

Notes to the Financial Statements

For the year ended 31 December 2001

1. GENERAL

The Company was incorporated on 23 September 1998 as an exempted company with limited liability in Bermuda under the Companies Act 1981 of Bermuda (as amended) and its shares have been listed on The Stock Exchange of Hong Kong Limited with effect from 29 December 1998. Its ultimate holding company is Feng Lin Holdings Limited ("Feng Lin"), a company which is incorporated in the British Virgin Islands. The principal activities of the Company's subsidiaries are set out in note 33.

2. ADOPTION OF NEW AND REVISED 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(s)") issued by the Hong Kong Society of Accountants. Adoption of these SSAPs 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 SSAPs have introduced additional and revised disclosure requirements which have been adopted in these financial statements. Comparative amounts for the prior year have been restated in order to achieve a consistent presentation.

In particular, the Group has adopted SSAP 33 Discontinuing Operations in advance of its effective date. SSAP 33 does not deal with measurement issues, but rather establishes principles for reporting information about discontinuing operations. The disclosures presented in the financial statements, therefore, reflect the requirements of SSAP 33, rather than those stipulated in SSAP 2 Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies.

The adoption of these new and revised SSAPs has no significant impact on the amounts reported for the current or prior periods except that in accordance with SSAP 9 (Revised) Events after the Balance Sheet Date, dividends proposed or declared after the balance sheet date are not recognised as a liability at the balance sheet date, but are disclosed in the notes to the financial statements. This change in accounting policy has been applied retrospectively, resulting in a prior period adjustment, the effect of which is to increase the accumulated profits at 1 January 2000 by HK\$16,000,000 (note 23).

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention and in accordance with accounting principles generally accepted in Hong Kong. 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 31 December each year.

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

For the year ended 31 December 2001

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investment in subsidiaries

Investment in subsidiaries are included in the Company's balance sheet at cost, as reduced by any identified impairment losses.

Turnover

Turnover represents the net amounts received and receivable for goods sold to outside customers during the year, less returns and allowances.

Revenue recognition

Sale of goods is recognised when goods are delivered and title has passed.

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

Property, plant and equipment

Property, plant and equipment is stated at cost less depreciation, amortisation and accumulated impairment losses.

The gain or loss arising from 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.

Depreciation and amortisation are provided to write off the cost of items of property, plant and equipment over their estimated useful lives, using the straight line method, at the following rates per annum:

| | |
|-----------------------------------|--|
| Leasehold land | 2% or over the remaining period of the leases, if shorter |
| Leasehold buildings | Over the estimated useful lives of 50 years or the period of the leases, if shorter |
| Leasehold improvements | 20% |
| Plant and machinery | 12% |
| Furniture, fixtures and equipment | 20% |
| Motor vehicles | 20-25% |

Construction in progress is carried at cost, less any identified impairment loss. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Technical know-how

Technical know-how is measured initially at cost and amortised on a straight line basis over its estimated useful life of five years.

Trademarks

Trademarks are measured initially at cost and amortised on a straight line basis over their estimated useful lives of five years.

Notes to the Financial Statements

For the year ended 31 December 2001

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Research and development costs

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that these 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.

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.

Inventories

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

Foreign currencies

Transactions in currencies other than Hong Kong dollars are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in such currencies are re-translated at the rates prevailing on the balance sheet date. Profits and losses arising on exchange are included in net profit or loss for the period.

On consolidation, the assets and liabilities of the Group's overseas operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

Taxation

The charge for taxation is based on the results for the year after adjusting 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 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.

Notes to the Financial Statements

For the year ended 31 December 2001

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Operating leases

Annual rentals paid under operating leases are charged to the income statement on a straight line basis over the term of the relevant leases.

4. TURNOVER

Turnover represents the amount received and receivable for goods sold to outside customers, less returns and allowances for the year, and is analysed as follows:

| | 2001 | 2000 |
|------------------------------------|-----------------|----------|
| | HK\$'000 | HK\$'000 |
| Continuing operations: | | |
| Processing of fabric | 6,164 | 99,911 |
| Trading of fabric | 13,540 | 23,825 |
| | 19,704 | 123,736 |
| Discontinuing operations: | | |
| Manufacture and sale of snack food | 18,436 | 1,006 |
| | 38,140 | 124,742 |

5. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

For management purposes, the Group is currently organised into three operating divisions – processing of fabric, trading of fabric and manufacture and sale of snack food. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

Continuing operations:

| | | |
|----------------------|---|--|
| Processing of fabric | – | processing of raw fabric and the sale of finished fabric |
| Trading of fabric | – | trading of fabric |

Discontinuing operations:

| | | |
|------------|---|--------------------------------------|
| Snack food | – | manufacture and sale of potato chips |
|------------|---|--------------------------------------|

Notes to the Financial Statements

For the year ended 31 December 2001

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (CONTINUED)

Business segments (Continued)

Segment information about these businesses is presented below.

2001

| | Continuing operations | | Discontinuing | Consolidated |
|---|-------------------------------------|----------------------------------|--------------------------------------|--------------|
| | Processing of fabric HK\$'000 | Trading of fabric HK\$'000 | operations Snack food HK\$'000 | |
| TURNOVER | | | | |
| External sales | 6,164 | 13,540 | 18,436 | 38,140 |
| RESULTS | | | | |
| Segment loss | (19,505) | (2,642) | (21,087) | (43,234) |
| Unallocated corporate expenses | | | | (3,478) |
| Interest on bank borrowings wholly repayable within five years | | | | (337) |
| Loss before taxation | | | | (47,049) |
| Taxation | | | | 52 |
| Loss after taxation | | | | (46,997) |

Notes to the Financial Statements

For the year ended 31 December 2001

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (CONTINUED)

Business segments (Continued)

OTHER INFORMATION

| | Continuing operations | | Discontinuing operations | Consolidated |
|--|-------------------------------------|----------------------------------|--------------------------|--------------|
| | Processing of fabric HK\$'000 | Trading of fabric HK\$'000 | Snack food HK\$'000 | |
| Capital additions | 10,094 | – | 3,096 | 13,190 |
| Depreciation and amortisation | 6,604 | 184 | 4,446 | 11,234 |
| Impairment loss recognised on intangible assets | – | – | 1,188 | 1,188 |
| Non-cash expenses | 10,597 | 88 | 8,492 | 19,177 |
| | _____ | _____ | _____ | _____ |
| BALANCE SHEET | | | | |
| ASSETS | | | | |
| Segment assets | 57,969 | 13,535 | 54,611 | 126,115 |
| | _____ | _____ | _____ | |
| Unallocated corporate assets | | | | 5 |
| | | | | _____ |
| Consolidated total assets | | | | 126,120 |
| | | | | _____ |
| LIABILITIES | | | | |
| Segment liabilities | 17,886 | 15,974 | 17,352 | 51,212 |
| | _____ | _____ | _____ | |
| Unallocated corporate liabilities | | | | 3,897 |
| | | | | _____ |
| Consolidated total liabilities | | | | 55,109 |
| | | | | _____ |

All the assets and liabilities of the Group were based in the People's Republic of China ("PRC") and more than 90% of the Group's turnover and operating results were derived from the PRC.

Notes to the Financial Statements

For the year ended 31 December 2001

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (CONTINUED)

Business segments (Continued)
2000

| | Continuing operations | | Discontinuing operations | Consolidated |
|---|-------------------------------------|----------------------------------|--------------------------|--------------|
| | Processing of fabric HK\$'000 | Trading of fabric HK\$'000 | Snack food HK\$'000 | |
| TURNOVER | | | | |
| External sales | 99,911 | 23,825 | 1,006 | 124,742 |
| RESULTS | | | | |
| Segment (loss) profit | (3,197) | 384 | (8,517) | (11,330) |
| Unallocated corporate expenses | | | | (2,208) |
| Interest on bank borrowings wholly repayable within five years | | | | (993) |
| Loss for the year | | | | (14,531) |

Notes to the Financial Statements

For the year ended 31 December 2001

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (CONTINUED)

Business segments (Continued)

OTHER INFORMATION

| | Continuing operations | | Discontinuing operations | Consolidated |
|-----------------------------------|-----------------------|-------------------|--------------------------|-------------------|
| | Processing | Trading | Snack food | |
| | of fabric | of fabric | of fabric | |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Capital additions | 12 | 18 | 42,056 | 42,086 |
| Depreciation and amortisation | 8,463 | 198 | 1,299 | 9,960 |
| Non-cash expenses | 2,997 | – | 3,393 | 6,390 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| BALANCE SHEET | | | | |
| ASSETS | | | | |
| Segment assets | 104,716 | 920 | 56,420 | 162,056 |
| | <u> </u> | <u> </u> | <u> </u> | |
| Unallocated corporate assets | | | | 150 |
| | | | | <u> </u> |
| Consolidated total assets | | | | 162,206 |
| | | | | <u> </u> |
| LIABILITIES | | | | |
| Segment liabilities | 16,325 | 9,641 | 17,301 | 43,267 |
| | <u> </u> | <u> </u> | <u> </u> | |
| Unallocated corporate liabilities | | | | 931 |
| | | | | <u> </u> |
| Consolidated total liabilities | | | | 44,198 |
| | | | | <u> </u> |

All the assets and liabilities of the Group were based in the PRC and more than 90% of the Group's turnover and operating results were derived from the PRC.

6. OTHER OPERATING EXPENSES

Other operating expenses comprise the followings:

| | 2001 | 2000 |
|---|-------------------|-------------------|
| | HK\$'000 | HK\$'000 |
| Loss on disposal of property, plant and equipment | 10,685 | 3,393 |
| Provision for doubtful debts | 8,492 | 2,997 |
| | <u> </u> | <u> </u> |
| | 19,177 | 6,390 |
| | <u> </u> | <u> </u> |

Notes to the Financial Statements

For the year ended 31 December 2001

7. LOSS FROM OPERATIONS

| | 2001 HK\$'000 | 2000 HK\$'000 |
|---|------------------|------------------|
| Loss from operations has been arrived at after charging: | | |
| Amortisation of intangible assets (included within cost of sales) | 395 | 395 |
| Auditors' remuneration | | |
| – Current year | 440 | 504 |
| – Underprovision in prior years | – | 29 |
| Staff costs, including directors' emoluments | 8,122 | 9,120 |
| Depreciation and amortisation of property, plant and equipment | 10,839 | 9,565 |
| Research and development expenditure | – | 3,887 |
| Impairment loss recognised on intangible assets (included within cost of sales) | 1,188 | – |
| Retirement benefits scheme contributions, net of forfeited contributions | 137 | 133 |
| and after crediting: | | |
| Interest income from bank deposits | <u>898</u> | <u>3,188</u> |

8. DISCONTINUING OPERATIONS

Pursuant to a conditional sale and purchase agreement dated 22 January 2002, the Group agreed to dispose of certain of its subsidiaries which are engaged in the snack food operations to Feng Lin for a consideration of HK\$24,600,000. The transaction was completed on 12 March 2002 (Note 31). No gain or loss arised from the disposal.

The results of the snack food operations for the year, which have been included in the consolidated financial statements, were as follows:

| | 2001 HK\$'000 | 2000 HK\$'000 |
|--|------------------|------------------|
| Revenue | 18,436 | 1,006 |
| Operating costs | (38,238) | (9,110) |
| Interest on bank borrowings wholly repayable within five years | <u>(1,285)</u> | <u>(413)</u> |
| Loss from ordinary activities | <u>(21,087)</u> | <u>(8,517)</u> |

Notes to the Financial Statements

For the year ended 31 December 2001

9. DIRECTORS' EMOLUMENTS

| | 2001 HK\$'000 | 2000 HK\$'000 |
|--|------------------|------------------|
| Fees: | | |
| Executive directors | – | – |
| Independent non-executive directors | 90 | 156 |
| | <u>90</u> | <u>156</u> |
| Other emoluments of executive directors: | | |
| Basic salaries and allowances | 2,613 | 2,613 |
| Retirement benefits scheme contribution | 85 | – |
| | <u>2,698</u> | <u>2,613</u> |
| | <u>2,788</u> | <u>2,769</u> |

The emoluments of each of the Company's directors were below HK\$1,000,000 for each of the two years ended 31 December 2001.

10. EMPLOYEES' EMOLUMENTS

During the year, the five highest paid individuals included four executive directors (2000: five executive directors), details of whose emoluments are set out in note 9 above. The emoluments of the remaining highest paid individual were as follows:

| | 2001 HK\$'000 | 2000 HK\$'000 |
|---|------------------|------------------|
| Basic salaries and allowances | 442 | – |
| Retirement benefits scheme contribution | 12 | – |
| | <u>454</u> | <u>–</u> |

During the year, no emoluments were paid by the Group to the five highest paid individuals, including directors, as an inducement to join or upon joining the Group or as compensation for loss of office. In addition, none of the directors has waived any emoluments during the year.

Notes to the Financial Statements

For the year ended 31 December 2001

11. TAXATION

The taxation credit for the year represented the overprovision for Hong Kong Profits Tax in a prior year.

A substantial portion of the Group's results neither arises in, nor is derived from, Hong Kong. Accordingly, that portion of the Group's results is not subject to Hong Kong Profits Tax.

Pursuant to the relevant laws and regulations in PRC, the Company's PRC subsidiaries are entitled to exemption from PRC enterprise income tax for two years commencing from its first profit-making year of operation, followed by a 50 per cent reduction in PRC enterprise income tax for the next three years. No provision for PRC enterprise income tax has been made in the financial statements as the Company's PRC subsidiaries had no assessable profit for the current year.

The Group and the Company had no significant unprovided deferred taxation for the year or at the balance sheet date.

12. LOSS PER SHARE

The calculation of the loss per share is based on the loss for the year of HK\$45,558,000 (2000: HK\$13,601,000) and on 200,000,000 (2000: 200,000,000) shares in issue during the year.

Notes to the Financial Statements

For the year ended 31 December 2001

13. PROPERTY, PLANT AND EQUIPMENT

| | Leasehold land and buildings | Leasehold improvements | Plant and machinery | Furniture, fixtures and equipment | Motor vehicles | Construction in process | Total |
|--------------------------------------|------------------------------------|---------------------------|------------------------|---|-------------------|----------------------------|----------------|
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| THE GROUP | | | | | | | |
| COST | | | | | | | |
| At 1 January 2001 | 54,709 | 851 | 85,809 | 4,449 | 3,153 | – | 148,971 |
| Additions | – | – | 11,585 | 42 | – | 1,563 | 13,190 |
| Disposals | – | (464) | (33,179) | (2,933) | (995) | – | (37,571) |
| At 31 December 2001 | 54,709 | 387 | 64,215 | 1,558 | 2,158 | 1,563 | 124,590 |
| DEPRECIATION AND AMORTISATION | | | | | | | |
| At 1 January 2001 | 5,007 | 751 | 25,138 | 3,194 | 2,300 | – | 36,390 |
| Provided for the year | 1,371 | 85 | 8,844 | 440 | 99 | – | 10,839 |
| Eliminated on disposals | – | (449) | (19,232) | (2,740) | (512) | – | (22,933) |
| At 31 December 2001 | 6,378 | 387 | 14,750 | 894 | 1,887 | – | 24,296 |
| NET BOOK VALUES | | | | | | | |
| At 31 December 2001 | 48,331 | – | 49,465 | 664 | 271 | 1,563 | 100,294 |
| At 31 December 2000 | 49,702 | 100 | 60,671 | 1,255 | 853 | – | 112,581 |

The leasehold land and buildings of the Group are situated in the PRC and are held under medium term leases.

The Group has pledged leasehold land and buildings having a net book value of approximately HK\$48,331,000 (2000: nil) to secure banking facilities granted to the Group.

Notes to the Financial Statements

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14. INTERESTS IN SUBSIDIARIES

| | 2001 | 2000 |
|-------------------------------|-----------------|----------|
| | HK\$'000 | HK\$'000 |
| Unlisted shares | 75,274 | 75,274 |
| Amounts due from subsidiaries | 40,866 | 43,820 |
| | 116,140 | 119,094 |
| Provision for impairment loss | (48,000) | – |
| | 68,140 | 119,094 |

The amounts due from subsidiaries are unsecured, non-interest bearing and are repayable after one year.

Particulars of the Company's subsidiaries at 31 December 2001 are set out in note 33.

15. INTANGIBLE ASSETS

| | Technical know-how | Trademarks | Total |
|--|-------------------------------|-------------------|--------------|
| | HK\$'000 | HK\$'000 | HK\$'000 |
| THE GROUP | | | |
| COST | | | |
| At 1 January 2001 and 31 December 2001 | 1,877 | 101 | 1,978 |
| AMORTISATION | | | |
| At 1 January 2001 | 375 | 20 | 395 |
| Provided for the year | 375 | 20 | 395 |
| Impairment loss recognised in the year | 1,127 | 61 | 1,188 |
| At 31 December 2001 | 1,877 | 101 | 1,978 |
| NET BOOK VALUES | | | |
| At 31 December 2001 | – | – | – |
| At 31 December 2000 | 1,502 | 81 | 1,583 |

Notes to the Financial Statements

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16. INVENTORIES

| | THE GROUP | |
|------------------|------------------|------------------|
| | 2001 HK\$'000 | 2000 HK\$'000 |
| Raw materials | 2,784 | 6,327 |
| Work in progress | 61 | 3,372 |
| Finished goods | 123 | 6,629 |
| | <u>2,968</u> | <u>16,328</u> |

At 31 December 2001, all the inventories were carried at net realisable value. At 31 December 2000, all inventories were carried at cost.

17. TRADE AND OTHER RECEIVABLES

The Group allows an average credit period of 90 days (2000: 45 days) to its trade customers.

The following is an aged analysis of trade receivables at the balance sheet date:

| | THE GROUP | |
|-------------------|------------------|------------------|
| | 2001 HK\$'000 | 2000 HK\$'000 |
| Trade receivables | | |
| 0 to 30 days | 16,948 | 2,076 |
| 31 to 60 days | – | 3,133 |
| Over 60 days | – | 1,443 |
| | <u>16,948</u> | <u>6,652</u> |
| Other receivables | 5,836 | 2,002 |
| | <u>22,784</u> | <u>8,654</u> |

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18. TRADE AND OTHER PAYABLES

The following is an aged analysis of trade payables at the balance sheet date:

| | THE GROUP | |
|----------------|------------------|------------------|
| | 2001 HK\$'000 | 2000 HK\$'000 |
| Trade payables | | |
| 0 to 30 days | 13,031 | 691 |
| 31 to 60 days | 198 | 622 |
| Over 60 days | 949 | 211 |
| | <hr/> | <hr/> |
| | 14,178 | 1,524 |
| Other payables | 8,305 | 9,952 |
| | <hr/> | <hr/> |
| | 22,483 | 11,476 |
| | <hr/> | <hr/> |

19. AMOUNT DUE TO A DIRECTOR

The amount is unsecured, non-interest bearing and repayable on demand.

20. LOAN FROM A MINORITY SHAREHOLDER OF A SUBSIDIARY

The amount was unsecured, non-interest bearing and was fully repaid during the year.

21. BANK BORROWINGS

| | THE GROUP | |
|---------------------|------------------|------------------|
| | 2001 HK\$'000 | 2000 HK\$'000 |
| Bank loans | 16,954 | 8,000 |
| Trust receipt loans | 2,951 | 2,957 |
| Bank overdrafts | 12 | – |
| | <hr/> | <hr/> |
| | 19,917 | 10,957 |
| | <hr/> | <hr/> |
| Secured | 19,905 | 10,957 |
| Unsecured | 12 | – |
| | <hr/> | <hr/> |
| | 19,917 | 10,957 |
| | <hr/> | <hr/> |

Notes to the Financial Statements

For the year ended 31 December 2001

21. BANK BORROWINGS (CONTINUED)

The borrowings are repayable as follows:

| | THE GROUP | |
|---|------------------|---------------|
| | 2001 | 2000 |
| | HK\$'000 | HK\$'000 |
| On demand or within one year | 19,917 | 8,957 |
| More than one year, but not exceeding two year | – | 2,000 |
| | <u>19,917</u> | <u>10,957</u> |
| Less: Amounts due within one year shown under current liabilities | (19,917) | (8,957) |
| | <u>–</u> | <u>2,000</u> |

22. SHARE CAPITAL

| | Number of ordinary shares | Amount HK\$'000 |
|--|--------------------------------------|----------------------------|
| Ordinary shares of HK\$0.10 each | | |
| Authorised: | | |
| At 1 January 2000, 31 December 2000 and 31 December 2001 | <u>1,000,000,000</u> | <u>100,000</u> |
| Issued and fully paid: | | |
| At 1 January 2000, 31 December 2000 and 31 December 2001 | <u>200,000,000</u> | <u>20,000</u> |

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23. RESERVES

| | Share premium account HK\$'000 | Contributed surplus HK\$'000 | Special reserve HK\$'000 | Accumulated profits (losses) HK\$'000 | Total HK\$'000 |
|------------------------------------|---|------------------------------------|--------------------------------|--|-------------------|
| THE GROUP | | | | | |
| At 1 January 2000 | | | | | |
| – as originally stated | 37,164 | – | (14,980) | 82,490 | 104,674 |
| – prior period adjustment (note 2) | – | – | – | 16,000 | 16,000 |
| | 37,164 | – | (14,980) | 98,490 | 120,674 |
| Dividend paid for 1999 | – | – | – | (16,000) | (16,000) |
| Loss for the year | – | – | – | (13,601) | (13,601) |
| At 31 December 2000 | 37,164 | – | (14,980) | 68,889 | 91,073 |
| Loss for the year | – | – | – | (45,558) | (45,558) |
| At 31 December 2001 | 37,164 | – | (14,980) | 23,331 | 45,515 |
| THE COMPANY | | | | | |
| At 1 January 2000 | | | | | |
| – as originally stated | 37,164 | 60,274 | – | 2,219 | 99,657 |
| – prior period adjustment (note 2) | – | – | – | 16,000 | 16,000 |
| | 37,164 | 60,274 | – | 18,219 | 115,657 |
| Dividend paid for 1999 | – | – | – | (16,000) | (16,000) |
| Loss for the year | – | – | – | (1,100) | (1,100) |
| At 31 December 2000 | 37,164 | 60,274 | – | 1,119 | 98,557 |
| Loss for the year | – | – | – | (51,384) | (51,384) |
| At 31 December 2001 | 37,164 | 60,274 | – | (50,265) | 47,173 |

The special reserve represents the difference between the nominal value of the shares of the subsidiaries acquired and the nominal value of the Company's shares issued for the acquisition at the time of a group reorganisation in 1998.

The contributed surplus represents the difference between the consolidated shareholders' funds of the subsidiaries and the nominal value of the Company's shares issued for the acquisition at the time of a group reorganisation in 1998.

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23. RESERVES (CONTINUED)

In addition to accumulated profits, under the Companies Act 1981 of Bermuda (as amended), contributed surplus is also available for distribution to shareholders. 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.

In the opinion of the directors, the Company's reserves available for distribution to shareholders at 31 December 2001 consisted of contributed surplus and accumulated losses totalling HK\$10,009,000 (2000: HK\$61,393,000).

24. RECONCILIATION OF LOSS BEFORE TAXATION TO NET CASH (OUTFLOW) INFLOW FROM OPERATING ACTIVITIES

| | 2001 HK\$'000 | 2000 HK\$'000 |
|--|------------------|------------------|
| Loss before taxation | (47,049) | (14,531) |
| Interest expense | 1,622 | 1,406 |
| Interest income | (898) | (3,188) |
| Amortisation of intangible assets | 395 | 395 |
| Depreciation and amortisation of property, plant and equipment | 10,839 | 9,565 |
| Impairment loss recognised on intangible assets | 1,188 | – |
| Loss on disposal of property, plant and equipment | 10,685 | 3,393 |
| Provision for doubtful debts | 8,492 | 2,997 |
| Decrease in inventories | 13,360 | 1,496 |
| (Increase) decrease in trade and other receivables | (22,622) | 22,272 |
| Increase in trade and other payables | 11,007 | 5,372 |
| Net cash (outflow) inflow from operating activities | (12,981) | 29,177 |

Notes to the Financial Statements

For the year ended 31 December 2001

25. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

| | Bank loans | Loan from minority shareholder of a subsidiary | Minority interests | Amount due to a director |
|--|-----------------------|---|-------------------------------|---|
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| At 1 January 2000 | – | – | – | 12,420 |
| Borrowings raised | 8,000 | 3,595 | – | – |
| Repayments during the year | – | – | – | (6,958) |
| Capital contribution from minority shareholders | – | – | 7,865 | – |
| Share of losses by minority shareholders | – | – | (930) | – |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| At 31 December 2000 | 8,000 | 3,595 | 6,935 | 5,462 |
| Borrowings raised | 13,152 | – | – | – |
| Repayments during the year | (4,198) | (3,595) | – | (5,409) |
| Share of losses by minority shareholders | – | – | (1,439) | – |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| At 31 December 2001 | <u>16,954</u> | <u>–</u> | <u>5,496</u> | <u>53</u> |

26. BANKING FACILITIES

At 31 December 2001, the Group's banking facilities were secured by the following:

- (i) corporate guarantee of the Company to the extent of HK\$26,000,000 (2000: HK\$31,100,000); and
- (ii) personal guarantee given by certain directors of the Company.

Notes to the Financial Statements

For the year ended 31 December 2001

27. OPERATING LEASE COMMITMENTS

| The Group as lessee | 2001 HK\$'000 | 2000 HK\$'000 |
|--|------------------|------------------|
| Minimum lease payments under operating leases in respect of rented premises during the year | <u>1,969</u> | <u>1,302</u> |

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of rented premises, which fall due as follows:

| | THE GROUP | |
|---------------------------------------|------------------|------------------|
| | 2001 HK\$'000 | 2000 HK\$'000 |
| Within one year | <u>1,768</u> | <u>1,463</u> |
| In the second to fifth year inclusive | <u>877</u> | <u>2,409</u> |
| | <u>2,645</u> | <u>3,872</u> |

Operating lease payments represents rental payable by the Group for certain of its office premises and staff quarter. Leases are negotiated for an average terms of three years.

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

28. CAPITAL COMMITMENTS

At the balance sheet date, the Group and the Company had the following capital commitments:

| | 2001 HK\$'000 | 2000 HK\$'000 |
|--|------------------|------------------|
| THE GROUP | | |
| Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the financial statements | <u>78</u> | <u>–</u> |
| THE COMPANY | | |
| Capital investment in respect of capital contribution to a subsidiary | <u>3,920</u> | <u>3,920</u> |

Notes to the Financial Statements

For the year ended 31 December 2001

29. OTHER COMMITMENTS

During the year, a subsidiary of the Group entered into a non-cancellable agreement with an independent third party for the promotion of the Group's snack food products. At the balance sheet date, the Group, in respect of this agreement, had commitments of HK\$992,000 and HK\$5,458,000 payable within one year and in the second to fifth year inclusive, respectively.

The Company had no other commitments as at 31 December 2001.

30. RETIREMENT BENEFITS SCHEME

The Group operates Mandatory Provident Fund (MPF) schemes for all qualifying employees of its Hong Kong subsidiaries. The assets of the schemes are held separately from those of the Group in funds under the control of trustees.

The retirement benefits cost charged to income statement represents contribution payable to the scheme by the Group at rates specified in the rules of the scheme.

The employees of the Group's PRC subsidiaries are members of state-managed retirement benefits schemes operated by the PRC government. The subsidiaries are required to contribute a specified percentage of their payroll costs to be retirement benefits schemes. The only obligation of the Group with respect to the retirement benefits schemes is to make the specified contributions.

The total cost charged to the income statement of HK\$137,000 (2000: HK\$133,000) represents contributions payable to the schemes by the Group at rates specified in the rules of the schemes.

At the balance sheet date, there was no significant forfeited contribution, which arose upon employees leaving the retirement benefits scheme and which is available to reduce the contribution payable in the future years.

31. POST BALANCE SHEET EVENTS

The following significant transactions took place subsequent to 31 December 2001:

- (i) Pursuant to a disposal agreement (the "Disposal Agreement"), the Group has conditionally agreed to dispose of its entire interest in certain of its indirect subsidiaries, namely Vastco (H.K.) Limited, Cai Yi Trading Limited ("CYF"), Transfit Garments Limited ("Transfit") and Hanover VCL Trading Limited ("Hanover"), which are principally engaged in the snack food business, to Feng Lin Holdings Limited ("Feng Lin"), a then substantial shareholder of the Company which was beneficially interested in approximately 74.48% of the issued share capital of the Company, for a consideration of HK\$24,600,000. As settlement of the consideration, Feng Lin will assume and repay certain liabilities and obligations, which are in aggregate of HK\$24,600,000, in respect of certain subsidiaries to be remained in the Group upon completion of the Disposal Agreement. Details of the Disposal Agreement were set out in the circular of the Company dated 22 February 2002. The resolution in relation to the Disposal Agreement was unanimously passed by way of a poll at the special general meeting of the Company held on 11 March 2002. Completion of the Disposal Agreement took place on 12 March 2002.

For the year ended 31 December 2001

31. POST BALANCE SHEET EVENTS (CONTINUED)

Simultaneously with the entering into of the Disposal Agreement, a sale and purchase agreement (the "Sale and Purchase Agreement") was entered into between, amongst others, Feng Lin and an independent third party, pursuant to which Feng Lin agreed to sell 148,000,000 shares in the Company, representing 74% of the issued share capital of the Company, to an independent third party at a consideration of approximately HK\$0.418 per share. Completion of the Sale and Purchase Agreement took place on 12 March 2002.

- (ii) On 28 March, 2002, the Group received estimated assessments from the Hong Kong Inland Revenue Department (the "IRD") in relation to additional assessments on Hanover, Transfit and CYF for additional tax payable in the total amount of approximately HK\$5,379,000 for the year of assessment 1995/96. Hanover, Transfit and CYF are companies disposed to Feng Lin as discussed above.

The directors are of the opinion that the estimated assessments are without merit and they understand that Feng Lin will argue with the IRD vigorously. The directors also believe that any eventual settlement with the IRD on these estimated assessments will not have a material effect on the Group's financial position.

32. RELATED PARTY TRANSACTIONS

For the year ended 31 December 2000, the Group paid an agency fee of approximately HK\$30,000 to Sunico (H.K.) Limited ("Sunico") in return for agency and letter of credit handling services. The fees were calculated at 1% of the value of transactions handled by Sunico. Mr. Tsoi Hon Chung, a director of the Company, has beneficial interest in Sunico. The Group had no such transaction during the year ended 31 December 2001.

Details of balances with related parties are set out in notes 19 and 20.

Details of guarantees given by related parties to the Company are set out in note 26.

Notes to the Financial Statements

For the year ended 31 December 2001

33. PARTICULARS OF SUBSIDIARIES

Particulars of the subsidiaries of the Company as at 31 December 2001 are as follows:

| Name of subsidiary | Place of incorporation/ establishment | Issued and fully paid share capital/ registered capital | Proportion of nominal value of issued capital/ registered capital held by the Company | Principal activities |
|--|---------------------------------------|---|---|--|
| Cai Yi Feng Trading Limited | Hong Kong | HK\$10,000 ordinary shares | 100% | Inactive |
| Chaoyang Hua Long Textiles and Dyeing Limited | PRC | US\$6,000,000 registered capital | 100% | Fabric processing and manufacturing |
| Hanover VCL Trading Limited (formerly known as "Hanover Garments Limited") | British Virgin Islands | US\$1 ordinary share | 100% | Selling of finished fabric and snack food in the PRC |
| Hua Loong Textiles Limited | Hong Kong | HK\$10,000 ordinary shares | 100% | Investment holding |
| Hua Loong Textiles Trading (Korea) Company Limited | Korea | 50,000,000 Korean Won ordinary shares | 100% | Inactive |
| Park Well International Group Ltd. ("Park Well") | British Virgin Islands | US\$6 ordinary shares | 100% | Investment holding |
| Transfit Garments Limited | British Virgin Islands | US\$1 ordinary share | 100% | Inactive |
| VCL Business Development (USA) Inc. | USA | US\$1,000 common stocks | 100% | Holding of trademarks |
| Vastco (H.K.) Limited | Hong Kong | HK\$10 ordinary shares | 100% | Investment holding |
| Vastco (Shantou F.T.Z.) Industrial Ltd. | PRC | RMB42,000,000 registered capital | 80% | Manufacture and sale of snack foods in the PRC |

Notes to the Financial Statements

For the year ended 31 December 2001

33. PARTICULARS OF SUBSIDIARIES (CONTINUED)

| Name of subsidiary | Place of incorporation/ establishment | Issued and fully paid share capital/ registered capital | Proportion of nominal value of issued capital/ registered capital held by the Company | Principal activities |
|---------------------------|--|--|--|-----------------------------|
| Ying Wing (HK) Limited | Hong Kong | HK\$10 ordinary shares | 100% | Trading of fabric |

Notes:

1. The Company directly holds the interest in Park Well. All other interests shown above are indirectly held by the Company.
2. The principal activities are carried out in place of incorporation/establishment except as otherwise stated under principal activities above.

None of the subsidiaries had any debt securities outstanding at the end of the year, or at any time during the year.