during the year comprises the following :

	2002	2001
	HK\$'000	HK\$'000
Gross rental income from investment properties	33,477	37,938
Net realised and unrealised losses on trading investments	(41,442)	(37,818)
Dividend income from listed investments	1,351	1,711
Dividend income from unlisted investments	918	1,064
Interest income	2,176	4,826
Management fee income from investment properties	7,993	8,558
Commission income (Note 25)	6,374	4,752
	10,847	21,031
	10,847	21,031

(a) Primary reporting format - business segments

The Group is organised on a worldwide basis into three main business segments:

Textile - manufacture and distribution of textile products

Property - investment in and leasing of industrial/office premises

Investment - holding and trading of investment securities

There are no sales or other transactions between the business segments.

N O T E S T O T H E A C C O U N T S *(con't)*

2 Turnover and Segment Information *(con't)*

(a) Primary reporting format - business segments *(con't)*

	Textile 2002 HK\$'000	Property 2002 HK\$'000	Investment 2002 HK\$'000	Group 2002 HK\$'000
Turnover	6,374	41,470	(36,997)	10,847
Segment results	<u>1,671</u>	<u>4,512</u>	<u>(42,649)</u>	<u>(36,466)</u>
Finance costs				(282)
Share of profits of jointly controlled entities	20,389	-	-	<u>20,389</u>
Loss before taxation				(16,359)
Taxation				(180)
Loss for the year				<u>(16,539)</u>
Segment assets	4,348	303,568	427,169	735,085
Investments in jointly controlled entities	95,088	-	-	95,088
Unallocated assets				556
Total assets				<u>830,729</u>
Segment liabilities	434	52,080	2,258	54,772
Unallocated liabilities				642
Total liabilities				<u>55,414</u>
Capital expenditure	-	7	-	7
Depreciation	320	619	28	967
Impairment of other property	376	-	-	376
Impairment of non-trading investment	-	-	1,640	1,640
	<u>-</u>	<u>-</u>	<u>1,640</u>	<u>1,640</u>

N O T E S T O T H E A C C O U N T S *(con't)*

2 Turnover and Segment Information *(con't)*

(a) Primary reporting format - business segments *(con't)*

	Textile 2001 HK\$'000	Property 2001 HK\$'000	Investment 2001 HK\$'000	Group 2001 HK\$'000
Turnover	4,752	46,496	(30,217)	21,031
Segment results	117	8,203	(32,866)	(24,546)
Finance costs				(50)
Share of profits of jointly controlled entities	11,029	-	-	11,029
Loss before taxation				(13,567)
Taxation				(1,985)
Loss for the year				(15,552)
Segment assets	5,310	365,450	446,652	817,412
Investments in jointly controlled entities	80,545	-	-	80,545
Unallocated assets				4
Total assets				897,961
Segment liabilities	350	31,868	7,074	39,292
Unallocated liabilities				2,607
Total liabilities				41,899
Capital expenditure	159	58	-	217
Depreciation	310	647	28	985
Impairment of other property	1,200	-	-	1,200

2 Turnover and Segment Information *(con't)*

(b) Secondary reporting format - geographical segments

The Group's three main business segments operate in the following main geographical areas :

People's Republic of China (including Hong Kong) - textile, property and investment

United States of America, Europe, Australia, New Zealand and Japan - investment

There are no sales between the geographical segments.

	Turnover 2002 HK\$'000	Segment results 2002 HK\$'000	Total assets 2002 HK\$'000	Capital expenditure 2002 HK\$'000
People's Republic of China (including Hong Kong)	48,408	5,250	342,983	7
United States of America	(37,984)	(42,010)	317,733	-
Europe	(2,412)	(2,591)	31,990	-
Australia and New Zealand	3	5	460	-
Other countries	2,832	2,880	41,919	-
	10,847	(36,466)	735,085	7
Investments in jointly controlled entities			95,088	
Unallocated assets			556	
Total assets			830,729	

N O T E S T O T H E A C C O U N T S (con't)

2 Turnover and Segment Information (con't)

(b) Secondary reporting format - geographical segments (con't)

	Turnover 2001 HK\$'000	Segment results 2001 HK\$'000	Total assets 2001 HK\$'000	Capital expenditure 2001 HK\$'000
People's Republic of China (including Hong Kong)	47,390	3,218	378,257	217
United States of America	(14,756)	(14,327)	365,083	-
Europe	(8,449)	(9,518)	35,845	-
Australia and New Zealand	(889)	(955)	835	-
Japan	(2,228)	(2,522)	5,539	-
Other countries	(37)	(442)	31,853	-
	21,031	(24,546)	817,412	217
Investments in jointly controlled entities			80,545	
Unallocated assets			4	
Total assets			897,961	

N O T E S T O T H E A C C O U N T S (con't)

3 Operating Loss

	2002	2001
	HK\$'000	HK\$'000
Operating loss is stated after crediting and charging the following:		

Crediting

Gain on disposal/distribution of non-trading investments	-	2,071
Net exchange gain	3	9

Charging

Auditors' remuneration		
- Provision for current year	810	835
- Underprovision in prior year	-	60
Depreciation	967	985
Management fee expense in respect of investment properties	8,316	8,316
Outgoings in respect of investment properties	1,566	990
Operating leases - land and buildings	2,221	2,269
Staff costs (including directors' emoluments)	23,871	24,509
Impairment of non-trading investment	1,640	-
Impairment of other property	376	1,200

4 Finance Costs

	2002	2001
	HK\$'000	HK\$'000
Interest on bank loans and overdrafts	282	50

5 Directors' and Senior Management's Emoluments

(a) **Directors' emoluments**

The aggregate amounts of emoluments payable to the directors of the Company during the year are as follows:

	2002	2001
	HK\$'000	HK\$'000
Fees	180	180
Other emoluments		
Salaries, housing and other allowances and benefits in kind	12,273	12,285
Discretionary bonuses	1,744	2,210
Contributions to retirement schemes	575	575
	<u>14,772</u>	<u>15,250</u>

The emoluments of the directors fell within the following bands:

Emoluments bands	Number of directors	
	2002	2001
Nil - HK\$1,000,000	4	4
HK\$4,500,001 - HK\$5,000,000	2	2
HK\$5,000,001 - HK\$5,500,000	1	1
	<u>7</u>	<u>7</u>

Emoluments paid to independent non-executive directors for the year represented only directors' fees totalling HK\$60,000 (2001: HK\$60,000).

5 Directors' and Senior Management's Emoluments (con't)

(b) **Emoluments of the five highest paid individuals**

Details of the emoluments of the five highest paid individuals in the Group including 3 (2001: 3) directors are as follows:

	2002 HK\$'000	2001 HK\$'000
Fees	72	72
Salaries, housing and other allowances, benefits in kind	15,219	15,230
Contributions to retirement schemes	779	779
Bonuses	1,980	2,552
	<u>18,050</u>	<u>18,633</u>

The emoluments of the five highest paid individuals fell within the following bands:

Emoluments bands	Number of individuals	
	2002	2001
Nil - HK\$1,000,000	-	-
HK\$1,500,001 - HK\$2,000,000	2	2
HK\$4,500,001 - HK\$5,000,000	2	2
HK\$5,000,001 - HK\$5,500,000	1	1
	<u>1</u>	<u>1</u>

6 Retirement Benefit Costs

The Group contributes to a defined contribution retirement scheme which is available to certain Hong Kong senior employees ("Senior Staff Scheme"). With effect from 1st December 2000, a mandatory provident fund scheme has been set up for the other eligible employees of the Group in Hong Kong. Contributions to the schemes by the Group are made at a certain percentage of basic monthly salary. The assets of the schemes are held separately from those of the Group in independently administered funds. The Group's

6 Retirement Benefit Costs *(con't)*

contributions to these schemes of HK\$971,000 (2001: HK\$971,000) for the year are expensed as incurred. Contributions to the Senior Staff Scheme may be reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions and there was no contribution forfeited during the year (2001: Nil). Contributions totalling HK\$37,000 (2001: HK\$37,000) were payable to the schemes at the year end, which are included in trade and other payables.

7 Taxation

Hong Kong profits tax has been provided at the rate of 16% (2001: 16%) on the estimated assessable profit for the year. Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates.

The amount of taxation charged to the consolidated profit and loss account represents:

	2002	2001
	HK\$'000	HK\$'000
Company and subsidiaries:		
Hong Kong profits tax	359	869
(Over)/under provision in prior years	(2,011)	159
	(1,652)	1,028
Share of overseas taxation attributable to jointly controlled entities	1,832	957
	180	1,985

8 Loss for the Year

Included in the loss for the year is a profit of HK\$3,887,000 (2001: HK\$4,757,000) which is dealt with in the accounts of the Company.

9 Dividends

	2002	2001
	HK\$'000	HK\$'000
2001 final dividend paid of 10 HK cents (2001: 2000 final dividend paid of 10 HK cents) per share	4,641	4,664
	<u> </u>	<u> </u>

At a meeting held on 9th April 2003 the directors proposed a final dividend of HK\$0.10 per share. This proposed dividend is not reflected as a dividend payable in these accounts, but will be reflected as an appropriation of retained profits for the year ending 31st December 2003.

10 Loss per Share

The calculation of loss per share is based on the loss for the year of HK\$16,539,000 (2001: HK\$15,552,000) and the weighted average number of shares in issue during the year of 46,380,028 (2001: 46,602,328).

N O T E S T O T H E A C C O U N T S (con't)

11 Fixed Assets

Group

	Investment properties HK\$'000	Other properties HK\$'000	Others HK\$'000	Total HK\$'000
Cost or valuation				
At 1st January 2002	344,000	12,189	3,820	360,009
Additions	-	-	7	7
Revaluation deficit (Note 19)	(57,000)	-	-	(57,000)
Disposals	-	-	(45)	(45)
	287,000	12,189	3,782	302,971
At 31st December 2002	287,000	12,189	3,782	302,971

Accumulated depreciation and impairment losses

At 1st January 2002	-	6,975	2,874	9,849
Charge for the year	-	374	593	967
Disposals	-	-	(39)	(39)
Impairment charge (Note 3)	-	376	-	376
	-	7,725	3,428	11,153
At 31st December 2002	-	7,725	3,428	11,153

Net book value

At 31st December 2002	287,000	4,464	354	291,818
At 31st December 2001	344,000	5,214	946	350,160

11 Fixed Assets *(con't)*

Investment properties are stated at valuation and were revalued as at 31st December 2002 and 2001 by Prudential Surveyors International Limited, an independent professional valuer, on an open market value basis. Other fixed assets are stated at cost.

The Group's interests in investment properties and other properties at their net book value are analysed as follows:

	Investment properties		Other properties	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
In Hong Kong, held on:				
Leases of between 10 to 50 years	287,000	344,000	2,077	2,292
Outside Hong Kong, held on:				
Leases of over 50 years	-	-	516	538
Leases of between 10 to 50 years	-	-	1,871	2,384
	287,000	344,000	4,464	5,214

The Group's investment properties with an aggregate carrying value of HK\$277,000,000 (2001: HK\$333,500,000) have been mortgaged to a bank to secure general banking facilities. HK\$20,000,000 (2001: None) of the facilities was utilised as at 31st December 2002.

N O T E S T O T H E A C C O U N T S (con't)

12 Investments in Subsidiaries

	Company	
	2002	2001
	HK\$'000	HK\$'000
Unlisted shares, at cost	378,782	378,782
Amount due from a subsidiary	36,047	37,958
	414,829	416,740

The amount due from a subsidiary is unsecured, interest free and has no fixed terms of repayment.

Particulars of subsidiaries are included in note 27.

13 Investments in Jointly Controlled Entities

	Group	
	2002	2001
	HK\$'000	HK\$'000
Share of net assets	95,374	81,446
Amount due from a jointly controlled entity	13	-
Amounts due to jointly controlled entities	(299)	(901)
	95,088	80,545

The amounts due from/to jointly controlled entities are unsecured, interest free and have no fixed terms of repayment.

The following is a list of the jointly controlled entities as at 31st December 2002 and 2001:

Name	Place of establishment and operation	Principal activities
Shanghai Sung Nan Textile Co Ltd (Note a)	People's Republic of China	Textile manufacturing
Southern Textile Company Limited (Note b)	People's Republic of China	Investment in textile business

13 Investments in Jointly Controlled Entities *(con't)*

(a) The Group has a 64.68% interest in ownership and profit sharing and a 57% interest in voting power in Shanghai Sung Nan Textile Co Ltd.

A summary of its audited financial information for the years ended 31st December 2002 and 2001 is as follows:

Results for the year

	2002	2001
	HK\$'000	HK\$'000
Turnover	141,119	122,225
Operating profit	19,750	5,528
Taxation	(1,930)	(644)
Profit after taxation	<u>17,820</u>	<u>4,884</u>
Net assets		
Fixed assets	77,583	85,285
Current assets	89,884	66,356
Current liabilities	(19,351)	(8,754)
Long term liabilities	-	(9,429)
	<u>148,116</u>	<u>133,458</u>

(b) The Group has a 45% interest in ownership and profit sharing and a 43% interest in voting power in Southern Textile Company Limited.

14 Non-trading Investments

	Group	
	2002	2001
	HK\$'000	HK\$'000
Equity securities, at fair value		
Listed in Hong Kong	3,935	6,224
Unlisted	27,683	27,165
	<u>31,618</u>	<u>33,389</u>
Unlisted investment in venture capital fund, at fair value	3,556	4,941
	<u>35,174</u>	<u>38,330</u>

N O T E S T O T H E A C C O U N T S (con't)

15 Trade and Other Receivables

	Group		Company	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Trade receivables (Note a)	368	1,028	-	-
Prepayments and deposits	5,659	5,783	44	44
Other receivables	481	672	-	-
	6,508	7,483	44	44
	6,508	7,483	44	44

(a) The Group does not grant any credit to its customers. As at 31st December 2002 and 2001, all trade receivables are aged within 30 days.

16 Trading Investments

	Group	
	2002	2001
	HK\$'000	HK\$'000
Equity securities, at fair value		
Listed in Hong Kong	1,288	4,121
Listed outside Hong Kong	208,816	244,490
	210,104	248,611
	-----	-----
Debt securities, at fair value		
Listed outside Hong Kong	99,684	77,120
Unlisted	19,995	-
	119,679	77,120
	329,783	325,731
	329,783	325,731

NOTES TO THE ACCOUNTS *(con't)*

17 Trade and Other Payables

	Group		Company	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Trade payables (Note a)	3,057	7,877	-	-
Rental and management fee deposits	9,657	9,736	-	-
Accruals	22,058	21,679	768	787
	<u>34,772</u>	<u>39,292</u>	<u>768</u>	<u>787</u>

(a) At 31st December 2002 and 2001, the aging analysis of the trade payables is as follows:

	Group	
	2002	2001
	HK\$'000	HK\$'000
Within 30 days	2,024	6,844
31 - 60 days	693	693
61 - 90 days	340	340
	<u>3,057</u>	<u>7,877</u>

18 Share Capital

	2002	2001
	HK\$'000	HK\$'000
Authorised:		
60,000,000 shares of HK\$0.10 each	6,000	6,000
	<u> </u>	<u> </u>
Issued and fully paid:		
46,280,799 shares (2001: 46,495,799) of HK\$0.10 each	4,628	4,650
	<u> </u>	<u> </u>

During the year, the Company repurchased a total number of 215,000 (2001: 254,000) of its own shares on The Stock Exchange of Hong Kong Limited, all of which were then cancelled. The aggregate price of HK\$1,117,000 (2001: HK\$1,471,000) paid was charged against retained profits and the nominal value of the shares repurchased of HK\$22,000 (2001: HK\$25,000) was transferred to the capital redemption reserve.

NOTES TO THE ACCOUNTS *(con't)*

19 Reserves

Group

	Contributed	Investment	Investments	Capital	General	Statutory	Exchange	Capital	Retained	Total
	surplus	properties	revaluation	reserve on	reserve	reserves	fluctuation	redemption	profits	
	HK\$'000	revaluation	reserve	consolidation	HK\$'000	HK\$'000	reserve	reserve	HK\$'000	HK\$'000
	HK\$'000	reserve	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st January 2002	20,000	82,730	9,011	1,000	76,000	7,387	2,922	350	652,012	851,412
Loss for the year	-	-	-	-	-	-	-	-	(16,539)	(16,539)
Transfer to statutory reserves of jointly controlled entities	-	-	-	-	-	1,238	-	-	(1,238)	-
Shares repurchased and cancelled (Note 18)	-	-	-	-	-	-	-	22	(1,117)	(1,095)
Impairment of non-trading investment	-	-	1,640	-	-	-	-	-	-	1,640
Revaluation deficit	-	(57,000)	(3,063)	-	-	-	-	-	-	(60,063)
Exchange translation differences	-	-	-	-	-	-	(27)	-	-	(27)
2001 final dividend paid (Note 9)	-	-	-	-	-	-	-	-	(4,641)	(4,641)
At 31st December 2002	20,000	25,730	7,588	1,000	76,000	8,625	2,895	372	628,477	770,687
Retained by:										
Company and subsidiaries	20,000	25,730	7,588	1,000	76,000	-	2,895	372	588,103	721,688
Jointly controlled entities	-	-	-	-	-	8,625	-	-	40,374	48,999
At 31st December 2002	20,000	25,730	7,588	1,000	76,000	8,625	2,895	372	628,477	770,687
Representing:										
Reserves at 31st December 2002										766,059
2002 final dividend proposed										4,628
At 31st December 2002										770,687
At 1st January 2001	20,000	121,030	21,557	1,000	76,000	6,842	2,493	325	674,244	923,491
Loss for the year	-	-	-	-	-	-	-	-	(15,552)	(15,552)
Realisation of investments revaluation reserve on disposal/distribution of non-trading investments	-	-	(2,283)	-	-	-	-	-	-	(2,283)
Transfer to statutory reserves of jointly controlled entities	-	-	-	-	-	545	-	-	(545)	-
Shares repurchased and cancelled (Note 18)	-	-	-	-	-	-	-	25	(1,471)	(1,446)
Revaluation deficit	-	(38,300)	(10,263)	-	-	-	-	-	-	(48,563)
Exchange translation differences	-	-	-	-	-	-	429	-	-	429
2000 final dividend paid (Note 9)	-	-	-	-	-	-	-	-	(4,664)	(4,664)
At 31st December 2001	20,000	82,730	9,011	1,000	76,000	7,387	2,922	350	652,012	851,412
Retained by :										
Company and subsidiaries	20,000	82,730	9,011	1,000	76,000	-	2,922	350	624,328	816,341
Jointly controlled entities	-	-	-	-	-	7,387	-	-	27,684	35,071
At 31st December 2001	20,000	82,730	9,011	1,000	76,000	7,387	2,922	350	652,012	851,412
Representing:										
Reserves at 31st December 2001										846,762
2001 final dividend proposed										4,650
At 31st December 2001										851,412

N O T E S T O T H E A C C O U N T S (con't)

19 Reserves (con't)

Company

	Contributed surplus HK\$'000	Capital redemption reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1st January 2002	373,782	350	38,110	412,242
Profit for the year	-	-	3,887	3,887
Shares repurchased and cancelled (Note 18)	-	22	(1,117)	(1,095)
2001 final dividend paid (Note 9)	-	-	(4,641)	(4,641)
	373,782	372	36,239	410,393
Representing:				
Reserves at 31st December 2002				405,765
2002 final dividend proposed				4,628
				410,393
At 31st December 2002				410,393
At 1st January 2001	373,782	325	39,488	413,595
Profit for the year	-	-	4,757	4,757
Shares repurchased and cancelled (Note 18)	-	25	(1,471)	(1,446)
2000 final dividends paid (Note 9)	-	-	(4,664)	(4,664)
	373,782	350	38,110	412,242
Representing:				
Reserves at 31st December 2001				407,592
2001 final dividend proposed				4,650
				412,242
At 31st December 2001				412,242

Pursuant to a group reorganisation in 1989, the Company acquired all the issued shares of Nanyang Cotton Mill Limited (“NCML”) in exchange for the Company’s new shares issued. The Group’s contributed surplus represents the difference between the nominal

19 Reserves *(con't)*

value of NCML's shares and the nominal value of the Company's shares issued pursuant to the group reorganisation. The Company's contributed surplus represents the difference between the nominal value of the Company's shares issued and the consolidated net assets of NCML acquired under the group reorganisation as at the date of acquisition.

Statutory reserves are created in accordance with the terms of the joint venture agreements of jointly controlled entities established in the People's Republic of China and are required to be retained in the accounts of the entities for specific purposes. The statutory reserves at 31st December 2002 comprise statutory surplus reserve of HK\$4,312,500 (2001: HK\$3,693,500) and enterprise development reserve of HK\$4,312,500 (2001: HK\$3,693,500) which are appropriated from the profits of jointly controlled entities.

General reserve arose from transfers from retained profits and has no specific purposes.

20 Deferred Taxation

Unrecognised deferred tax charge for the year in respect of tax losses amounts to HK\$6,000 (2001: credit of HK\$355,000).

As at 31st December 2002, the potential asset for deferred taxation in respect of unutilised tax losses which has not been accounted for amounts to HK\$2,233,000 (2001: HK\$2,239,000).

The revaluation of investment properties and non-trading investments does not constitute a timing difference and therefore deferred tax has not been quantified.

21 Capital commitments

The Group's share of capital commitments of a jointly controlled entity as at 31st December 2002 for acquisition of fixed assets amounted to HK\$7,018,000 (2001: Nil).

22 Commitments under Operating Leases

At 31st December the Group had future aggregate minimum lease payments under a non-cancellable operating lease for office premises as follows:

	Group	
	2002	2001
	HK\$'000	HK\$'000
Not later than one year	1,884	1,884
Later than one year and not later than five years	236	2,120
	2,120	4,004
	2,120	4,004

The Company did not have any lease commitments at 31st December 2002 (2001: Nil).

23 Future Rental Receivables

At 31st December the Group had future aggregate minimum lease rental receivables under non-cancellable operating leases on its investment properties as follows:

	Group	
	2002	2001
	HK\$'000	HK\$'000
Not later than one year	25,813	23,976
Later than one year and not later than five years	25,290	31,164
	51,103	55,140
	51,103	55,140

24 Notes to the Consolidated Cash Flow Statement

(a) Reconciliation of operating loss to net cash (outflow)/inflow from operating activities:

	2002	2001
	HK\$'000	HK\$'000
Operating loss	(36,466)	(24,546)
Dividend income from non-trading investments	(1,038)	(1,144)
Depreciation	967	985
Loss/(gain) on disposal of fixed assets	6	(4)
Gain on distribution/disposal of non-trading investments	-	(2,071)
Impairment of non-trading investment	1,640	-
Impairment of other property	376	1,200
	(34,515)	(25,580)
Operating loss before working capital changes		
Decrease in trade and other receivables	975	1,047
(Increase)/decrease in trading investments	(4,052)	41,760
Decrease in trade and other payables	(4,520)	(1,691)
Change in balances with jointly controlled entities	(615)	(2,449)
Exchange translation differences	(27)	(57)
	(42,754)	13,030
Cash (outflow)/inflow from operations		
Interest paid	(282)	(50)
Hong Kong profits tax paid	(859)	(819)
	(43,895)	12,161
Net cash (outflow)/inflow from operating activities	(43,895)	12,161

24 Notes to the Consolidated Cash Flow Statement (con't)

(b) Analysis of changes in financing:

	Bank loans		Retained profits	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st January	-	-	652,012	674,244
Net cash inflow/ (outflow)from financing activities	20,000	-	(5,758)	(6,135)
Transfer to statutory reserves	-	-	(1,238)	(545)
Loss for the year	-	-	(16,539)	(15,552)
At 31st December	20,000	-	628,477	652,012

25 Significant Related Party Transactions

During the year, agency commission income of HK\$6,374,000 (2001: HK\$4,752,000) was received by a subsidiary from a jointly controlled entity for handling sales of textile products for the jointly controlled entity. These transactions were entered into in the normal course of business of the Group and the commission income has been calculated at a certain fixed percentage of the value of sales handled by the subsidiary.

26 Approval of Accounts

The accounts were approved by the board of directors on 9th April 2003.

N O T E S T O T H E A C C O U N T S (con't)

27 Subsidiaries

Details of subsidiaries as at 31st December 2002 and 2001 are as follows:

Name	Place of incorporation	Place of operation	Principal activities	Particulars of issued share capital	Group equity interest	
					2002	2001
Astral Investments Co	Liberia	Hong Kong	Investment trading	1 share without par value issued at US\$10,000	100%	100%
# Bostitch Investments Co SA	Panama	*	Liquidated	200 shares issued at US\$10 each	-	100%
Bravery Co Inc	Liberia	Hong Kong	Investment holding	1 share without par value issued at US\$1,000	100%	100%
Commonwealth Garment Co Ltd	Hong Kong	*	Dormant	58,000 ordinary shares of HK\$100 each	100%	100%
Cottage Investments Co SA	Panama	Hong Kong	Investment holding	100 common shares without par value issued at US\$10 each and 100 common shares of US\$10 each	100%	100%
+ Culvert Investments Ltd	British Virgin Islands	Hong Kong	Investment holding	100 shares of US\$1 each	100%	100%
East Coast Investments Ltd	Hong Kong	Hong Kong	Investment trading	2 ordinary shares of US\$1 each	100%	100%
Highriver Estates Ltd	Hong Kong	Hong Kong	Property holding	2 ordinary shares of HK\$1 each	100%	100%
Homestead Investments Inc	Liberia	Hong Kong	Investment holding	1 share without par value issued at US\$10,000	100%	100%
Kamunting Garments Sdn Bhd	Malaysia	*	Dormant	4,250,000 shares issued at M\$1 each	100%	100%
# Makefast Investments Co SA	Panama	*	Liquidated	100 common shares without par value issued at US\$30,000 each	-	100%

N O T E S T O T H E A C C O U N T S *(con't)*

27 Subsidiaries *(con't)*

Name	Place of incorporation	Place of operation	Principal activities	Particulars of issued share capital	Group equity interest	
					2002	2001
Mepal International Ltd	Hong Kong	Hong Kong	Property investment	3 ordinary shares of HK\$1 each	100%	100%
Merry Co Inc	Liberia	The People's Republic of China	Property and investment holding	1 share without par value issued at US\$1,000	100%	100%
Nanyang Cotton Mill Ltd	Hong Kong	Hong Kong	Investment holding and property investment	25,000,000 ordinary shares of HK\$1 each	100%	100%
Nanyangtextile.com Limited	Hong Kong	Hong Kong	Investment holding	2 ordinary shares of HK\$1 each	100%	100%
Peninsular Inc	Liberia	Hong Kong	Investment holding	1 share without par value issued at HK\$10,000	100%	100%
Peninsular Yarn & Fabric Merchandising Ltd	Hong Kong	Hong Kong	Textile sales agency	1,000 ordinary shares of HK\$1 each	100%	100%
Velden Ltd	British Virgin Islands	Hong Kong	Investment holding and trading	10,000 ordinary shares of US\$1 each	100%	100%

* Place of operation is not applicable as these companies are dormant or have been liquidated.

+ Subsidiary held directly by the Company.

Subsidiaries liquidated during the year