Notes to Financial Statements

31 December 2001

1. CORPORATE INFORMATION

Gemzboh Holdings Limited was incorporated in Bermuda on 24 April 1998 as an exempted company with limited liability under the Companies Act 1981 of Bermuda.

During the year, the Group was involved in the following principal activities:

(i) manufacture and sale of apparel; and

(ii) trading of petroleum oil.

In the opinion of the directors, the ultimate holding company as at 31 December 2001 is Regal China Development Limited, which is incorporated in the British Virgin Islands (the "BVI").

2. IMPACT OF NEW AND REVISED HONG KONG STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPs")

The following revised and new SSAPs are effective for the first time for the current year's financial statements:

- SSAP 2.109 (Revised): Events after the balance sheet date
- SSAP 2.114 (Revised): Leases
- SSAP 2.118 (Revised): Revenue
- SSAP 2.126: Segment reporting
- SSAP 2.128: Provisions, contingent liabilities and contingent assets
- SSAP 2.129: Intangible assets
- SSAP 2.130: Business combinations
- SSAP 2.131: Impairment of assets
- SSAP 2.132: Consolidated financial statements and accounting for investments in subsidiaries

These SSAPs prescribe new accounting measurement and disclosure practices. The major effects on the Group's accounting policies and on the amounts disclosed in these financial statements of adopting these SSAPs are summarised as follows:

2. **IMPACT OF NEW AND REVISED HONG KONG STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPs") (continued)**

SSAP 2.109 (Revised) prescribes which type of events occurring after the balance sheet date require adjustment to the financial statements, and which require disclosure, but no adjustment. Its principal impact on these financial statements is that the proposed final dividend which is not declared and approved until after the balance sheet date, is no longer recognised as a liability at the balance sheet date, but is disclosed as an allocation of retained profits on a separate line within the capital and reserves section of the balance sheet. SSAP 2.109 (Revised) has had no major impact on these financial statements.

SSAP 2.114 (Revised) prescribes the basis for lessor and lessee accounting for finance and operating leases, and the required disclosures in respect thereof. Certain amendments have been made to the previous accounting measurement treatments, which may be accounted for retrospectively or prospectively, in accordance with the requirements of the SSAP. The revised SSAP requirements have not had a material effect on the amounts previously recorded in the financial statements, therefore no prior year adjustment has been required. The disclosure changes under this SSAP have resulted in changes to the detailed information disclosed for finance leases and operating leases, which are further detailed in notes 21 and 27 to the financial statements. The Group had disclosed the total future lease payments under non-cancellable operating leases in the financial statements for the year ended 31 December 2000.

SSAP 2.118 (Revised) prescribes the recognition of revenue and was revised as a consequence of the revision to SSAP 2.109 described above. Proposed final dividends from subsidiaries that are declared and approved by the subsidiaries after the balance sheet date are no longer recognised in the Company's own financial statements for the year. SSAP 2.118 has had no major impact on these financial statements.

SSAP 2.126 prescribes the principles to be applied for reporting financial information by segment. It requires that management assesses whether the Group's predominant risks or returns are based on business segments or geographical segments and determines one of these bases to be the primary segment information reporting format, with the other as the secondary segment information reporting format. The impact of this SSAP is the inclusion of significant additional segment reporting disclosures which are set out in note 5 to the financial statements.

SSAP 2.128 prescribes the recognition criteria and measurement bases to apply to provisions, contingent liabilities and contingent assets, together with the required disclosures in respect thereof. SSAP 2.128 has had no major impact on these financial statements.

2. IMPACT OF NEW AND REVISED HONG KONG STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPs") (continued)

SSAP 2.129 prescribes the recognition and measurement criteria for intangible assets, together with the disclosure requirements. SSAP 2.129 has had no major impact on these financial statements.

SSAP 2.130 prescribes the accounting treatment for business combinations, including the determination of the date of acquisition, the method for determining the fair values of the assets and liabilities acquired, and the treatment of goodwill or negative goodwill arising on acquisition. The SSAP requires the disclosure of goodwill in the non-current assets section of the consolidated balance sheet. It requires that goodwill is amortised to the consolidated profit and loss account over its estimated useful life. SSAP 2.130 has had no major impact on these financial statements.

SSAP 2.131 prescribes the recognition and measurement criteria for impairment of assets. SSAP 2.131 has had no major impact on these financial statements.

SSAP 2.132 prescribes the accounting treatment and disclosures for the preparation and presentation of consolidated financial statements. SSAP 2.132 has had no major impact on these financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with SSAPs, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic remeasurement of investment properties and certain fixed assets, as further explained below.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2001. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) rental income, on a time proportion basis over the lease terms; and

(c) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

Leased assets

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in fixed assets and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the profit and loss account so as to provide a constant periodic rate of charge over the lease terms.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets and rentals receivable under the operating leases are credited to the profit and loss account on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Retirement benefits scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for all of its employees in Hong Kong. The MPF Scheme has operated since 1 December 2000. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

Each of the subsidiaries operating in the People's Republic of China (the "PRC") participates in the retirement benefits scheme (the "PRC RB Scheme") operated by the local municipal government in Fujian Province, the PRC. These PRC subsidiaries are required to contribute a certain percentage of their payroll to the PRC RB Scheme to fund the benefits. The only obligation of the Group with respect to the PRC RB Scheme is to pay the ongoing required contributions under the PRC RB Scheme. Contributions under the PRC RB Scheme are charged to the profit and loss account as they become payable in accordance with the rules of the PRC RB Scheme.

Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years.

3. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Impairment of assets (continued)

A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Fixed assets and depreciation

Fixed assets, other than investment properties, are stated at cost or valuation less accumulated depreciation and any impairment losses. 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. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account 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 fixed asset, the expenditure is capitalised as an additional cost of that asset.

Changes in the values of fixed assets, other than the investment properties, are dealt with as movements in the fixed asset revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged. On disposal of a revalued asset, the relevant portion of the revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

Depreciation is calculated on the straight-line basis to write off the cost or valuation of each asset, less any estimated residual value, over the following estimated useful lives:

Leasehold land and buildings	The shorter of the lease terms and 50 years
Leasehold improvements	The shorter of the lease terms and 5 to 10 years
Plant and machinery	5 to 10 years
Furniture, office equipment and motor vehicles	5 to 10 years

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are intended to be held on a long term basis for their investment potential, any rental income being negotiated at arm's length. Such properties are not depreciated and are stated at their open market values on the basis of annual professional valuations performed at the end of each financial year. Changes in the values of investment properties are dealt with as movements in the investment property revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on a portfolio basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged.

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

Subsidiaries

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The Company's interests in subsidiaries are stated at cost less any impairment losses.

Inventories

Inventories are stated at the lower of cost and net realisable value after allowances for obsolete or slow-moving items. Cost is determined on the first-in, first-out basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads based on a normal level of operating activities. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Deferred tax

Deferred tax is provided, using the liability method, on all significant timing differences in the recognition of revenue and expenses for tax and financial reporting purposes, to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

Foreign currency transactions are recorded at the applicable rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable rates of exchange ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of overseas subsidiaries are translated into Hong Kong dollars at the applicable rates of exchange ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

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. Related parties may be individuals or corporate entities.

Cash equivalents

For the purpose of the consolidated cash flow statement, 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 advance. For the purpose of balance sheet classification, cash equivalents represent assets similar in nature to cash, which are not restricted as to use.

4. TURNOVER

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts during the year. All significant transactions among the companies comprising the Group have been eliminated on consolidation.

5. SEGMENT INFORMATION

SSAP 2.126 was adopted during the year, as detailed in note 2 to the financial statements. Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products they provide. Each of the Group's business segments represents a strategic business unit that offers products which are subject to risks and returns that are different from those of other business segments. Summary details of the business segments are as follows:

(i) manufacture and sale of apparel; and

(ii) trading of petroleum oil.

In determining the Group's geographical segments, revenue and assets are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

5. SEGMENT INFORMATION (continued)

(a) Business segments

The following tables represent revenue, results and certain asset, liability and expenditure information for the Group's business segments for the years ended 31 December 2001 and 2000.

Group

	Manufacture and sale of apparel		Trading of petroleum oil		Unallocated		Consolidated	
	2001 HK'000	2000 HK'000	2001 HK'000	2000 HK'000	2001 HK'000	2000 HK'000	2001 HK'000	2000 HK'000
Segment revenue:								
Sales to external customers	141,741	153,445	1,351	–	–	–	143,092	153,445
Segment results	(2,920)	(21,323)	47	–	(7,218)	(2,713)	(10,091)	(24,036)
Interest income							1,016	1,579
Loss from operating activities							(9,075)	(22,457)
Finance costs							(2,179)	(2,093)
Loss before tax							(11,254)	(24,550)
Tax							(8)	(730)
Loss before minority interests							(11,262)	(25,280)
Minority interests							40	–
Net loss from ordinary activities attributable to shareholders							(11,222)	(25,280)
Segment assets	167,441	161,445	39	–	–	–	167,480	161,445
Unallocated assets	–	–	–	–	7,826	13,523	7,826	13,523
Total assets	167,441	161,445	39	–	7,826	13,523	175,306	174,968
Segment liabilities	4,130	13,105	58	–	–	–	4,188	13,105
Unallocated liabilities	–	–	–	–	31,164	29,637	31,164	29,637
Total liabilities	4,130	13,105	58	–	31,164	29,637	35,352	42,742
Other segment information:								
Depreciation	3,947	3,583	–	–	–	–	3,947	3,583
Other non-cash expenses	–	8,848	–	–	5,343	2,230	5,343	11,078
Capital expenditure	5,023	591	–	–	970	–	5,993	591
Deficit on revaluation recognised directly in equity	450	150	–	–	–	–	450	150

5. SEGMENT INFORMATION (continued)

(b) Geographical segments

Over 90% of the Group's revenue and results are derived from customers based in the PRC and over 90% of the Group's assets are located in the PRC.

6. LOSS FROM OPERATING ACTIVITIES

The Group's loss from operating activities is arrived at after charging/(crediting):

	2001 HK$'000	2000 HK$'000
Cost of inventories sold	**128,424**	145,723
Depreciation	**3,947**	3,583
Minimum lease payments under operating leases on leasehold land and buildings	**3,085**	3,759
Staff costs (excluding directors' remuneration - note 7)		
Wages and salaries	**2,666**	1,635
Retirement scheme contributions	**38**	3
Auditors' remuneration	**900**	900
Provision for other receivables	**3,990**	–
Provision for bad and doubtful debts	**–**	8,848
Provision against deposit paid for an investment	**–**	1,844
Loss on disposal of fixed assets	**–**	366
Deficit on revaluation of leasehold land and buildings in Hong Kong - note 14	**653**	–
Deficit on revaluation of an investment property in Hong Kong - note 15	**700**	20
Gross rental income	**(550)**	(573)
Less: Outgoings	**19**	22
Net rental income	**(531)**	(551)
Gain on disposal of fixed assets	**(29)**	–
Gain on disposal of a subsidiary	**(70)**	(296)
Interest income	**(1,016)**	(1,579)

7. DIRECTORS' REMUNERATION

Details of the remuneration of the directors of the Company for the year disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and Section 161 of the Hong Kong Companies Ordinance are as follow:

	Group	
	2001 HK$'000	**2000 HK$'000**
Fees:		
Executive directors	**–**	–
Independent non-executive directors	**–**	–
Basic salaries, housing benefits, other allowances and benefits in kind:		
Executive directors	**2,213**	2,514
Independent non-executive directors	**–**	–
Retirement benefits scheme contributions:		
Executive directors	**26**	3
Independent non-executive directors	**–**	–
	2,239	2,517

The number of directors whose remuneration fell within the following bands is as follows:

	Number of directors	
	2001	**2000**
Nil - HK$1,000,000	**7**	7
HK$1,000,001 - HK$1,500,000	**1**	1
	8	8

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

During the year, no share options were granted to the directors of the Company in respect of their services to the Group, further details of which are set out under the heading "Share option scheme" in the Report of the Directors.

7. DIRECTORS' REMUNERATION (continued)

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

8. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three (2000: three) directors, details of whose remuneration are disclosed in note 7 above. Details of the remuneration of the remaining two (2000: two) non-director, highest paid employees are as follows:

	Group	
	2001 HK$'000	**2000 HK$'000**
Basic salaries, housing benefits, other allowances and benefits in kind	**427**	260
Retirement benefits scheme contributions	**19**	4
	446	264

During the year, no share options were granted to the two non-director, highest paid employees in respect of their services to the Group, further details of which are set out under the heading "Share option scheme" in the Report of the Directors.

9. FINANCE COSTS

	Group	
	2001 HK$'000	**2000 HK$'000**
Interest on bank loans and overdrafts wholly repayable within five years	**2,113**	2,029
Interest on trust receipt loans, secured	**36**	–
Interest on finance lease	**30**	64
	2,179	2,093

10. TAX

Hong Kong profits tax has been provided at the rate of 16% on the estimated assessable profits arising in Hong Kong during the year (2000: Nil). Taxes on profits assessable elsewhere had been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	2001 HK$'000	2000 HK$'000
Group:		
Hong Kong	**8**	–
Elsewhere	**–**	730
	8	730

No provision for deferred tax had been made as the Group did not have any significant unprovided deferred tax in respect of the year (2000: Nil).

The revaluations of the Group's leasehold land and buildings and investment property do not constitute timing differences and, consequently, there is no deferred tax thereon.

11. NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders dealt with in the financial statements of the Company is approximately HK$10,012,000 (2000: HK$675,000).

12. DIVIDEND

The directors do not recommend the payment of any final dividend (2000: Nil) in respect of the year ended 31 December 2001.

13. LOSS PER SHARE

The calculation of basic loss per share is based on the Group's net loss from ordinary activities attributable to shareholders for the year of approximately HK$11,222,000 (2000: HK$25,280,000), and the weighted average of 2,765,883,562 (2000: 2,500,934,426) ordinary shares in issue during the year.

Diluted loss per share for the years ended 31 December 2001 and 2000 have not been disclosed as the share options outstanding during these years had an anti-dilutive effect on the basic loss per share for these years.

14. FIXED ASSETS

Group

	Leasehold land and buildings HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Furniture, office equipment and motor vehicles HK$'000	Total HK$'000
Cost or valuation:					
At beginning of year	15,550	5,478	17,316	3,922	42,266
Additions	970	–	4,923	100	5,993
Disposals	–	–	(120)	–	(120)
Deficit on revaluation	(1,310)	–	–	–	(1,310)
At end of year	15,210	5,478	22,119	4,022	46,829
Analysis of cost or valuation:					
At cost	–	5,478	22,119	4,022	31,619
At valuation	15,210	–	-	–	15,210
	15,210	5,478	22,119	4,022	46,829
Accumulated depreciation:					
At beginning of year	–	2,165	7,034	3,110	12,309
Provided during the year	207	965	2,417	358	3,947
Disposals	–	–	(120)	–	(120)
Written back on revaluation	(207)	–	–	–	(207)
At end of year	–	3,130	9,331	3,468	15,929
Net book value:					
At 31 December 2001	15,210	2,348	12,788	554	30,900
At 31 December 2000	15,550	3,313	10,282	812	29,957

14. FIXED ASSETS (continued)

The Group's leasehold land and buildings included above are held under the following terms:

	Group	
	2001 **HK$'000**	**2000** **HK$'000**
Medium term leases in Hong Kong	**2,910**	2,650
Medium term lease in the PRC	**12,300**	12,900
	15,210	15,550

At 31 December 2001, the Group's leasehold land and buildings in Hong Kong were revalued on an open market, existing use basis and those in the PRC on a depreciated replacement cost basis, by LCH (Asia-Pacific) Surveyors Limited, an independent firm of professional valuers, at HK$2,910,000 (2000: HK$2,650,000) and HK$12,300,000 (2000: HK$12,900,000), respectively. A deficit of approximately HK$653,000 (2000: Nil) arising from the revaluation of the leasehold land and buildings in Hong Kong was charged to the profit and loss account (note 6). A deficit of approximately HK$450,000 (2000: HK$150,000) arising from the revaluation of the leasehold land and buildings in the PRC was charged to the fixed asset revaluation reserve (note 25).

Had the Group's leasehold land and buildings held in Hong Kong been carried at historical cost less accumulated depreciation, their carrying amount would have been approximately HK$4,950,000 (2000: HK$4,037,000).

Had the Group's leasehold land and buildings held in the PRC been carried at historical cost less accumulated depreciation, their carrying amount would have been approximately HK$5,665,000 (2000: HK$5,815,000).

At 31 December 2001, the Group's leasehold land and buildings with carrying values of HK$2,910,000 (2000: HK$2,650,000) and HK$12,300,000 (2000: HK$12,900,000) held in Hong Kong and the PRC, respectively, were pledged to secure certain banking facilities granted to the Group (note 22).

15. INVESTMENT PROPERTY

	Group	
	2001 HK$'000	**2000 HK$'000**
Valuation:		
At beginning of year	**4,000**	4,020
Deficit on revaluation	**(700)**	(20)
At end of year	**3,300**	4,000

The Group's investment property is held under a medium term lease in Hong Kong.

At 31 December 2001, the investment property was revalued on an open market, existing use basis by LCH (Asia-Pacific) Surveyors Limited, an independent firm of professional valuers, at HK$3,300,000. A deficit of HK$700,000 arising therefrom has been charged to the profit and loss account (note 6). The investment property is leased to a third party under an operating lease, further summary details to which are included in note 27 to the financial statements.

At 31 December 2001, the Group's investment property was pledged to secure certain banking facilities granted to the Group (note 22).

16. INTERESTS IN SUBSIDIARIES

	Company	
	2001 HK$'000	**2000 HK$'000**
Unlisted shares, at cost	**61,116**	61,116
Due from subsidiaries	**86,444**	63,096
	147,560	124,212
Provision for impairment	**(8,586)**	–
	138,974	124,212

The balances with subsidiaries are unsecured, interest-free and are not repayable before 31 December 2002.

16. INTERESTS IN SUBSIDIARIES (continued)

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ establishment and operations	Paid-up share/ registered capital	Percentage of equity attributable to the Company	Principal activities
Directly held				
Ever Lasting Resources Limited	BVI	Ordinary US$1,000	100%	Investment holding
Indirectly held				
Explorer Enterprises Garment Co., Ltd., Shishi City	PRC	RMB20,000,000	100%	Manufacture and sale of apparel
Fortune Carnival Investment Limited	Hong Kong	Ordinary HK$2	100%	Trading of apparel
Fujian Shitelan Sports Product Co., Ltd.	PRC	HK$20,000,000	100%	Manufacture and sale of apparel
Gemtex Apparel Limited*	Hong Kong	Ordinary HK$100,000	60%	Trading of apparel
Gemzboh (China) Investments Limited	Hong Kong	Ordinary HK$1,000	100%	Investment holding and trading of petroleum oil
Kaffin Limited	Hong Kong	Ordinary HK$1,000,000	100%	Trading of apparel

* Incorporated during the year.

17. INVENTORIES

	Group	
	2001 HK$'000	**2000 HK$'000**
Raw materials	**2,533**	3,075
Work in progress	**1,480**	1,253
Finished goods	**37,557**	45,181
	41,570	49,509

18. TRADE RECEIVABLES

The Group normally allows credit terms to well-established customers ranging from 90 to 120 days. 100% provision is made for outstanding debts aged over 12 months.

The aging analysis of trade receivables, net of provisions, as at balance sheet date, based on the date of recognition of the sale, is as follows:

	Group	
	2001 HK$'000	**2000 HK$'000**
1 - 3 months	**32,021**	36,983
4 - 6 months	**5,503**	6,083
7 - 12 months	**1,904**	1,427
	39,428	44,493

19. CASH AND CASH EQUIVALENTS

	Group		Company	
	2001 HK$'000	**2000 HK$'000**	**2001 HK$'000**	**2000 HK$'000**
Cash and bank balances	**35,880**	26,198	**43**	6,790
Time deposits	**6,741**	5,527	**–**	–
Cash and cash equivalents	**42,621**	31,725	**43**	6,790

20. INTEREST-BEARING BANK LOANS

	Group	
	2001 HK$'000	**2000 HK$'000**
Trust receipt loans, secured	**2,037**	–
Bank loans, secured and repayable:		
Within one year	**27,656**	29,089
In the second year	**190**	–
In the third to fifth years, inclusive	**615**	–
	28,461	29,089
	30,498	29,089
Portion classified as current liabilities	**(29,693)**	(29,089)
Long term portion	**805**	–

21. FINANCE LEASE PAYABLE

The Group leases certain furniture, office equipment and a motor vehicle under finance leases.

At 31 December 2001, the total future minimum lease payments under finance leases and their present values, were as follows:

Group

	Minimum lease payments 2001 HK$'000	Minimum lease payments 2000 HK$'000	Present value of minimum lease payments 2001 HK$'000	Present value of minimum lease payments 2000 HK$'000
Amounts payable:				
Within one year	–	217	–	182
In the second year	–	144	–	137
Total minimum finance lease payments	–	361	–	319
Future finance charges	–	(42)		
Total net finance lease payable	–	319		
Portion classified as current liabilities	–	(182)		
Long term portion	–	137		

SSAP 2.114 was revised and implemented during the year, as detailed in note 2 to the financial statements. Certain new disclosures are required and have been included above. The prior year comparative amounts for the new disclosures have also been included where appropriate.

22. BANKING FACILITIES

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

(i) the Group's leasehold land and buildings in Hong Kong and the PRC with carrying values of HK$2,910,000 and HK$12,300,000, respectively (note 14);

(ii) the Group's investment property with a carrying value of HK$3,300,000 (note 15);

(iii) personal guarantees given by a director of the Company, and certain properties situated in the PRC jointly held by certain directors of the Group and certain independent third parties; and

(iv) corporate guarantees given by the Company, certain subsidiaries of the Company and an independent third party.

23. TRADE PAYABLES

The Group normally obtains credit terms ranging from 30 to 90 days from its suppliers.

An aging analysis of the trade payables as at the balance sheet date, based on the receipt of goods purchased, is as follows:

	Group	
	2001 **HK$'000**	**2000** **HK$'000**
1 - 30 days	**1,592**	383
31 - 60 days	**721**	420
	2,313	803

24. SHARE CAPITAL

	2001 HK$'000	2000 HK$'000
Authorised:		
10,000,000,000 ordinary shares of HK$0.01 each	**100,000**	100,000
Issued and fully paid:		
3,001,500,000 (2000: 2,501,500,000) ordinary shares of HK$0.01 each	**30,015**	25,015

On 30 May 2001, the Company entered into a placing agreement for placement of 500,000,000 ordinary shares in the Company of HK$0.01 each at a price of HK$0.04 per share to certain independent third party investors. The placement was completed on 22 June 2001 and proceeds of approximately HK$19,400,000, net of expenses, were raised by the Company. The excess of the share issue proceeds over the nominal value of the shares issued amounting to approximately HK$14,400,000 was credited to the share premium account (note 25).

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

	Shares issued '000	Amount HK$'000
At 1 January 2000	2,500,000	25,000
Share options exercised	1,500	15
At 31 December 2000 and 1 January 2001	2,501,500	25,015
Issue of shares	500,000	5,000
At 31 December 2001	3,001,500	30,015

24 SHARE CAPITAL (continued)

Shares options

The Company operates a share option scheme (the “SO Scheme”), further details of which are set out under the heading “Share option scheme” in the Report of the Directors.

At the beginning of the year, there were 58,560,000 options outstanding under the SO Scheme, which entitled the holders to subscribe for shares of the Company at any time during the period from 2 March 2000 to 2 February 2003. The subscription price payable upon the exercise of these options was HK$0.133, subject to adjustment.

During the year, no share options of the Company were granted or exercised.

A total of 1,500,000 share options with an exercise price of HK$0.133 lapsed during the year. At the balance sheet date, the Company had 57,060,000 share options outstanding under the SO Scheme, with an exercise period from 2 March 2000 to 2 February 2003 and at an exercise price of HK$0.133. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 57,060,000 additional shares of HK$0.01 each and proceeds of approximately HK$7,589,000.

25. RESERVES

	Share premium HK$'000	Contributed surplus HK$'000	Fixed asset revaluation reserve HK$'000	Retained profits HK$'000	Total HK$'000
Group					
At 1 January 2000	41,587	18,261	7,235	65,374	132,457
Arising on exercise of share options	184	–	–	–	184
Deficit on revaluation	–	–	(150)	–	(150)
Net loss for the year	–	–	–	(25,280)	(25,280)
At 31 December 2000 and 1 January 2001	41,771	18,261	7,085	40,094	107,211
Issue of new shares	15,000	–	–	–	15,000
Share issue expenses	(600)	–	–	–	(600)
Deficit on revaluation – note 14	–	–	(450)	–	(450)
Net loss for the year	–	–	–	(11,222)	(11,222)
At 31 December 2001	56,171	18,261	6,635	28,872	109,939

	Share premium HK$'000	Contributed surplus HK$'000	Retained profits/ (accumulated losses) HK$'000	Total HK$'000
Company				
As 1 January 2000	41,587	60,916	3,539	106,042
Arising on exercise of share options	184	–	–	184
Net loss for the year – note 11	–	–	(675)	(675)
At 31 December 2000 and 1 January 2001	41,771	60,916	2,864	105,551
Issue of new shares	15,000	–	–	15,000
Share issue expenses	(600)	–	–	(600)
Net loss for the year – note 11	–	–	(10,012)	(10,012)
At 31 December 2001	56,171	60,916	(7,148)	109,939

25. RESERVES (continued)

The contributed surplus of the Group arose as a result of the Group reorganisation carried out on 18 May 1998 and represents the difference between the nominal value of the shares of the subsidiaries acquired pursuant to the Group reorganisation, over the nominal value of the Company's shares issued in exchange therefor.

The contributed surplus of the Company represents the excess of the fair value of the shares of the subsidiaries acquired pursuant to the same Group reorganisation, over the nominal value of the Company's shares issued in exchange therefor. Under the Companies Act 1981 of Bermuda, the Company may make distributions to its members out of the contributed surplus under certain circumstances.

26. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

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

	2001 HK$'000	2000 HK$'000
Loss from operating activities	**(9,075)**	(22,457)
Interest income	**(1,016)**	(1,579)
Depreciation	**3,947**	3,583
(Gain)/loss on disposal of fixed assets	**(29)**	366
Gain on disposal of a subsidiary	**(70)**	(296)
Deficit on revaluation of leasehold land and buildings	**653**	–
Deficit on revaluation of an investment property	**700**	20
Provision for other receivables	**3,990**	–
Provision for bad and doubtful debts	**–**	8,848
Provision against deposit paid for an investment	**–**	1,844
Decrease/(increase) in trade receivables	**5,065**	(4,853)
Decrease in inventories	**7,939**	10,329
Increase in prepayments, deposits and other receivables	**(16,306)**	(20,492)
Increase in trust receipt loans	**2,037**	–
Increase/(decrease) in trade payables	**1,510**	(118)
Increase/(decrease) in other payables and accruals	**107**	(38)
Net cash outflow from operating activities	**(548)**	(24,843)

26. NOTES TO CONSOLIDATED CASH FLOW STATEMENT (continued)

(b) Disposal of a subsidiary

	2001 HK$'000	2000 HK$'000
Net assets disposed of:		
Prepayments, deposits and other receivables	**10,113**	17,729
Other payables and accruals	**(3,413)**	(5,986)
Tax payables	**(6,692)**	(11,727)
	8	16
Gain on disposal of a subsidiary	**70**	296
	78	312
Satisfied by:		
Cash	**78**	312

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of a subsidiary is as follows:

	2001 HK$'000	2000 HK$'000
Cash consideration and net inflow of cash and cash equivalents in respect of the disposal of a subsidiary	**78**	312

The subsidiary disposed of during the year made no significant contribution to the Group in respect of the cash flows, turnover or contribution to the net loss for the year.

26. NOTES TO CONSOLIDATED CASH FLOW STATEMENT (continued)

(c) Analysis of changes in financing activities during the years

	Bank loans, secured HK$'000	Finance lease payable HK$'000	Issued capital and share premium HK$'000	Minority interests HK$'000
Balance at 1 January 2000	27,245	472	66,587	–
Cash inflow/(outflow) from financing activities, net	1,844	(153)	199	–
Balance at 31 December 2000 and 1 January 2001	29,089	319	66,786	–
Cash inflow/(outflow) from financing activities, net	(628)	(319)	19,400	40
Share of loss	–	–	–	(40)
Balance at 31 December 2001	28,461	–	86,186	–

27. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment property (note 15) under an operating lease arrangement for a term of four years.

At 31 December 2001, the Group had total future lease receivables under non-cancellable operating lease with its tenant falling due as follows:

	Group	
	2001 HK$'000	2000 HK$'000
Within one year	**140**	420
In the second to fifth years, inclusive	**–**	140
	140	560

27. OPERATING LEASE ARRANGEMENTS (continued)

(a) As lessor (continued)

SSAP 2.114 (Revised), which was adopted during the year, requires lessors under operating leases to disclose the total future operating lease receivables under non-cancellable operating leases, as detailed above. This disclosure was not previously required.

(b) As lessee

The Group leases certain leasehold land and buildings under operating lease arrangements. The original lease terms for these leasehold land and buildings range from one to five years.

At 31 December 2001, the Group had total future lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2001 HK$'000	**2000 HK$'000**
Within one year	**2,013**	3,094
In the second to fifth years, inclusive	**1,075**	3,034
	3,088	6,128

28. COMMITMENTS

The Group and the Company did not have any other significant commitments at the balance sheet date (2000: Nil).

29. CONTINGENT LIABILITIES

At 31 December 2001, the Company has given guarantees in favour of certain banks to the extent of HK$11,000,000 (2000: HK$7,700,000) in respect of banking facilities granted to certain subsidiaries of the Company. At 31 December 2001, the banking facilities utilised by its subsidiaries amounted to approximately HK$3,023,000 (2000: Nil).

30. RELATED PARTY TRANSACTION

During the year, the Group purchased an office premise from Yuen Hing Group (HK) Limited, a company of which, Mr. Tsoi Kwing Ming and Ms. Tsoi Lai Na, directors of the Company, were also a shareholder and a director, respectively. The purchase consideration, amounted to approximately HK$970,000, was determined with reference to the prevailing open market value.

31. POST BALANCE SHEET EVENT

On 27 February 2002, the former ultimate holding company, Regal China Development Limited ("Regal China"), entered into a sale and purchase agreement (the "Agreement") with Great Logistics Holdings Limited ("Great Logistics") and Mr. Tsoi Kwing Ming, the sole beneficial owner of Regal China and an executive director of the Company. Pursuant to the Agreement, Great Logistics agreed to purchase and Regal China agreed to sell its entire equity interest in 1,800,000,000 ordinary shares of HK$0.01 each in the share capital of the Company, representing approximately 60% of the issued share capital of the Company, at HK$0.04 each. The Agreement was duly completed on 14 March 2002. Titan Oil Pte. Ltd., a company incorporated in Singapore which is the holding company of Great Logistics, has since become the Company's ultimate holding company.

32. COMPARATIVE AMOUNTS

As further explained in note 2 to the financial statements, due to the adoption of SSAP 2.114 (Revised) during the current year, the presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been revised to conform with the current year's presentation.

32. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 25 April 2002.