

Notes to the Financial Statements

For the year ended 31st August, 2000

1. GENERAL

The Company is a public limited company incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited.

The Company is an investment holding company. The principal activities of its principal subsidiaries and jointly controlled entities are set out in notes 14 and 15, respectively.

2. ADOPTION OF REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE

In the current year, the Group adopted for the first time the following revised Statements of Standard Accounting Practice ("SSAP(s)") issued by the Hong Kong Society of Accountants:

SSAP 1 (Revised)	Presentation of financial statements
SSAP 2 (Revised)	Net profit or loss for the period, fundamental errors and changes in accounting policies

SSAP 1 (Revised) and SSAP 2 (Revised) are concerned with the presentation and disclosure of financial information. The presentation in the current year's financial statements has been modified in order to conform with the requirements of SSAP 1 (Revised) and SSAP 2 (Revised). Comparative amounts have been restated in order to achieve a consistent presentation.

In particular:

- additional analyses of income and expenditure have been presented;
- items of income and expense that were separately identified on the face of the income statement as "exceptional items" in the prior year have been reclassified within an appropriate income or expense classification; and
- amounts owing to subsidiaries which had previously been presented together with the Company's investments in such enterprises have been reclassified as non-current liabilities according to the nature of the transactions giving rise to the balances.

In addition, the description of various components in the financial statements and the terminology used has been updated to reflect the terminology of SSAP 1 (Revised) and SSAP 2 (Revised). None of the amendments outlined above has affected the results for the current or prior periods.

Notes to the Financial Statements

For the year ended 31st August, 2000

2. ADOPTION OF REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE - Continued

Pre-operating expenses are those costs incurred in the period prior to the commencement of full operations. In the current year, the Company has adopted an accounting policy of expensing pre-operating expenses when they are incurred to comply with the requirements of SSAP 1 (Revised). In prior years, such expenditure incurred was capitalised and amortised, using the straight-line method, over a period of five years from the date of commencement of operations.

The change in accounting policy has been applied retrospectively, resulting in a decrease in the Group's retained profits at 1st September, 1998 of approximately HK\$9,751,000 and a decrease in the profit for the year ended 31st August, 1999 by approximately HK\$14,068,000 and an increase in the profit for the year ended 31st August, 2000 by approximately HK\$3,602,000. Comparative amounts have been restated in line with the new accounting policy.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention, as modified for the revaluation of certain properties and interests in subsidiaries, and are in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are set out below:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31st August each year.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective dates of acquisition or up to the effective dates of disposal, as appropriate.

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

Goodwill/Capital reserve

Goodwill or capital reserve represents respectively the excess or shortfall of the purchase consideration over the fair value ascribed to the Group's share of the separable net assets of subsidiaries or jointly controlled entities at the date of acquisition. Goodwill or capital reserve is written off or credited directly to reserves, respectively, in the year of acquisition.

On disposal of an investment in a subsidiary or a jointly controlled entity, the attributable amount of goodwill previously eliminated against or credited to reserves is included in the determination of the profit or loss on disposal of the business.

Notes to the Financial Statements

For the year ended 31st August, 2000

3. SIGNIFICANT ACCOUNTING POLICIES - Continued

Investments in subsidiaries

A subsidiary is an enterprise in which the Company, directly or indirectly, holds more than half of the issued share capital, or controls more than half of the voting power, or where the Company controls the composition of its board of directors or equivalent governing body.

Investments in subsidiaries are included in the Company's balance sheet at valuation, carried out annually, reflecting the underlying net asset values of the subsidiaries at that date. Any surplus or deficit arising on the revaluation of investments in subsidiaries is credited or charged respectively to the Company's capital reserve, unless the balance on this reserve is insufficient to cover a deficit, in which case the excess of the deficit over the balance on the capital reserve is charged to the Company's income statement.

Joint ventures

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 post-acquisition results of jointly controlled entities is included in the consolidated income statement.

Property, plant and equipment

Property, plant and equipment, other than construction in progress, is stated at cost or valuation less provision for impairment loss, if any, and depreciation and amortisation. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its present working condition and location for its intended use. Expenditure incurred after the asset has been put into operation, such as repairs and maintenance and overhaul costs, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the asset, the expenditure is capitalised as an additional cost of the asset.

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

Notes to the Financial Statements

For the year ended 31st August, 2000

3. SIGNIFICANT ACCOUNTING POLICIES - Continued

Property, plant and equipment - Continued

Where the recoverable amount of an asset has declined below its carrying amount, the carrying amount is reduced to reflect the decline in value. In determining the recoverable amount of assets, expected future cash flows are not discounted to their present values.

Certain of the Group's leasehold land and buildings were previously revalued. Advantage has been taken of the transitional relief provided by paragraph 72 of SSAP 17 "Property, plant and equipment" from the requirement to make regular revaluations of the Group's land and buildings which had been carried at revalued amounts prior to 30th September, 1995, and accordingly no further revaluation of land and buildings is carried out.

The surplus arising on revaluation of these properties in previous years was credited to the asset revaluation reserve. Any future decrease in value of that property will be dealt with as an expense to the extent that it exceeds the balance, if any, on the asset revaluation reserve relating to a previous revaluation of that particular property. On the subsequent disposal of a revalued asset, the attributable revaluation surplus not yet transferred to retained profits in previous years is transferred to retained profits.

No amortisation is provided in respect of freehold land.

The cost or revalued amount of leasehold land, as reduced by any provision for impairment loss, is amortised on a straight-line basis over the term of the relevant lease.

The cost or revalued amount of buildings, as reduced by any provision for impairment loss, is depreciated on a straight-line basis over their estimated useful lives or, where shorter, the term of the relevant lease.

Depreciation is provided to write off the cost of other 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:

Furniture, fixtures and equipment	10% – 20%
Plant and machinery	10% – 20%
Motor vehicles	20% – 25%

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

Assets held under hire purchase contracts are depreciated over their estimated useful lives on the same basis as owned assets.

Notes to the Financial Statements

For the year ended 31st August, 2000

3. SIGNIFICANT ACCOUNTING POLICIES - Continued

Investment properties

Investment properties are completed properties which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties are stated at their open market value based on independent professional valuations at the balance sheet date. Any surplus or deficit arising on the valuation of investment properties is credited or charged to the investment property revaluation reserve unless the balance on this reserve is insufficient to cover a deficit, in which case the excess of deficit over the balance of the investment property revaluation reserve is charged to the income statement. Where a deficit has previously been charged to the income statement and a revaluation surplus subsequently arises, this surplus is credited to the income statement to the extent of the deficit previously charged.

On the disposal of an investment property, the balance of the investment property revaluation reserve attributable to that property is transferred to the income statement.

No depreciation is provided on investment properties except where the unexpired term of the relevant lease is 20 years or less.

Construction in progress

Construction in progress is stated at cost, which includes land cost and the related construction and borrowing costs, as appropriate.

No depreciation or amortisation is provided for construction in progress until the construction is completed and the assets are ready for their intended use. The cost of completed construction works is transferred to the appropriate category of property, plant and equipment.

Assets held under finance leases and hire purchase contracts

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership of the assets concerned to the Group. Assets held under finance leases and hire purchase contracts are capitalised at their fair values at the dates of acquisition. The corresponding liability to the lessor and hirer, net of interest charges, is included in the balance sheet as finance lease and hire purchase obligation. Finance costs, which represent the difference between the total leasing and hire purchase commitments and the fair value of the assets acquired, are charged to the income statement over the period of the respective leases and contracts so as to produce a constant periodic rate of charge on the remaining balances of the obligations for each accounting period.

Notes to the Financial Statements

For the year ended 31st August, 2000

3. SIGNIFICANT ACCOUNTING POLICIES - Continued

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchase and, where applicable, costs of conversion and other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the first-in, first-out method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Capitalisation of borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

All other borrowing costs are recognised as expenses in the period in which they are incurred.

Turnover

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

Revenue recognition

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

Service income is recognised when services are provided.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rates applicable.

Rental income under operating leases is recognised on a straight-line basis over the term of the relevant lease.

Notes to the Financial Statements

For the year ended 31st August, 2000

3. SIGNIFICANT ACCOUNTING POLICIES - Continued

Taxation

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowed. Timing differences arise from the recognition for tax purposes of certain items of income and expense 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 under 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.

Foreign currencies

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

On consolidation, the financial statements of the Group's overseas operations are translated using the temporal or the closing rate method, as appropriate. Exchange differences arising on consolidation using the temporal method are dealt with in the income statement whereas exchange differences arising using the closing rate method are dealt with in reserves and recognised as income or as expenses in the period in which the operation is disposed of.

Retirement benefit scheme

Payments to defined contribution plans are charged as expenses as they fall due.

Operating leases

Rental expenses under operating leases are charged to the income statement on a straight-line basis over the term of the relevant lease.

Cash equivalents

Cash equivalents represent short-term, highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advances.

Notes to the Financial Statements

For the year ended 31st August, 2000

4. SEGMENT INFORMATION

Business segments

	Turnover		Segment results	
	2000	1999	2000	1999
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Knitting, dyeing, printing and sales of dyed fabrics, sewing threads and dyed yarns	3,778,300	3,266,952	439,708	431,873
Sales of garments	277,434	324,142	(27,575)	(13,829)
Trading of yarns	108,024	208,202	4,191	11,549
	<u>4,163,758</u>	<u>3,799,296</u>	<u>416,324</u>	<u>429,593</u>
Unallocated corporate income			<u>1,516</u>	<u>290</u>
Profit from operations			<u>417,840</u>	<u>429,883</u>

Geographical segments

	Turnover	
	2000	1999
	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong	2,281,218	2,258,745
Rest of Asia and Australasia	1,265,648	981,280
Europe	176,658	145,071
North America	440,234	414,200
	<u>4,163,758</u>	<u>3,799,296</u>

Contribution to profit from operations by geographical markets has not been presented as the contribution to profit from operations from each market is substantially in line with the Group's overall ratio of profit from operations to turnover.

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5. PROFIT FROM OPERATIONS

	2000	1999
	HK\$'000	HK\$'000
Profit from operations has been arrived at after charging:		
Auditors' remuneration	1,938	1,826
Deficit arising on revaluation of investment properties	12,529	13,123
Depreciation and amortisation:		
Assets owned by the Group	149,340	128,553
Assets held under finance leases and hire purchase contracts	22,952	27,936
Loss on disposal of property, plant and equipment	546	8,098
Operating lease rentals in respect of:		
Land and buildings	2,215	3,194
Plant and machinery	21,452	16,282
Staff costs (including directors' emoluments set out in note 6)	366,142	382,390
and after crediting:		
Gross rental income from investment properties under operating leases	11,301	11,004
Less: Outgoings	(563)	(700)
Net rental income from investment properties	10,738	10,304
Interest income	7,298	9,813

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For the year ended 31st August, 2000

6. INFORMATION REGARDING DIRECTORS' AND EMPLOYEES' EMOLUMENTS

	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
(a) Directors' emoluments		
Fees:		
Executive directors	–	–
Non-executive directors	150	120
Independent non-executive directors	180	122
Other emoluments paid or payable to executive directors:		
Salaries and other benefits	24,013	21,175
Performance related incentive payments	5,600	5,341
Retirement benefit scheme contributions	359	360
	<u>30,302</u>	<u>27,118</u>

Emoluments of the directors were within the following bands:

	Number of directors	
	2000	1999
Nil to HK\$1,000,000	9	6
HK\$2,000,001 to HK\$2,500,000	1	–
HK\$2,500,001 to HK\$3,000,000	1	1
HK\$3,000,001 to HK\$3,500,000	1	1
HK\$3,500,001 to HK\$4,000,000	–	1
HK\$17,000,001 to HK\$17,500,000	–	1
HK\$21,000,001 to HK\$21,500,000	1	–
	<u>13</u>	<u>10</u>

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6. INFORMATION REGARDING DIRECTORS' AND EMPLOYEES' EMOLUMENTS - Continued

(b) Employees' emoluments

The five highest paid individuals included four (1999: four) directors, details of whose emoluments are set out above. The emoluments of the remaining one (1999: one) individual are as follows:

	2000 HK\$'000	1999 <i>HK\$'000</i>
Salaries and other benefits	2,312	2,314
Performance related incentive payments	–	238
Retirement benefit scheme contributions	160	153
	<u>2,472</u>	<u>2,705</u>

7. FINANCE COSTS

	2000 HK\$'000	1999 <i>HK\$'000</i>
Finance charge in respect of convertible guaranteed notes:		
Interest expense (including provision for premium payable on redemption)	–	10,565
Amortisation of issue costs	–	2,746
	<u>–</u>	<u>13,311</u>
Interest on:		
Bank borrowings wholly repayable within five years	136,084	129,005
Finance leases and hire purchase contracts wholly repayable within five years	4,232	8,017
	<u>140,316</u>	<u>137,022</u>
Bank facilities arrangement fees	23,204	8,371
	<u>163,520</u>	<u>158,704</u>
Less: Amount of interest on bank borrowings capitalised to property, plant and equipment at a capitalisation rate of 8.4% per annum for the year ended 31st August, 1999	–	(4,588)
	<u>163,520</u>	<u>154,116</u>