

### Notes to the Financial Statements

For the year ended 31 December 2001

#### 1. GROUP REORGANISATION

The Company was incorporated in Bermuda on 2 February 2000 as an exempted company with limited liability under the Companies Act 1981 of Bermuda. Pursuant to a Group reorganisation scheme to rationalise the Group structure in preparation for the public listing of the Company's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the then companies comprising the Group. This was accomplished by acquiring the entire issued share capital of Rhys Trading Limited ("Rhys Trading (BVI)"), the then holding company of the principal subsidiaries listed in note 34 to the financial statements, in consideration for the allotment and issue of shares of the Company to the then shareholder of Rhys Trading (BVI) on 16 November 2000 and the Company became the holding company of the Group. Further details of the Group reorganisation are set out in notes 23 and in the Company's prospectus dated 28 November 2000.

#### 2. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE

In the current year, the Group has adopted a number of new and revised Statements of Standard Accounting Practice ("SSAP"s) issued by the Hong Kong Society of Accountants. In addition, additional and revised disclosure requirements in accordance with the new and revised SSAPs have been adopted in these financial statements. Prior year comparative figures have been restated to conform to the current year's presentation.

##### **Dividends proposed or declared after the balance sheet date**

In accordance with SSAP 9 (Revised) "Events after the balance sheet date" dividends proposed or declared after the balance sheet date are no longer recognised as a liability at the balance sheet date, but are separately disclosed in the balance sheet within shareholders' funds.

##### **Disclosure requirements in relation to operating leases**

An analysis of future minimum lease payments under non-cancellable operating leases instead of the operating lease commitments payable in the following year has been presented to meet the disclosure requirements of the revised SSAP 14 "Leases". Comparative figures have been restated to conform to the current year's presentation.

##### **Segment reporting**

In the current year, the Group has followed the basis of identification of reportable segments to that required by SSAP 26 "Segment reporting".

## Notes to the Financial Statements

*For the year ended 31 December 2001*

### 2. ADOPTION OF STATEMENT OF STANDARD ACCOUNTING PRACTICE (Continued)

#### **Impairment of assets**

The accounting policy for impairment of assets in accordance with SSAP 31 is set out in the accounting policies below.

### 3. PRINCIPAL ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Statements of Standard Accounting Practice and Interpretations issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. A summary of the principal accounting policies adopted by the Group is set out below.

#### **Basis of preparation**

The measurement basis used in the preparation of the financial statements is historical cost.

#### **Basis of consolidation**

The consolidated financial statements have been prepared using the merger basis of accounting as a result of the Group reorganisation. Under this basis, the Company has been treated as the holding company of its subsidiaries for the financial years presented rather than from the date of acquisition of the subsidiaries. Accordingly, the consolidated results of the Group for the years ended 31 December 2000 and 2001 include the results of the Company and its subsidiaries with effect from 1 January 2000 or since their respective dates of incorporation, whichever is a shorter period.

In the opinion of the directors, the consolidated financial statements prepared on the above basis present more fairly the results and the state of affairs of the Group taken as a whole.

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

#### **Revenue recognition**

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue and costs, if applicable, can be measured reliably.

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

### Notes to the Financial Statements

For the year ended 31 December 2001

#### 3. PRINCIPAL ACCOUNTING POLICIES (Continued)

##### Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment loss.

The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use, which include the estimated cost for dismantling, removing the asset and restoring the site.

In situation where expenditure incurred to replace a separate component of an item of property, plant and equipment, including major inspection and overhaul expenditure, the expenditure is capitalised and accounted for as a component of the assets. Other subsequent expenditure is capitalised as an additional cost of the assets only when it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefit expected to be obtained from the use of the assets.

The gain or loss arising from the retirement or disposal of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the assets and is recognised as an income or expense in the income statement.

Depreciation is provided to write off the cost of property, plant and equipment, over their estimated useful lives from the date on which they become fully operational and after taking into account of their estimated residual values, using the straight-line method, at the following rates per annum:

Furniture and equipment	20%
Leasehold improvement	10%
Plant and machinery	10%
Motor vehicles	20%

No depreciation is provided in respect of construction in progress until it is completed and put into commercial operation.

##### Impairment loss

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 those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated, based on the higher of its net selling price and value in use, in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the smallest group of assets that generates cash flows independently (i.e. a cash-generating unit).

## Notes to the Financial Statements

*For the year ended 31 December 2001*

### 3. PRINCIPAL ACCOUNTING POLICIES (Continued)

#### **Impairment loss (Continued)**

If the recoverable amount of an asset or a cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. Impairment loss is recognised as an expense immediately, unless the relevant asset is carried at revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit 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 or cash-generating unit in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

#### **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 weighted average costing 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.

#### **Subsidiaries**

A subsidiary is an enterprise, in which the Company, directly or indirectly, has the power to govern the financial and operating policies so as to obtain benefits from its activities. Investments in subsidiaries are stated at cost less impairment loss. The carrying amount of the investment is reduced to its recoverable amount on an individual basis.

#### **Associates**

An associate is an enterprise, in which the Group has significant influence and which is neither a subsidiary nor a joint venture of the Group.

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the year. In the consolidated balance sheet, interest in associates includes the Group's share of the net assets of the associates and non-current receivable from associates.

### Notes to the Financial Statements

*For the year ended 31 December 2001*

#### 3. PRINCIPAL ACCOUNTING POLICIES (Continued)

##### **Associates (Continued)**

Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in the income statement.

On disposal of an associate during the year, any attributable amount of purchased goodwill not previously amortised through the income statement is included in the calculation of the profit and loss on disposal.

Goodwill arising on the acquisition of an associate, being the excess of the cost over the fair value of the Group's share of the separable net assets acquired, is amortised on a straight-line basis to the consolidated income statement over its estimated useful economic life of 10 years.

##### **Foreign currencies**

Transactions in foreign currencies are translated at the approximate rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated at the approximate rates of exchange ruling at that date. Translation differences are dealt with in the income statement.

##### **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 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 asset will crystallise in the foreseeable future. A deferred tax asset is not recognised unless its realisation is assured beyond reasonable doubt.

##### **Operating leases**

Leases where substantially all the rewards and risks of ownership of assets remain with the leasing company are accounted for as operating leases. Rentals payable under operating leases are recognised as an expense on the straight-line basis over the lease terms.

### Notes to the Financial Statements

For the year ended 31 December 2001

#### 3. PRINCIPAL ACCOUNTING POLICIES (Continued)

##### Dividends

Final dividends proposed by the directors are classified as a separate allocation of accumulated profits within reserves in the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

##### Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

#### 4. TURNOVER AND REVENUE

The principal activities of the Group are the manufacture and sales of headwear products.

Turnover and revenue represent sale of goods at invoiced value to customers net of returns and discounts.

#### 5. OTHER INCOME

	The Group	
	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Discount received	807	301
Exchange gain	1,139	478
Gain on disposal of property, plant and equipment	1,227	–
Interest income	1,563	539
Sundry income	264	1,176
	<u>5,000</u>	<u>2,494</u>

### Notes to the Financial Statements

For the year ended 31 December 2001

#### 6. BUSINESS AND GEOGRAPHICAL SEGMENTS

##### (a) Business segments

No segmental analysis by business is presented as all the turnover and contribution to operating results are derived from the single business segment of manufacture and sales of headwear products.

##### (b) Geographical segments

	Turnover		Contribution to operating results	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
United States	270,953	212,313	100,284	66,415
Europe	11,696	20,572	4,329	6,435
Others	5,916	9,697	2,189	3,034
	<u>288,565</u>	<u>242,582</u>	<u>106,802</u>	<u>75,884</u>
Unallocated corporate revenues (expenses)				
Other income			5,000	2,494
Distribution costs			(6,488)	(5,561)
Administrative expenses			(36,952)	(23,406)
Profit from operations			<u>68,362</u>	<u>49,411</u>

## Notes to the Financial Statements

For the year ended 31 December 2001

### 7. PROFIT BEFORE TAXATION

	The Group	
	2001	2000
	<u>HK\$'000</u>	<u>HK\$'000</u>
<b>This is stated after charging:</b>		
<b>(a) Finance costs</b>		
Interest on bank loans, overdrafts and other borrowings wholly repayable within five years	8	1,255
Finance charges on obligations under hire purchase contracts	27	9
	<u>35</u>	<u>1,264</u>
<b>(b) Other items</b>		
Staff costs (other than directors' emoluments)	23,630	14,823
Cost of inventories	179,108	166,698
Amortisation of goodwill (included in administration expenses)	629	472
Auditors' remuneration	500	630
Depreciation:		
Owned assets	11,219	8,573
Assets held under hire purchase contracts	-	51
Operating lease in respect of office premises, factories and warehouses	1,910	2,289
	<u>1,910</u>	<u>2,289</u>



### Notes to the Financial Statements

For the year ended 31 December 2001

#### 8. DIRECTORS' EMOLUMENTS

	<b>The Group</b>	
	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000
Fees:		
Executive directors	-	-
Independent non-executive directors	-	-
Other emoluments of executive directors:		
Basic salaries, housing benefits, other allowances and benefits in kind	<b>3,818</b>	5,212
Discretionary bonuses	<b>3,000</b>	-
Contributions to retirement scheme	<b>128</b>	57
	<b>6,946</b>	5,269

The number of directors whose emoluments fell within the following bands are as follows:

	<b>2001</b>	2000
	<b>Number of directors</b>	Number of directors
Nil – HK\$1,000,000	<b>4</b>	4
HK\$1,000,001 – HK\$1,500,000	<b>2</b>	2

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

During the year, no emoluments were paid by the Group to the directors or any of the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

### Notes to the Financial Statements

For the year ended 31 December 2001

#### 9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid individuals included three (2000: four) directors, details of whose remuneration are set out in note 8 above. The details of the emoluments and designated bands of the remaining two (2000: one) highest paid individuals are set out below:

	The Group	
	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Salaries and allowances	771	359
Contribution to retirement scheme	30	15
	<u>801</u>	<u>374</u>

The remuneration of these two (2000: one) non-director, highest paid employees falls within the Nil – HK\$1,000,000 band.

#### 10. TAXATION

	The Group	
	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
The charge comprises:		
Hong Kong Profits Tax	5,413	2,233
PRC income tax	32	70
Deferred taxation	478	1,610
	<u>5,923</u>	<u>3,913</u>
Share of associates' taxation	912	5
	<u>6,835</u>	<u>3,918</u>

Hong Kong Profits Tax has been provided at the rate of 16% (2000: 16%) on the estimated assessable profits arising in Hong Kong for the year. Provisions for the taxation of profits of subsidiaries operating overseas have been calculated at the rates applicable in the respective jurisdictions and based on prevailing legislation, interpretations and practices in respect thereof.

### Notes to the Financial Statements

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#### 10. TAXATION (Continued)

PRC foreign enterprise income tax has been provided at the preferential income tax of 15% in the Shenzhen Special Economic Zone on the estimated assessable profits of Mainland Sewing Mills (Shenzhen) Co., Ltd. ("Mainland Shenzhen"), the Company's subsidiary operating in the PRC. Pursuant to the relevant laws and regulations in the PRC and a letter dated 5 June 2000 from the Tax Collection Bureau of Buji, Shenzhen, Mainland Shenzhen is entitled to 50% reduction of the PRC foreign enterprise income tax for the year 2001. Accordingly, the charge for the year ended 31 December 2001 represents provision for PRC foreign enterprise income tax at 7.5% on estimated assessable profits of Mainland Shenzhen.

Deferred taxation represents the tax effect of timing differences arising from accelerated depreciation allowance which is expected to crystallise in the foreseeable future. There was no other material unprovided deferred tax at the balance sheet date.

#### 11. NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders dealt with in the financial statements of the Company for the year was approximately HK\$15,645,000 including HK\$15,600,000 dividends from subsidiaries (2000: HK\$10,837,000 including HK\$10,800,000 dividends from subsidiaries).

The Group's share of losses accumulated by the associated companies amounted to approximately HK\$302,000 (2000: HK\$425,000).

#### 12. DIVIDENDS

	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Paid:		
Special dividend	–	8,000
Interim dividend in respect of 2001 of HK2 cents (2000: Nil) per share	<b>4,800</b>	–
	<b>4,800</b>	8,000

A final dividend in respect of 2001 of HK5 cents (2000: HK4.5 cents) per share amounting to HK\$13,880,026 (2000: HK\$10,800,000) has been proposed by the directors after the balance sheet date. The proposed dividend is not accounted for until it has been approved at the annual general meeting.

## Notes to the Financial Statements

*For the year ended 31 December 2001*

### 13. EARNINGS PER SHARE

The calculation of basic earnings per share are based on the net profit from ordinary activities attributable to shareholders for the year of approximately HK\$62,527,000 (2000: HK\$43,809,000) and the weighted average number of 240,061,486 (2000: 183,934,426) ordinary shares in issue during the year.

Diluted earnings per share is not presented as the Company has no dilutive potential ordinary shares as at 31 December 2000 and 2001.

### 14. RETIREMENT SCHEMES

The Group has two defined contribution retirement schemes (the "Retirement Schemes") for its Hong Kong based employees maintained and operated by two independent fund managers and joined the Mandatory Provident Fund Scheme ("MPF Scheme") established under the Mandatory Provident Fund Ordinances in December 2000. The assets of the Retirement Schemes and the MPF Scheme are held separately from those of the Group in funds under the control of independent trustees.

Under the rules of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rates specified in the rules. The only obligation of the Group with respect of MPF Scheme is to make the required contributions under the scheme. No forfeited contribution is available to reduce the contribution payable in the future years.

The retirement benefits scheme contribution in respect of the Retirement Schemes and the MPF Scheme charged to the income statement represent contributions payable to the funds by the Group at rates specified in the rules of the schemes.

As at 31 December 2001, the Group has no significant obligations for long service payments to its employees pursuant to the requirements under the Employment Ordinance, Chapter 57 of the Laws of Hong Kong.

### Notes to the Financial Statements

For the year ended 31 December 2001

#### 14. RETIREMENT SCHEMES (Continued)

Details of retirement schemes contributions for the Group's employees, net of forfeited contributions, which have been dealt with in the income statement of the Group are as follows:

	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Gross retirement schemes contributions	556	245
Less: Forfeited contributions for the year	–	(79)
Net retirement schemes contributions	<u>556</u>	<u>166</u>

At the balance sheet date, the Group has no significant forfeited contributions available to reduce the contributions payable by the Group in the future years.

#### 15. PROPERTY, PLANT AND EQUIPMENT

The Group	Furniture and equipment	Leasehold improvement	Plant and machinery	Construction in progress	Motor vehicles	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Cost</b>						
At beginning of year	15,449	19,516	60,289	–	928	96,182
Additions	687	1,205	9,508	13,384	203	24,987
Disposals	–	–	(7,823)	–	–	(7,823)
<b>At balance sheet date</b>	<u>16,136</u>	<u>20,721</u>	<u>61,974</u>	<u>13,384</u>	<u>1,131</u>	<u>113,346</u>
<b>Accumulated depreciation</b>						
At beginning of year	3,854	1,608	17,967	–	539	23,968
Charge for the year	3,000	2,080	6,017	–	122	11,219
Eliminated on disposals	–	–	(6,099)	–	–	(6,099)
<b>At balance sheet date</b>	<u>6,854</u>	<u>3,688</u>	<u>17,885</u>	<u>–</u>	<u>661</u>	<u>29,088</u>
<b>Net book value</b>						
<b>At balance sheet date</b>	<u>9,282</u>	<u>17,033</u>	<u>44,089</u>	<u>13,384</u>	<u>470</u>	<u>84,258</u>
At beginning of year	<u>11,595</u>	<u>17,908</u>	<u>42,322</u>	<u>–</u>	<u>389</u>	<u>72,214</u>

### Notes to the Financial Statements

For the year ended 31 December 2001

#### 16. INTEREST IN SUBSIDIARIES

	The Company	
	2001	2000
	<u>HK\$'000</u>	<u>HK\$'000</u>
Unlisted shares, at cost	99,631	99,631
Due from subsidiaries	55,723	23,867
	<u>155,354</u>	<u>123,498</u>

The amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayments.

Particulars of the principal subsidiaries of the Company are set out in note 34(a).

#### 17. INTEREST IN ASSOCIATES

	The Group	
	2001	2000
	<u>HK\$'000</u>	<u>HK\$'000</u>
Share of net assets other than goodwill	14,793	9,244
Goodwill	4,849	5,822
	<u>19,642</u>	<u>15,066</u>

Particulars of the principal associates of the Group are set out in note 34(b).

#### 18. INVENTORIES

	The Group	
	2001	2000
	<u>HK\$'000</u>	<u>HK\$'000</u>
Raw materials	23,699	21,710
Work-in-progress	690	381
Finished goods	1,904	-
	<u>26,293</u>	<u>22,091</u>

At the balance sheet date, no inventories (2000: Nil) were stated at net realisable value.

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#### 19. TRADE AND OTHER RECEIVABLES

	The Group	
	2001	2000
	<u>HK\$'000</u>	<u>HK\$'000</u>
<b>Trade receivables</b>		
From associates	15,350	17,573
From third parties	<u>42,498</u>	<u>16,920</u>
	57,848	34,493
<b>Other receivables</b>		
Deposits, prepayments and other debtors	<u>1,888</u>	<u>5,055</u>
	<u><u>59,736</u></u>	<u><u>39,548</u></u>

The Group maintains a credit policy with its customers with due dates of payment terms mostly falling within the range from 60 days to 90 days depends on trading relationship. Credit evaluations of customers are performed from time to time to minimize any credit risk associated with receivables. In addition, upfront cash payments from new customers are sometimes required. The ageing analysis of the trade receivables as at the balance sheet date is as follows:

	The Group	
	2001	2000
	<u>HK\$'000</u>	<u>HK\$'000</u>
0 – 30 days	30,332	16,655
31 – 60 days	10,639	9,349
61 – 90 days	4,570	6,786
Over 90 days	<u>12,307</u>	<u>1,703</u>
	<u><u>57,848</u></u>	<u><u>34,493</u></u>

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#### 20. TRADE AND OTHER PAYABLES

	The Group	
	2001	2000
	<u>HK\$'000</u>	<u>HK\$'000</u>
<b>Trade payables</b>	<b>32,310</b>	17,895
<b>Other payables</b>		
Accrued charges and other creditors	<u>20,820</u>	<u>29,436</u>
	<u><b>53,130</b></u>	<u>47,331</u>

The ageing analysis of trade payables as at the balance sheet date is as follows:

	The Group	
	2001	2000
	<u>HK\$'000</u>	<u>HK\$'000</u>
0 – 30 days	12,586	7,345
31 – 60 days	12,037	7,278
61 – 90 days	5,558	3,272
Over 90 days	<u>2,129</u>	<u>–</u>
	<u><b>32,310</b></u>	<u>17,895</u>



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#### 21. INTEREST-BEARING BORROWINGS

	<b>The Group</b>	
	<u>2001</u>	<u>2000</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Obligations under hire purchase contracts	<u>–</u>	<u>223</u>
	<u>2001</u>	<u>2000</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>
The maturity of the above amounts is as follows:		
Obligations under finance lease and hire purchase contracts:		
Within one year	–	150
In the second to fifth year inclusive	–	73
	–	223
Portion classified as current liabilities	–	(150)
Long-term portion	<u>–</u>	<u>73</u>

#### 22. DEFERRED TAXATION

	<b>The Group</b>	
	<u>2001</u>	<u>2000</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>
At beginning of year	4,435	2,824
Charge for the year	478	1,611
<b>At balance sheet date</b>	<u>4,913</u>	<u>4,435</u>

The deferred tax liabilities represents the tax effect of the tax allowances in excess of depreciation. The Group and the Company had no significant unprovided deferred taxation at the balance sheet date.

## Notes to the Financial Statements

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### 23. SHARE CAPITAL

A summary of movements in the share capital of the Company were as follows:

	<u>Number of shares</u>	<u>Value</u> <i>HK\$'000</i>
<b>Authorised</b>		
On incorporation	1,000,000	100
Increase in authorised share capital	<u>999,000,000</u>	<u>99,900</u>
<b>At 31 December 2000 and 2001</b>	<u><u>1,000,000,000</u></u>	<u><u>100,000</u></u>
<b>Issued and fully paid</b>		
Allotted and issued nil paid on incorporation and subsequently credited as fully paid at par for the acquisition of the entire issued share capital of Rhys Trading (BVI)	1,000,000	100
Issue of shares as consideration for the acquisition of the entire issued share capital of Rhys Trading (BVI)	1,000,000	100
Issue of shares resulted from capitalisation of the share	178,000,000	17,800
Issue of shares pursuant to the new issue	<u>60,000,000</u>	<u>6,000</u>
<b>At 31 December 2000</b>	240,000,000	24,000
Issue of shares	<u>4,488,461</u>	<u>449</u>
<b>At 31 December 2001</b>	<u><u>244,488,461</u></u>	<u><u>24,449</u></u>

### Notes to the Financial Statements

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#### **23. SHARE CAPITAL (Continued)**

The following changes in the authorised and issued share capital of the Company took place during the period from 2 February 2000 (date of incorporation) to 31 December 2001:

- (a) On incorporation, the authorised share capital of the Company was HK\$100,000 divided into 1,000,000 shares of HK\$0.10 each. All shares were allotted and issued nil paid on 6 March 2000.
- (b) On 16 November 2000, the authorised share capital of the Company was increased from HK\$100,000 to HK\$100,000,000 by the creation of a further 999,000,000 shares of HK\$0.10 each.
- (c) On 16 November 2000, as part of the Group reorganisation described in note 1, the Company (i) allotted and issued an aggregate of 1,000,000 shares of HK\$0.10 each credited as fully paid at par and (ii) credited as fully paid at par an aggregate of the 1,000,000 shares allotted and issued nil paid as set out in (a) above, in consideration and in exchange for the acquisition of the entire issued share capital of Rhys Trading (BVI). The excess of the fair value of the shares of Rhys Trading (BVI), determined on the basis of the consolidated net assets of Rhys Trading (BVI) at that date, over the nominal value of the Company's shares issued in exchange therefor, amounting to HK\$99,631,000, was credited to the Company's contributed surplus as detailed in note 25.
- (d) On 6 December 2000, a total of 178,000,000 shares of HK\$0.10 each were allotted as fully paid at par to the holders of the shares on the register of members of the Company in proportion to their respective shareholdings at the close of business on that date by way of capitalisation of the sum of HK\$17,800,000 standing to the credit of the share premium account of the Company, conditional on the share premium account being credited as a result of the new shares issued to the public as detailed in (e) below.
- (e) On 8 December 2000, 60,000,000 shares of HK\$0.10 each were issued to the public at HK\$1.00 per share.
- (f) On 27 December 2001, 4,488,461 shares of HK\$0.10 each were issued at approximately HK\$1.44 per share as consideration for acquisition of additional interest in two associates of the Group (note 28).

## Notes to the Financial Statements

*For the year ended 31 December 2001*

### 24. SHARE OPTIONS

Pursuant to the share option scheme adopted on 16 November 2000, the Board of Directors may at its discretion invite any full-time employees, including directors, of the Company or any or its subsidiaries to take up options to subscribe for shares of the Company. The subscription price is the higher of 80% of the average of the closing prices of the shares on The Stock Exchange of Hong Kong Limited for the five trading days immediately preceding the date of the offer of the option and the nominal value of the shares. The maximum number of shares in respect of which options may be granted under the share option scheme may not exceed in nominal amount 10% of the issued share capital of the Company which has been duly allotted and issued. An option may be exercised in accordance with the terms of the share option scheme at any time during the period commencing immediately after the date on which the option is deemed to be granted and accepted and expiring on a date to be determined and notified by the Board of Directors to each grantee, but in any event not later than 10 years from the date of 16 November 2000.

The Board of Directors has approved on 11 June 2001 to grant options to certain full time employees and to a director of the Company to subscribe for respectively 8,649,000 and 2,000,000 shares of the Company. The subscription price per share is HK\$1.228, which represents approximately 80% of the average closing prices of the shares of the five trading days preceding the date of grant of the option. The option period is eight years from 11 June 2001 and exercisable from 11 June 2002. There are additional restrictions imposed on the varying proportion of options exercisable in the initial years during the option period.

### Notes to the Financial Statements

For the year ended 31 December 2001

#### 25. RESERVES

	Share premium	Contributed surplus	Accumulated profits	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>The Group</b>				
At 1 January 2000	–	25,878	42,287	68,165
Issue of shares	54,000	–	–	54,000
Capitalisation issue of shares	(17,800)	–	–	(17,800)
Share issue expenses	(13,000)	–	–	(13,000)
Profits for the year	–	–	43,809	43,809
Dividend	–	–	(18,800)	(18,800)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2000, as previously reported	23,200	25,878	67,296	116,374
Effect of adopting SSAP 9 (Revised) (note 2)	–	–	10,800	10,800
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2000, as restated	23,200	25,878	78,096	127,174
Issue of shares	6,025	–	–	6,025
Profits for the year	–	–	62,527	62,527
2000 final dividend paid	–	–	(10,800)	(10,800)
2001 interim dividend paid	–	–	(4,800)	(4,800)
	<hr/>	<hr/>	<hr/>	<hr/>
<b>At 31 December 2001</b>	<u>29,225</u>	<u>25,878</u>	<u>125,023</u>	<u>180,126</u>
<b>Representing:</b>				
2001 final dividend proposed (note 12)	–	–	13,880	13,880
Others	29,225	25,878	111,143	166,246
	<hr/>	<hr/>	<hr/>	<hr/>
	<u>29,225</u>	<u>25,878</u>	<u>125,023</u>	<u>180,126</u>

### Notes to the Financial Statements

For the year ended 31 December 2001

#### 25. RESERVES (Continued)

	Share premium	Contributed surplus	Accumulated profits	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>The Company</b>				
At 1 January 2000				
Arising on acquisition of subsidiaries	–	99,631	–	99,631
Contributed surplus applied to pay up 2,000,000 nil paid shares	–	(200)	–	(200)
Issue of shares	54,000	–	–	54,000
Capitalisation issue of shares	(17,800)	–	–	(17,800)
Share issue expenses	(13,000)	–	–	(13,000)
Profits for the year	–	–	10,837	10,837
Dividend	–	–	(10,800)	(10,800)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2000, as previously reported	23,200	99,431	37	122,668
Effect of adopting SSAP 9 (Revised) (note 2)				
– Reversal of dividend income	–	–	(10,800)	(10,800)
– Reversal of dividend payable	–	–	10,800	10,800
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2000, as restated	23,200	99,431	37	122,668
Issue of shares	6,025	–	–	6,025
Profits for the year	–	–	15,645	15,645
2000 final dividend paid	–	–	(10,800)	(10,800)
2001 interim dividend paid	–	–	(4,800)	(4,800)
	<hr/>	<hr/>	<hr/>	<hr/>
<b>At 31 December 2001</b>	<u>29,225</u>	<u>99,431</u>	<u>82</u>	<u>128,738</u>

The contributed surplus of the Group represents the difference between the nominal value of the share capital of the subsidiaries acquired pursuant to the Group reorganisation set out in note 1 to the financial statements over the nominal value of the share capital of the Company issued in exchange therefor.

### Notes to the Financial Statements

For the year ended 31 December 2001

#### 25. RESERVES (Continued)

The contributed surplus of the Company represents the difference between the then combined net assets value of the subsidiaries acquired pursuant to the same reorganisation over the nominal value of the share capital of the Company issued in exchange therefor.

Under the Companies Act 1981 of Bermuda, contributed surplus is also available for distribution to shareholders. However, a company cannot declare or pay a dividend, or make a distribution out of contributed surplus, if;

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

The Company's reserves available for distribution represent share premium, the contributed surplus and accumulated profits. As the balance sheet date, the Company had approximately HK\$128,738,000 reserves available for distribution to shareholders.

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

	The Group	
	2001	2000
	<u>HK\$'000</u>	<u>HK\$'000</u>
Profit before taxation	69,362	47,727
Hire purchase contracts interest	27	9
Interest income	(1,563)	(539)
Interest expenses	8	1,255
Amortisation of goodwill	629	472
Gain on disposal of property, plant and equipment	(1,226)	–
Depreciation	11,219	8,624
Unrealised profits relating to an associate	1,391	–
Share of results of associates	(1,035)	420
Changes in working capital:		
Inventories	(4,202)	1,216
Trade and other receivables	(20,187)	(15,648)
Trade and other payables	(6,201)	17,916
<b>Net cash inflow from operating activities</b>	<b><u>48,222</u></b>	<b><u>61,452</u></b>

## Notes to the Financial Statements

For the year ended 31 December 2001

### 27. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Share capital and share premium	Bank loans	Hire purchase contract obligation
	HK\$	HK\$	HK\$
At 1 January 2000	200	20,000	–
Issue of shares	47,000	–	–
New bank loan raised	–	20,000	–
Repayment of bank loans	–	(40,000)	–
Inception of hire purchase contracts	–	–	300
Repayment of obligation under hire purchase contracts	–	–	(77)
	<hr/>	<hr/>	<hr/>
At 31 December 2000	47,200	–	223
Issue of shares (note 28)	6,474	–	–
Repayment of obligation under hire purchase contracts	–	–	(223)
	<hr/>	<hr/>	<hr/>
<b>At 31 December 2001</b>	<b><u>53,674</u></b>	<b><u>–</u></b>	<b><u>–</u></b>

### 28. NON-CASH TRANSACTION

Pursuant to a sales and purchase agreement, on 27 December 2001, 4,488,461 ordinary shares of the Company was issued at approximately HK\$1.44 each as consideration to acquire approximately 14.29% and 8.33% equity interest in Drew Pearson Marketing, Inc. ("DPM") and Drew Pearson International, Inc. ("DPI") respectively, the associates of the Group.



### Notes to the Financial Statements

For the year ended 31 December 2001

#### 29. OPERATING LEASES COMMITMENTS

At 31 December 2001, the Group had outstanding commitment not provided for under non-cancellable operating leases in respect of land and building, the portion of this commitment which is payable in the following year is as follows:

	<u>2001</u>	<u>2000</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	2,294	1,862
In the second to fifth years inclusive	1,728	1,620
Over five years	29,210	–
	<u>33,232</u>	<u>3,482</u>

#### 30. CAPITAL COMMITMENTS

At 31 December 2001, the Group had capital expenditure commitments contracted but not provided for amounting to approximately HK\$2,500,000 (2000: Nil).

#### 31. CONTINGENT LIABILITIES

At 31 December 2001, the Company had executed certain unlimited guarantees and corporate guarantees amounting to approximately HK\$31,000,000 (2000: Nil) to secure the general banking facilities granted to its subsidiaries. No facilities were utilised by the subsidiaries as at 31 December 2001.

#### 32. RELATED PARTY TRANSACTIONS

The Group had certain transactions with related parties as follows:

	<b>The Group</b>	
	<u>2001</u>	<u>2000</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Rental paid in respect of land and building to a director	300	300
Rental paid in respect of land and building to a company controlled by the director	1,320	1,320
Sale of goods to associates	103,891	83,154
	<u>105,511</u>	<u>84,774</u>

## Notes to the Financial Statements

*For the year ended 31 December 2001*

### 33. POST BALANCE SHEET EVENT

Subsequent to 31 December 2001, on 12 March 2002, the Group has entered into several agreements detailed as follows.

- (1) The agreement (“Templeton Placing and Subscription Agreement”) for the placing and subscription of shares in the Company entered into between the Company, Successful Years International Co., Ltd. (“Successful Years”) and Templeton Strategic Emerging Funds LDC (“Templeton”) wherein Templeton agreed to purchase 18,000,000 existing shares owned by Successful Years at a price of HK\$1.75 per share and Successful Years agreed to subscribe for 18,000,000 shares at a price of HK\$1.75 per share from the Company;
- (2) The agreement (“Paramount Placing and Subscription Agreement”) for the placing and subscription of shares in the Company entered into between the Company, Successful Years, and Paramount Apparel International, Inc. (“Paramount”) wherein Paramount agreed to purchase 2,000,000 existing shares owned by Successful Years at a price of HK\$1.75 per share and Successful Years agreed to subscribe for 2,000,000 shares at a price of HK\$1.75 per share from the Company; and
- (3) The agreement for the sale and purchase of shares in DPM and DPI wherein the Group agreed to purchase and the vendors agreed to sell in total 42.86% and 33.34% of the shareholding of DPM and DPI respectively for a total consideration amounting to HK\$24,896,123. The consideration will be satisfied by the issuance of an aggregate of 13,112,070 new shares of the Company at HK\$1.75 per share and a cash amount of US\$250,000. Upon completion of the transaction, the Group will own approximately 85.72% and 66.67% of DPM and DPI respectively and accordingly, DPM and DPI will become non-wholly owned subsidiaries of the Company.

As of today, both the Templeton Placing and Subscription Agreement and Paramount Placing and Subscription Agreement were completed and approximately HK\$34 million net proceeds have been deposited into the Company’s bank account.

Details of the above transactions were disclosed in the two announcements made by the Company on 13 March 2002.

- (4) A final dividend of approximately HK\$13,880,000 will be received by the Company from the subsidiaries after the balance sheet date.

### Notes to the Financial Statements

For the year ended 31 December 2001

#### 34. PRINCIPAL SUBSIDIARIES AND ASSOCIATES

Other than Rhys Trading (BVI), which is held directly by the Company, all subsidiaries are held by the Company indirectly.

- (a) Particulars of the Company's subsidiaries, all of which are wholly-owned, are as follows:

Name of company	Place of incorporation/ registration	Principal place of operation	Nominal value of issued ordinary share capital/ registered capital	Principal activities
Rhys Trading Ltd.	The British Virgin Islands	Hong Kong	US\$10,000	Investment holding
Mainland Sewing Headwear Manufacturing Limited	Hong Kong	Hong Kong	HK\$10,000	Manufacture and sale of headwear
Mainland Sewing Mills (Shenzhen) Co., Ltd.	The People's Republic of China	The People's Republic of China	HK\$26,000,000	Manufacture and sale of headwear
Summerville Trading Ltd.	The British Virgin Islands	Hong Kong	US\$10,000	Trading of headwear
Big One Holdings Ltd.	The British Virgin Islands	Hong Kong	US\$10,000	Investment holding
Great Champion International Co., Ltd.	The British Virgin Islands	Hong Kong	US\$10,000	Investment holding
Manga Investment Ltd.	Mauritius	Hong Kong	US\$1	Investment holding
Top Super Investment Ltd.	The British Virgin Islands	Hong Kong	US\$10,000	Investment holding
United Crown International Macao Commercial Offshore Ltd.	Macau	Macau	MOP\$100,000	Investment holding

## Notes to the Financial Statements

*For the year ended 31 December 2001*

### 34. PRINCIPAL SUBSIDIARIES AND ASSOCIATES (Continued)

- (b) Particulars of the Group's equity interest in its principal associates held indirectly by the Company are as follows:

<b>Name of associate</b>	<b>Place of incorporation and operation</b>	<b>Proportion of nominal value of issued common stock held by the Group</b>	<b>Principal activity</b>
Drew Pearson Marketing, Inc.	United States of America	42.86%	Trading of licensed headwear
Drew Pearson International, Inc.	United States of America	33.33%	Trading of licensed headwear