



Notes to the Financial Statements

For the year ended 31 March 2002

1. General

The Company is incorporated in Bermuda as an exempted company with limited liability. Its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and the Singapore Exchange Securities Trading Limited.

The Company is an investment holding company. Its subsidiaries are principally engaged in the sourcing and export of cotton based knitted garments for women, children and infants, property investments and garment bleaching and dyeing.

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. In addition, the new and revised SSAPs have introduced additional and revised disclosure requirements which have been adopted in these financial statements. Comparative amounts and disclosures for the previous year have been restated in order to achieve a consistent presentation. The adoption of these new and revised SSAPs has no effect on the results for the current or prior accounting periods.

3. Significant Accounting Policies

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

Basis of consolidation

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

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

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

Investments in subsidiaries

Investments in subsidiaries is included in the Company's balance sheet at cost less any identified impairment loss.

3. Significant Accounting Policies - *continued*

Revenue recognition

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

Service income is recognised when services are rendered.

The gain on disposal of permanent or temporary textile quota entitlements is recognised upon execution of a legally binding, unconditional and irrevocable transfer form to the transferee.

Rental income, including rental invoiced in advance from properties under operating leases, is recognised on a straight line basis over the lease terms.

Dividend income from investments is recognised when the Group's rights to receive payment have been established.

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

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those 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 loss is recognised as an expense immediately, unless the relevant asset is carried at a 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 is increased to the revised estimate of its recoverable amount, but to the extent 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, 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.



Notes to the Financial Statements

For the year ended 31 March 2002

3. Significant Accounting Policies - continued

Property, plant and equipment

Property, plant and equipment, other than properties under development, are stated at cost or valuation less depreciation and any accumulated impairment losses.

Advantage has been taken of the transitional relief provided by paragraph 80 of SSAP No. 17 "Property, plant and equipment" ("SSAP 17") from the requirement to make revaluation on a regular basis of the Group's leasehold land and buildings, certain of which had been carried at revalued amount prior to the effective date of SSAP 17 and accordingly, no further valuation of these properties is carried out.

Any further decrease in value of the revalued assets is dealt with as an expense to the extent that it exceeds the balance, if any, on the revaluation reserve relating to a previous revaluation of the same asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus is transferred to accumulated profits.

Costs relating to the development of properties are capitalised and included as properties under development, as appropriate, in the balance sheet until such time as they are identified for transfer to specific categories of property, plant and equipment or properties held for sale. Development costs exclude administrative and operating expenses which are charged to the income statement in the period in which they are incurred.

Properties under development are not depreciated until completion of construction.

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

Leasehold land	Over the unexpired term of lease
Buildings	Over the duration of the leases or fifty years, whichever is the shorter
Others	5% - 20%

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

Leases

Assets held under finance leases are capitalised at their fair values at the date of acquisition. The corresponding liability to the lessor, net of interest charges, is included in the balance sheet as a finance lease obligation. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the income statement over the period of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

Rentals payable under operating leases are charged to the income statement on a straight line basis over the relevant lease term.

3. Significant Accounting Policies - *continued*

Capitalisation of borrowing costs

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

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

Investment properties

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

Investment properties are stated at their open market values based on independent professional valuations at 31 March each year. Any surplus or deficit arising on the revaluation of investment properties is credited or charged to the investment property revaluation reserve unless the balance of this reserve is insufficient to cover a deficit on a portfolio basis, in which case the excess of the deficit over the balance on the investment property revaluation reserve is charged to the income statement. Where a deficit has previously been charged to the income statement and a revaluation surplus subsequently arises, this surplus is credited to the income statement to the extent of the deficit previously charged.

On disposal of an investment property, any balance on the investment property revaluation reserve which is attributable to that property will be credited to the income statement and included in the determination of the gain or loss on disposal.

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

Textile quota entitlements

Permanent textile quota entitlements purchased from outside parties are stated at cost less accumulated amortisation and any identified impairment losses. The cost of permanent textile quota entitlements is amortised on a straight line basis over a period of five years by equal monthly instalments.

Temporary textile quota entitlements purchased from outside parties are charged to the income statement at the time of utilisation, or in the absence of such utilisation upon the expiry of the relevant utilisation period.

Club debentures

Club debentures, which are held for long-term investment purposes, are stated at cost less any identified impairment losses.

3. Significant Accounting Policies - continued**Investments in securities**

Investments in securities are recognised on a trade-date basis and are initially measured at cost.

At subsequent reporting dates, debt securities that the Group intends to hold to maturity, which are held-to-maturity debt securities, are measured at amortised cost less any identified impairment losses. Any discount or premium on the acquisition of a held-to-maturity debt security is aggregated with other investment income receivable over the term of the instrument so that the revenue recognised in each period represents a constant yield on the investment.

Investments other than held-to-maturity debt securities are classified as investment securities and other investments, as appropriate.

Investment securities, which are securities held for an identified long-term strategic purpose, are measured at subsequent reporting dates at cost less any identified impairment losses.

Other investments are measured at fair value, with unrealised gains and losses included in the profit or loss for the year.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method.

Taxation

The charge for taxation is based on the results for the year after adjusting for items which are non-assessable or disallowed. Certain items of income and expense are recognised for tax purposes 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.

Foreign currencies

Transactions in foreign currencies are translated at the approximate rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates ruling on the balance sheet date. Gains and losses arising on exchange are dealt with in the income statement.

In preparing consolidated financial statements, financial statements which are not denominated in Hong Kong dollars are translated at the rates ruling on the balance sheet date. Exchange differences arising on consolidation are dealt with in the translation reserve.

Retirement benefits schemes

The amount of the Group's contributions payable under the Group's retirement benefits schemes is charged to the income statement as and when incurred.

Notes to the Financial Statements

For the year ended 31 March 2002



4. Turnover

Turnover represents the aggregate of the amounts received and receivable for goods sold, net of returns, and services rendered by the Group, the total amount of quota income received and receivable from temporary transfer of permanent textile quota entitlements, and rental income received and receivable during the year.

5. Business and Geographical Segments

Business segments

For management purposes, the Group is currently organised into four main operating divisions - garment sourcing and export, property investment, investment in securities and garment bleaching and dyeing. These divisions are the basis on which the Group reports its primary segment information.

Segment information about these businesses is presented below:

Year 2002

(i) Income statement

	Garment sourcing and export HK\$'000	Property investment HK\$'000	Investment in securities HK\$'000	Garment bleaching and dyeing HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
TURNOVER						
External	668,580	17,865	—	7,817	—	694,262
Inter-segment	—	3,773	—	—	(3,773)	—
Total	<u>668,580</u>	<u>21,638</u>	<u>—</u>	<u>7,817</u>	<u>(3,773)</u>	<u>694,262</u>
RESULT						
Segment result and profit from operations	<u>48,035</u>	<u>(3,342)</u>	<u>(1,952)</u>	<u>(1,021)</u>	<u>(291)</u>	41,429
Unrealised loss on investment in 21CN (see note 7)						(28,418)
Finance costs						(18,329)
Loss before taxation						(5,318)
Taxation						(5,254)
Loss before minority interests						(10,572)
Minority interests						1,173
Net loss for the year						<u>(9,399)</u>

Notes:

- Inter-segment transactions are charged at prevailing market prices.
- Turnover from garment sourcing and export includes income from temporary transfer of permanent textile quota entitlements of HK\$40,157,000 (2001: HK\$61,733,000).

Notes to the Financial Statements

For the year ended 31 March 2002

5. Business and Geographical Segments - continued

(ii) Balance sheet

	Garment sourcing and export	Property investment	Investment in securities	Garment bleaching and dyeing	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
ASSETS					
Segment assets	229,280	401,707	125,849	15,716	772,552
Unallocated corporate assets					73,292
					<u>845,844</u>
LIABILITIES					
Segment liabilities	57,470	9,552	5,010	7,207	79,239
Unallocated corporate liabilities					295,163
					<u>374,402</u>

(iii) Other information

	Garment sourcing and export	Property investment	Investment in securities	Garment bleaching and dyeing	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Capital additions	1,220	4,763	—	7,163	13,146
Depreciation and amortisation	4,766	1,279	—	425	6,470
Impairment losses	—	7,223	—	—	7,223
Other non-cash expenses	—	10,270	28,418	—	38,688

Notes to the Financial Statements

For the year ended 31 March 2002



5. Business and Geographical Segments - continued

Year 2001

(i) Income statement

	Garment sourcing and export HK\$'000	Property investment HK\$'000	Investment in securities HK\$'000	Garment bleaching and dyeing HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
TURNOVER						
External	640,162	19,725	—	—	—	659,887
Inter-segment	—	2,088	—	—	(2,088)	—
Total	640,162	21,813	—	—	(2,088)	659,887
RESULT						
Segment result and profit from operations	45,926	21,599	(561)	(16)	—	66,948
Unrealised gain on investment in 21CN (see note 7)						131,034
Loss on deemed disposal of a subsidiary						(8,205)
Loss on disposal of subsidiaries						(701)
Finance costs						(31,115)
Profit before taxation						157,961
Taxation						(14,650)
Net profit for the year						143,311

Note: Inter-segment transactions are charged at prevailing market prices.

(ii) Balance sheet

	Garment sourcing and export HK\$'000	Property investment HK\$'000	Investment in securities HK\$'000	Garment bleaching and dyeing HK\$'000	Consolidated HK\$'000
ASSETS					
Segment assets	160,799	399,062	154,271	4,548	718,680
Unallocated corporate assets					54,992
Consolidated total assets					773,672
LIABILITIES					
Segment liabilities	46,850	11,808	628	2,005	61,291
Unallocated corporate liabilities					366,367
Consolidated total liabilities					427,658

Notes to the Financial Statements

For the year ended 31 March 2002

5. Business and Geographical Segments - continued

(iii) Other information

	Garment sourcing and export HK\$'000	Property investment HK\$'000	Investment in securities HK\$'000	Garment bleaching and dyeing HK\$'000	Consolidated HK\$'000
Capital additions	5,660	3,020	—	—	8,680
Depreciation and amortisation	20,531	892	—	—	21,423
Impairment losses	—	2,000	—	—	2,000
Other non-cash income, net of expenses	—	4,300	122,128	—	126,428

Geographical segments

An analysis of the Group's turnover by geographical market is as follows:

	Turnover		Contribution to profit from operations	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Hong Kong	17,865	20,182	(8,106)	18,847
People's Republic of China, excluding Hong Kong ("PRC")	7,817	—	(1,021)	(16)
United States of America ("USA")	633,616	599,011	49,784	48,557
Europe	19,095	17,273	161	(263)
Canada	15,869	22,988	611	(175)
Others	—	433	—	(2)
	694,262	659,887	41,429	66,948

Notes to the Financial Statements

For the year ended 31 March 2002



5. Business and Geographical Segments - continued

An analysis of the carrying amount of segment assets, and additions to property, plant and equipment and permanent textile quota entitlements, analysed by the geographical area in which the assets are located is as follows:

	Carrying amount of segment assets		Additions to property, plant and equipment and permanent textile quota entitlements	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Hong Kong	813,390	773,672	5,125	8,680
PRC	15,702	—	7,163	—
USA	16,752	—	858	—
	<u>845,844</u>	<u>773,672</u>	<u>13,146</u>	<u>8,680</u>

6. Profit from Operations

	2002 HK\$'000	2001 HK\$'000
Profit from operations has been arrived at after charging:		
Directors' remuneration (note 10(a))	7,400	7,625
Other staff costs, including retirement benefits scheme contributions	15,583	13,379
Total staff costs	<u>22,983</u>	<u>21,004</u>
Allowance for doubtful debts	—	7,962
Auditors' remuneration	609	549
Depreciation and amortisation on:		
- owned assets	2,849	2,288
- assets held under finance leases	20	90
- permanent textile quota entitlements	3,601	19,045
Loss on disposal of other investments	588	522
Purchased temporary textile quota entitlements utilised	3,671	1,284
Unrealised loss on other investments - other than 21CN CyberNet Corporation Limited	—	140
and after crediting:		
Gain on disposal of property, plant and equipment	—	74
Interest income	2,804	2,534
Write back of allowance for doubtful debts	1,233	—
	<u>1,233</u>	<u>—</u>

Notes to the Financial Statements

For the year ended 31 March 2002

7. Unrealised (Loss) Gain on Investment in 21CN CyberNet Corporation Limited

The amount represents the unrealised (loss) gain on revaluation of the Group's investments in shares of 21CN CyberNet Corporation Limited ("21CN") to fair value at the balance sheet date (see also note 8).

8. Loss on Deemed Disposal of a Subsidiary

- (a) As announced by the Company on 17 February 2000, the Company entered into a conditional agreement dated 7 February 2000, as amended by a supplemental agreement dated 14 February 2000, with 21CN and two outside parties ("Subscribers") relating to the subscription by the Subscribers for 2,297,377,680 new shares in the capital of 21CN ("Subscription Agreement"). Completion of the subscription ("Completion") took place on 15 May 2000 and the Group's interest in 21CN was reduced from approximately 62.7% (after placement of shares of 21CN by the Group) to approximately 13.8% of 21CN's then capital as enlarged by the subscription. The Group's remaining investment in 21CN is classified as other investments and is carried at fair value in the consolidated balance sheet at the balance sheet date (see note 19).

A loss of HK\$8,205,000 resulted from the deemed disposal of 21CN and its subsidiaries (collectively "21CN Group") in the year ended 31 March 2001. 21CN Group did not make any significant contribution to the results and cash flows of the Group during that year.

The Company has undertaken with the Subscribers that out of the 485,965,700 shares of 21CN held by the Group as at the date of the Subscription Agreement, it shall dispose of 291,579,420 shares (including 80,000,000 shares sold through a placing arrangement) in the issued capital of 21CN, representing approximately 9.9% of 21CN's then enlarged share capital, during the one-year period after Completion and deposit the sale proceeds, saved for those arising from the placing arrangement, up to a maximum of HK\$50 million with the escrow agent. When the amount standing to the credit of the escrow account reaches HK\$50 million, the obligation on the Company to dispose of shares of 21CN shall cease.

The Company further warrants that the aggregate gross proceeds of properties of 21CN Group as at 31 March 2000 (if successfully disposed of) and the market value (as appraised by an independent valuer approved by the escrow agent) of those properties that have not been disposed of within three years from Completion shall not be less than HK\$200 million. The Subscribers shall be entitled to be compensated for any shortfall out of the sale proceeds of shares of 21CN deposited with the escrow agent described above, on a dollar to dollar basis, which is limited to the amount that has been deposited with the escrow agent. After taking advices from independent professional property valuers, the directors of the Company are of the opinion that there is no shortfall of the value of these properties. Should the directors consider that there is a shortfall in the value of the properties within the three years from Completion, the extent of shortfall will be charged to the income statement immediately.

Details of the above are set out, inter alia, in the circulars of the Company dated 10 March 2000 (and approved by the shareholders at a special general meeting of the Company held on 27 March 2000) and 5 June 2001.

8. Loss on Deemed Disposal of a Subsidiary - continued

- (b) As announced by the Company on 15 May 2001, the Company entered into an agreement (the "Sale Shares Agreement") on that day with Best Quarter Investments Limited ("Best Quarter") and Chan Chin Yuen ("Mr. Chan") to dispose of 211,579,420 shares of HK\$0.01 each in the issued share capital of 21CN (the "Sale Shares") held by a wholly-owned subsidiary of the Company for a consideration of HK\$88,863,356.40 of which HK\$5,000,000 was paid before the date of completion and the balance of HK\$83,863,356.40 shall be paid on 15 May 2002. Best Quarter is a company incorporated in the British Virgin Islands and Mr. Chan is the registered and beneficial owner of the entire issued share capital of Best Quarter. Both Best Quarter and Mr. Chan are independent third parties not connected with the directors, chief executives or substantial shareholders of the Company or any of their respective associates as defined in the Rules Governing the Listing of Securities on the Stock Exchange. The consideration was determined with reference to the then market value of shares of 21CN. As at the closing of trading on 15 May 2001, the closing market price of shares of 21CN as quoted on the Stock Exchange was HK\$0.42 per share, which is equivalent to the purchase price per share of the Sale Shares. Best Quarter agreed that within twelve months from the date of completion of the Sale Shares Agreement, it shall not dispose of any of the Sale Shares or any interest or charge or create or allow to exist any interest in or encumbrance over the interests of Best Quarter and of the Company under the Sale Shares saved for mortgage on the Sale Shares as mentioned below. Mr. Chan agreed to guarantee the performance of Best Quarter's obligations in the Sale Shares Agreement. Completion of the Sale Shares Agreement took place on 1 June 2001.

On 1 June 2001, the Company and Best Quarter signed a deed of mortgage and assignment, pursuant to which the Sale Shares are held by the Company through a wholly-owned subsidiary as security for the payment by Best Quarter of the balance of the consideration for the Sale Shares. The Sale Shares continue to be registered under the name of that wholly-owned subsidiary of the Company.

Also on 1 June 2001, the Company and Mr. Chan signed a deed of mortgage and assignment, pursuant to which the entire issued capital of 1 share of US\$1.00 of Best Quarter was charged to the Company as security for the payment by Best Quarter of the balance of the consideration for the Sale Shares.

Also on 1 June 2001, the Company and Mr. Chan entered into a call option agreement, under which the Company was granted a call option to purchase all but not some of the issued share capital of Best Quarter. The exercise price of the option shall be HK\$95,210,739. This option is exercisable at any time from the date of the call option agreement to 15 May 2002.

The Company entered into the Sale Shares Agreement for the disposal of the Sale Shares for the purpose of complying with its obligations under the Subscription Agreement referred to in (a) above. Following completion of the Sale Shares Agreement on 1 June 2001, the Company has no further obligation under the Subscription Agreement to dispose of its remaining interests in shares of 21CN. The Sale Shares represented approximately 6.92% of the then issued share capital of 21CN. Disposal of the Sale Shares shall be recognised by the Group when the call option to acquire Best Quarter, purchaser of the Sale Shares, lapses on 15 May 2002 and the Group's interest in 21CN shall be reduced from approximately 13.27% to 6.35%. HK\$5,000,000, being a portion of the consideration for the Sale Shares, received by the Group is therefore shown as deposit received (included in trade and other payables) under current liabilities in the consolidated balance sheet at 31 March 2002.

Details of the above are set out, inter alia, in the circular of the Company dated 5 June 2001.

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8. Loss on Deemed Disposal of a Subsidiary - continued

- (c) As announced by the Company on 7 June 2002, the Company was not paid the remaining consideration of HK\$83,863,356.40 referred to in (b) above on 15 May 2002 by Mr. Chan. Pursuant to the Sale Shares Agreement, the Company, after considering the options available, entered into an agreement with Mr. Chan and an independent third party (collectively the "Vendor") dated 22 May 2002 to acquire from the Vendor 1 share of US\$1.00 representing the entire issued share capital of Best Quarter and the shareholder loan of HK\$5,000,000 owing by Best Quarter to the Vendor. The aggregate consideration amounted to HK\$5,000,008 which will not be paid in cash but will instead be satisfied by the delivery to the Vendor of a letter under seal from the Company unconditionally releasing the guarantee formerly given by Mr. Chan under the Sale Shares Agreement.

Completion of the above agreement took place on 14 June 2002 following which Best Quarter became a wholly-owned subsidiary of the Company. Disposal of the Sale Shares is therefore not recognised.

Details of the above are set out, inter alia, in the circular of the Company dated 28 June 2002.

9. Finance Costs

	2002 HK\$'000	2001 HK\$'000
Interest on:		
- bank borrowings wholly repayable within five years	18,211	31,069
- other borrowings wholly repayable within five years	112	—
- obligations under finance leases	6	46
	<u>18,329</u>	<u>31,115</u>

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10. Directors' and Employees' Emoluments

(a) Information regarding directors' emoluments

	2002 HK\$'000	2001 HK\$'000
Directors' fees:		
Executive	—	—
Independent non-executive	200	200
	<u>200</u>	<u>200</u>
Other emoluments paid to executive directors:		
Salaries and other benefits	4,800	6,600
Performance related incentive payments	2,160	540
Retirement benefits scheme contributions	240	285
	<u>7,200</u>	<u>7,425</u>
Total directors' emoluments	<u>7,400</u>	<u>7,625</u>

The emoluments of the directors fall within the following bands:

	Number of directors	
	2002	2001
Nil to HK\$1,000,000	2	3
HK\$1,000,001 to HK\$1,500,000	1	1
HK\$2,500,001 to HK\$3,000,000	1	1
HK\$3,000,001 to HK\$3,500,000	1	—
HK\$3,500,001 to HK\$4,000,000	—	1
	<u>5</u>	<u>6</u>

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10. Directors' and Employees' Emoluments - continued**(b) Information regarding employees' emoluments**

The five highest paid individuals of the Group in both years included three executive directors. The emoluments of the remaining two highest paid individuals, not being directors, are as follows:

	2002 HK\$'000	2001 HK\$'000
Salaries and other benefits	1,125	1,184
Retirement benefits scheme contributions	52	37
Total employees' emoluments	<u>1,177</u>	<u>1,221</u>

The aggregate emoluments of each of these two employees fall within HK\$1,000,000.

During both years, 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 in office. In addition, during both years, no director waived any emoluments.

11. Taxation

	2002 HK\$'000	2001 HK\$'000
The amount comprises:		
Hong Kong Profits Tax calculated at 16% (2001: 16%) on the estimated assessable profit of the year	5,439	14,638
(Over)underprovision in prior years	(185)	12
	<u>5,254</u>	<u>14,650</u>

Details of the potential deferred taxation not provided for in the year are set out in note 28.

12. Net (Loss) Profit for the Year

Of the Group's net (loss) profit for the year, a loss of HK\$5,528,000 (2001: HK\$1,855,000) has been dealt with in the financial statements of the Company.

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13. (Loss) Earnings Per Share

The calculation of the basic and diluted (loss) earnings per share is based on the following data:

	2002 HK\$'000	2001 HK\$'000
(Loss) earnings		
(Loss) earnings for the purposes of basic (loss) earnings per share	<u>(9,399)</u>	<u>143,311</u>
	2002	2001
Number of shares		
Weighted average number of shares for the purposes of basic (loss) earnings per share	<u>1,039,603,665</u>	674,766,796
Effect of dilutive potential shares in respect of share options		<u>3,511,059</u>
Weighted average number of share for the purpose of diluted earnings per share		<u>678,277,855</u>

The denominators for the purposes of calculating both basic and diluted earnings per share of 2001 have been adjusted to reflect the rights issues of shares in September 2001 and March 2002.

Calculation of diluted loss per share for the current year has not been disclosed above as the exercise of the Company's outstanding share options would reduce the loss per share of the current year.

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14. Related Party Transactions/Connected Transactions

- (a) During the year, the Group had the following transactions carried out at prices determined by reference to market prices for similar transactions with related parties/persons deemed to be “connected persons” by the Stock Exchange, being entities controlled by certain relatives of Koon Wing Yee and his spouse Lui Yuk Chu, both of whom are directors of the Company:

	2002 HK\$'000	2001 HK\$'000
Sales of garments	4,689	16,805
Purchases of garments	229,711	214,248
Bleaching and dyeing charges received	5,060	—
	<u> </u>	<u> </u>

At 31 March 2002, deposits paid to these entities which are included in trade receivables amounted to HK\$57,734,000 (2001: HK\$33,413,000).

The Group, its principal shareholders and directors of the Company neither control these entities, nor, other than having significant business transactions with these entities, exercise significant influence over these entities in making financial and operating decisions.

- (b) During the year, the Group provided administrative services to Easyknit Properties Management Limited, a company in which Koon Wing Yee and Tsang Yiu Kai, both of whom are directors of the Company, have beneficial interests and received service income of HK\$149,000 (2001: HK\$130,000) from that company. The service income is determined based on mutually agreed terms.
- (c) As announced by the Company on 5 June 2001, Magical Profits Limited proposed to place 93,040,000 then existing shares of HK\$0.10 each in the capital of the Company through an independent placing agent to independent outside parties and conditionally agreed to subscribe for 147,074,000 new shares in the capital of the Company at HK\$0.23 per share. The Company further announced on 5 July 2001 that the relevant placing agreement and subscription agreement were terminated on 4 July 2001 and the proposed placing and subscription would not proceed.

Magical Profits Limited is a substantial shareholder of the Company and is beneficially owned by The Magical 2000 Trust, the beneficiaries of which include Lui Yuk Chu and her family members.

- (d) Details of the share transactions involving Magical Profits Limited carried out in 2001 are set out in note 25(b).

Notes to the Financial Statements

For the year ended 31 March 2002

15. Property, Plant and Equipment

	Leasehold land and buildings HK\$'000	Properties under development HK\$'000	Plant and machinery HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
THE GROUP						
COST OR VALUATION						
At 1 April 2001	41,384	70,020	—	12,892	2,411	126,707
Additions	—	4,764	4,687	3,695	—	13,146
At 31 March 2002	41,384	74,784	4,687	16,587	2,411	139,853
Comprising:						
At cost	12,384	74,784	4,687	16,587	2,411	110,853
At valuation - 1995	29,000	—	—	—	—	29,000
	41,384	74,784	4,687	16,587	2,411	139,853
DEPRECIATION AND IMPAIRMENT LOSS						
At 1 April 2001	4,263	—	—	10,023	1,507	15,793
Provided for the year	820	—	180	1,446	423	2,869
Impairment loss recognised	12,301	2,784	—	—	—	15,085
At 31 March 2002	17,384	2,784	180	11,469	1,930	33,747
NET BOOK VALUE						
At 31 March 2002	24,000	72,000	4,507	5,118	481	106,106
At 31 March 2001	37,121	70,020	—	2,869	904	110,914

The Group's leasehold land and buildings and properties under development are situated in Hong Kong and are held under medium-term leases.

The valuation of certain leasehold land and buildings was carried out by Messrs. Jones Lang Wootton Ltd., a firm of independent professional property valuers, at 31 October 1994 on an open market value vacant possession basis. Had all leasehold land and buildings been carried at cost less accumulated depreciation, their carrying value would have been stated at HK\$29,368,000 (2001: HK\$30,050,000).

The net book value of property, plant and equipment of the Group included an amount of HK\$78,000 (2001: HK\$98,000) in respect of assets held under finance leases.

During the year, the Group reviewed the carrying amounts of property, plant and equipment and identified that the estimated recoverable amounts of the leasehold land and buildings and properties under development are less than their carrying amounts. Accordingly, the carrying amounts are reduced to their recoverable amounts as at 31 March 2002.

The impairment loss recognised in respect of the leasehold land and buildings amounted to HK\$12,301,000, of which HK\$7,862,000 has been charged to the property revaluation reserve (see note 27) and the remaining balance of HK\$4,439,000, being the excess of the impairment loss recognised over the balance on the property revaluation reserve, is charged to the income statement. The amount of impairment loss recognised in respect of properties under development amounted to HK\$2,784,000 and has been charged to the income statement.



Notes to the Financial Statements

For the year ended 31 March 2002

16. Investment Properties

	THE GROUP HK\$'000
VALUATION	
At 1 April 2001	338,500
Deficit arising on revaluation	(10,270)
At 31 March 2002	<u>328,230</u>

The investment properties are held for rental purposes under operating leases. They were revalued at 31 March 2002 by Messrs. Knight Frank, a firm of independent professional property valuers, on an open market existing use basis. This revaluation gives rise to a revaluation deficit of HK\$10,270,000 which had been charged to the income statement.

The Group's investment properties comprise properties situated in Hong Kong held under:

	2002 HK\$'000	2001 HK\$'000
Long leases	126,500	130,500
Medium-term leases	201,730	208,000
	<u>328,230</u>	<u>338,500</u>

17. Permanent Textile Quota Entitlements

	THE GROUP HK\$'000
COST	
At 1 April 2001	248,791
Disposals	(8,114)
At 31 March 2002	<u>240,677</u>
AMORTISATION	
At 1 April 2001	241,394
Provided for the year	3,601
Eliminated on disposals	(8,080)
At 31 March 2002	<u>236,915</u>
CARRYING AMOUNT	
At 31 March 2002	<u>3,762</u>
At 31 March 2001	<u>7,397</u>

The permanent textile quota entitlements held by the Group are for shipments principally to USA.

Notes to the Financial Statements

For the year ended 31 March 2002



18. Interests in Subsidiaries

	THE COMPANY	
	2002 HK\$'000	2001 HK\$'000
Unlisted shares, at cost	48,577	48,577
Amounts due from subsidiaries	2,179,653	2,119,118
	<u>2,228,230</u>	<u>2,167,695</u>
Less: Impairment losses recognised	(1,905,017)	(1,905,017)
	<u>323,213</u>	<u>262,678</u>
Amounts due to subsidiaries	<u>(41,874)</u>	<u>(89,543)</u>

The amounts due from subsidiaries are unsecured and have no fixed repayment terms. An amount due from a subsidiary of HK\$17,370,000 (2001: HK\$8,240,000) bears interest at the prevailing market rates of interest and the remaining amounts are non-interest bearing. In the opinion of the directors, repayment of the amounts due from subsidiaries will not be demanded by the Company within the twelve months from the balance sheet date. Accordingly, the amounts are shown as non-current assets in the balance sheet.

The amounts due to subsidiaries are unsecured, non-interest bearing and repayable on demand.

Particulars of the Company's principal subsidiaries at 31 March 2002 are set out in note 39.

19. Other Investments

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
Equity securities listed in Hong Kong, at market value		
- 21CN	125,849	154,267
- others	—	445
	<u>125,849</u>	<u>154,712</u>

21CN is a company incorporated in Bermuda with limited liability whose shares are listed on the Stock Exchange. 21CN Group is principally engaged in telecommunications, media and Internet business activities. At 31 March 2002, the Group holds approximately 13.27% (2001: 13.27%) of the issued ordinary shares of HK\$0.01 each in the capital of 21CN.

Notes to the Financial Statements

For the year ended 31 March 2002

20. Inventories

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
Finished goods	8,614	3,168
Raw materials	1,048	—
	<u>9,662</u>	<u>3,168</u>

Inventories were carried at cost as at the balance sheet date.

21. Trade and Other Receivables

The Group allows an average credit period ranged from 30 to 90 days to its trade customers. The aged analysis of trade receivables at the balance sheet date is as follows:

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
0 - 60 days	106,085	40,531
61 - 90 days	2,214	8,455
Over 90 days	46,135	16,628
	<u>154,434</u>	<u>65,614</u>

22. Trade and Other Payables

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

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
0 - 60 days	37,452	26,110
61 - 90 days	2,375	1,148
Over 90 days	3,075	3,939
	<u>42,902</u>	<u>31,197</u>

Notes to the Financial Statements

For the year ended 31 March 2002



23. Obligations Under Finance Leases

THE GROUP

	Minimum lease payments		Present Value of minimum lease payments	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Amounts payable under finance leases:				
Within one year	26	26	19	19
Between one to two years	26	26	19	19
Between two to five years	49	76	39	60
	<u>101</u>	<u>128</u>	<u>77</u>	<u>98</u>
Less: Future finance charges	(24)	(30)	—	—
Present value of lease obligations	<u>77</u>	<u>98</u>	<u>77</u>	<u>98</u>
Less: Amount due within one year shown under current liabilities			(19)	(19)
Amount due after one year			<u>58</u>	<u>79</u>

Notes to the Financial Statements

For the year ended 31 March 2002

24. Secured Borrowings

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
The borrowings comprise:		
Bank loans	293,770	340,126
Building loans	—	22,500
Bank overdrafts	—	3,528
	<u>293,770</u>	<u>366,154</u>
Less: Amount due within one year shown under current liabilities	(90,575)	(366,154)
Amount due after one year	<u>203,195</u>	<u>—</u>
The borrowings bear interest at prevailing market rates and are repayable as follows:		
Within one year or on demand	90,575	366,154
Between one to two years	54,185	—
Between two to five years	149,010	—
	<u>293,770</u>	<u>366,154</u>

Notes:

- (a) The Group was, up to 15 October 2001, unable to meet the repayment schedules of its borrowings, accordingly, all these borrowings were technically repayable on demand and had been presented as current liabilities as at 31 March 2001.
- (b) As announced by the Company on 15 October 2001, the Company and certain of its subsidiaries entered into a debt restructuring agreement (the "Debt Restructuring Agreement") on that day with its bankers in relation to the rescheduling of outstanding indebtedness in the principal amount of approximately HK\$366.4 million as at 31 August 2001 as follows:
- (i) The Tranche "A" Debt (as defined in the Debt Restructuring Agreement) in the aggregate sum of approximately HK\$147.0 million is to be repaid as follows:
- on completion of the Debt Restructuring Agreement (the "Debt Completion") which took place on 18 October 2001 HK\$25.0 million
 - 3, 6 and 9 months after Debt Completion tranches of HK\$11.5 million each
 - first anniversary of Debt Completion balance of approximately HK\$87.5 million

Notes to the Financial Statements

For the year ended 31 March 2002



24. Secured Borrowings - continued

- (ii) The Tranche "B" Debt (as defined in the Debt Restructuring Agreement) in the aggregate sum of approximately HK\$216.7 million is expected to be repaid in 16 instalments. Each of the first 15 instalments will be in an amount representing not less than 6.25% of the Tranche "B" Debt (i.e. approximately HK\$13.5 million), with the balance to be paid as the 16th instalment. The first instalment will be made on the expiry of the 15th month after Debt Completion, with each subsequent instalment payable every three months, subject to certain mandatory repayment requirements with reference to the total market value of the Group's property portfolio held by the bankers by way of security.
- (iii) The Excluded Trade Facility (as defined in the Debt Restructuring Agreement) of up to approximately HK\$2.7 million granted by one of the bankers is to be gradually run down or to be repaid by utilising new trading facilities of up to HK\$40.0 million in total granted by the bankers.

The Tranche "A" Debt and the Tranche "B" Debt bear interest at the rate of 1.8% above the Hong Kong Interbank Offer Rate per annum and is repayable on a three monthly basis.

The total debt owed to respective bankers is secured by existing charges over different properties of the Group in favour of the relevant bankers and by existing fixed and floating charges over the assets, properties and undertaking of the Company and certain of its subsidiaries.

Details of the debt restructuring, including principal terms and provisions of the Debt Restructuring Agreement are set out in the announcement of the Company dated 15 October 2001.

Notes to the Financial Statements

For the year ended 31 March 2002

25. Share Capital

	<i>Notes</i>	Nominal value per share HK\$	Number of shares	Amount HK\$'000
Authorised:				
At 1 April 2000 and 31 March 2001		0.10	30,000,000,000	3,000,000
Effect of the Reorganisation referred to below	(a)		270,000,000,000	—
At 31 March 2002		0.01	300,000,000,000	3,000,000
Issued and fully paid:				
At 1 April 2000		0.10	612,812,106	61,281
Issue of new shares at a price of HK\$0.23 per share	(b)	0.10	122,562,000	12,256
At 31 March 2001		0.10	735,374,106	73,537
Rights issue of shares at a price of HK\$0.15 per rights share	(c)	0.10	367,687,053	36,769
Reduction of share capital	(a) (i)	0.10	1,103,061,159	110,306
			—	(99,276)
		0.01	1,103,061,159	11,030
Rights issue of shares at a price of HK\$0.08 per rights share	(d)	0.01	1,103,061,159	11,031
At 31 March 2002		0.01	2,206,122,318	22,061

Notes:

- (a) During the year, the Company underwent a share capital reorganisation (the "Reorganisation"). Details of the Reorganisation are set out in the circular dated 24 January 2002 issued by the Company.

At the special general meeting of the Company held on 18 February 2002, special resolutions approving the Reorganisation were passed and the following capital reorganisation took effect:

- (i) nominal value of issued shares in the share capital of the Company was reduced from HK\$0.10 each to HK\$0.01 each; and
- (ii) unissued shares of HK\$0.10 each in the authorised share capital of the Company were subdivided into ten shares of HK\$0.01 each.

Notes to the Financial Statements

For the year ended 31 March 2002



25. Share Capital - continued

Notes: - continued

- (b) As announced by the Company on 19 October 2000, Magical Profits Limited conditionally agreed to place through its placing agent, Core Pacific - Yamaichi Securities (H.K.) Limited, 77,532,000 then existing shares of the Company (the "Placing Shares") and to subscribe for 122,562,000 new shares of HK\$0.10 each in the capital of the Company (the "Subscription Shares") at a price of HK\$0.23 per share which represents a premium of approximately 0.88% to the closing price of HK\$0.228 per share quoted on the Stock Exchange on 19 October 2000. The Placing Shares were placed to not less than six placees. The placees and the placing agent are independent of, not connected with and not acting in concert with Magical Profits Limited or its associates or its concert parties. They are also independent of, not connected with and not acting in concert with Company's directors, chief executive or substantial shareholders, subsidiaries or any associates or any of them. The Placing Shares represented approximately 12.7% of the then existing issued share capital of the Company and approximately 10.5% of the Company's then enlarged capital. The net proceeds from the subscription amounted to approximately HK\$27.5 million of which approximately HK\$25.0 million was used to repay bank borrowings and approximately HK\$2.5 million was used as the Group's general working capital.

The placement and the subscription was completed in November 2000. The interest of Magical Profits Limited in the issued share capital of the Company prior to and subsequent to the placement and the subscription was approximately 36.7%. All shares issued rank *pari passu* with the then existing shares in issue in all respects.

- (c) Rights issue of 367,687,053 shares of HK\$0.10 each at a subscription price of HK\$0.15 per rights share were allotted on 12 September 2001 to the shareholders of the Company in the proportion of one rights share for every two existing shares then held.
- (d) Rights issue of 1,103,061,159 shares of HK\$0.01 each at a subscription price of HK\$0.08 per rights share were allotted on 8 March 2002 to the shareholders of the Company in the proportion of one rights share for every existing share then held.

The net proceeds of the above rights issues were applied for repayment of part of the Group's borrowings, for financing the development of a property in Hong Kong and for general working capital purposes. All shares issued rank *pari passu* with the then existing shares in issue in all respects.

Notes to the Financial Statements

For the year ended 31 March 2002

26. Share Option Scheme

The Company has a new share option scheme approved at the special general meeting of the Company held on 18 February 2002 ("the Scheme"). Under the Scheme the directors may at their discretion grant options to executive directors and full time employees of the Company and its subsidiaries to subscribe for shares in the Company.

A summary of the movements of share options during the year is as follows:

Date of grant	Exercise price HK\$	Number of share options (adjusted as appropriate)				
		At 1 April 2001	Granted during the year	Adjustments*	Lapsed during the year	At 31 March 2002
10 April 2001	0.124	—	43,832,000	—	(43,832,000)	—
19 July 2001	0.135	—	43,832,000	(43,832,000)	—	—
	0.132*	—	—	44,828,180	(44,828,180)	—

* The number of share options and the corresponding exercise price have been adjusted as a result of rights issue of shares of the Company during the year.

No share options have been exercised during the year.

The Company received notional consideration for options granted during the year.

On 19 June 2002, 110,300,000 share options were granted at an exercise price of HK\$0.067 per share.

Notes to the Financial Statements

For the year ended 31 March 2002



27. Reserves

	Share premium HK\$'000	Capital reserve HK\$'000	Property revaluation reserve HK\$'000	Special reserve HK\$'000	Translation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
THE GROUP							
Balance at 1 April 2000	992,367	796,656	7,862	9,800	3,198	(1,693,452)	116,431
Premium arising from issue of new shares during the year	15,933	—	—	—	—	—	15,933
Realised on deemed disposal of a subsidiary	—	—	—	—	(3,198)	—	(3,198)
Net profit for the year	—	—	—	—	—	143,311	143,311
Balance at 31 March 2001	1,008,300	796,656	7,862	9,800	—	(1,550,141)	272,477
Premium arising from issue of new shares during the year	95,594	—	—	—	—	—	95,594
Arising on reduction of share capital (see note 25(a))	—	99,276	—	—	—	—	99,276
Impairment loss recognised (see note 15)	—	—	(7,862)	—	—	—	(7,862)
Net loss for the year	—	—	—	—	—	(9,399)	(9,399)
Balance at 31 March 2002	1,103,894	895,932	—	9,800	—	(1,559,540)	450,086

	Share premium HK\$'000	Capital reserve HK\$'000	Contributed surplus HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
THE COMPANY					
Balance at 1 April 2000	992,367	796,656	48,369	(1,733,580)	103,812
Premium arising from issue of new shares during the year	15,933	—	—	—	15,933
Net loss for the year	—	—	—	(1,855)	(1,855)
Balance at 31 March 2001	1,008,300	796,656	48,369	(1,735,435)	117,890
Premium arising from issue of new shares during the year	95,594	—	—	—	95,594
Arising on reduction of share capital	—	99,276	—	—	99,276
Net loss for the year	—	—	—	(5,528)	(5,528)
Balance at 31 March 2002	1,103,894	895,932	48,369	(1,740,963)	307,232

The special reserve of the Group represents the difference between the nominal value of the share capital issued by the Company and the nominal value of the share capital and share premium of the companies now forming the Group pursuant to the group reorganisation prior to the listing of the Company's shares in 1995.

The capital reserve of the Company represents the credit arising from the reduction of the share capital of the Company in 1999 and 2002.



Notes to the Financial Statements

For the year ended 31 March 2002

27. Reserves - *continued*

The contributed surplus of the Company represents the difference between the value of the underlying net assets of the subsidiaries acquired by the Company and the nominal amount of the share capital issued by the Company under the group reorganisation in 1995, less dividend received from the subsidiaries' pre-reorganisation accumulated profits.

Under the laws in Bermuda, the contributed surplus account of a company is also available for distribution. 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.

The Company has no distributable reserve at the balance sheet date of both years.

28. Deferred Taxation

At the balance sheet date, the Group had estimated tax losses carried forward available to relieve future assessable profits. The potential deferred tax asset of HK\$46,982,000 (2001: HK\$49,033,000) has not been recognised in the financial statements as it is not certain that the benefit will be utilised in the foreseeable future. There were no other significant timing differences arising during the year or at the balance sheet date.

The surplus or deficit arising on revaluation of the Group's properties does not constitute a timing difference for taxation purposes as any profits or losses realised on their future disposals would not be subject to taxation.

The Company did not have any significant unprovided deferred taxation arising during the year or at the balance sheet date.

Notes to the Financial Statements

For the year ended 31 March 2002

29. Reconciliation of (Loss) Profit Before Taxation to Net Cash (Outflow) Inflow from Operating Activities

	2002 HK\$'000	2001 HK\$'000
(Loss) profit before taxation	(5,318)	157,961
Interest income	(2,804)	(2,534)
Interest expense	18,323	31,069
Finance charges on obligations under finance leases	6	46
Exchange loss	1,155	—
Deficit (reversal of deficit) arising on revaluation of investment properties	10,270	(4,300)
Impairment loss recognised in respect of leasehold land and buildings	4,439	—
Impairment loss recognised in respect of properties under development	2,784	—
Impairment loss recognised in respect of properties held for resale	—	2,000
Depreciation of property, plant and equipment	2,869	2,378
Amortisation of permanent textile quota entitlements	3,601	19,045
Gain on disposal of property, plant and equipment	—	(74)
Loss on deemed disposal of a subsidiary	—	8,205
Loss on disposal of subsidiaries	—	701
Loss on disposal of permanent textile quota entitlements	34	133
Loss on disposal of other investments	588	522
Unrealised loss (gain) on other investments - 21CN	28,418	(131,034)
Unrealised loss on other investments - other than 21CN	—	140
Increase in inventories	(6,494)	(2,074)
(Increase) decrease in trade and other receivables	(92,663)	33,197
Increase in bills receivable	(7,483)	(32,151)
Increase (decrease) in trade and other payables	18,362	(21,047)
Increase in bills payable	2,621	450
Decrease in amount due to a director	—	(1,920)
Net cash (outflow) inflow from operating activities	(21,292)	60,713



Notes to the Financial Statements

For the year ended 31 March 2002

30. Disposal of Subsidiaries

	2002 HK\$'000	2001 HK\$'000
Net assets disposed of:		
Properties held for sale	—	39,000
Trade and other receivables	—	782
		<hr/>
	—	39,782
Loss on disposal of subsidiaries	—	(701)
		<hr/>
	—	39,081
		<hr/> <hr/>
Satisfied by:		
Cash consideration	—	39,100
Expenses incurred in connection with the disposal of subsidiaries	—	(19)
		<hr/>
	—	39,081
		<hr/> <hr/>

The subsidiaries disposed of in 2001 did not have any significant impact on the results and cash flows of the Group during that year.

Notes to the Financial Statements

For the year ended 31 March 2002



31. Deemed Disposal of a Subsidiary

	2002 HK\$'000	2001 HK\$'000
Net assets disposed of:		
Property, plant and equipment	—	62,195
Investment properties	—	152,100
Inventories	—	4,542
Trade and other receivables	—	1,552
Taxation recoverable	—	119
Bank balances and cash	—	1,222
Trade and other payables	—	(36,156)
Taxation payable	—	(34)
Bank borrowings other than bank overdrafts	—	(93,292)
Bank overdrafts	—	(36,893)
Minority interests	—	(21,157)
	—	34,198
Translation reserve realised upon deemed disposal of a subsidiary	—	(3,198)
Loss on deemed disposal of a subsidiary	—	(8,205)
Expenses incurred in connection with the deemed disposal of a subsidiary	—	438
	—	23,233
Represented by:		
Other investments	—	23,233
Analysis of changes in cash and cash equivalents in connection with the deemed disposal of a subsidiary:		
Bank balance and cash disposed of	—	(1,222)
Bank overdrafts eliminated	—	36,893
	—	35,671
Expenses incurred in connection with the deemed disposal of a subsidiary	—	(438)
	—	35,233

The subsidiary deemed to be disposed of in 2001 did not have any significant impact on the results and cash flows of the Group during that year.

Notes to the Financial Statements

For the year ended 31 March 2002

32. Analysis of Changes in Financing During the Year

	Share capital and share premium HK\$'000	Over- subscription money payable HK\$'000	Obligations under finance leases HK\$'000	Bank loans HK\$'000	Other loans HK\$'000	Minority interests HK\$'000
Balance at 1 April 2000	1,053,648	280,583	457	470,143	31,038	21,157
Proceeds from issue of new shares	28,189	—	—	—	—	—
Inception of finance leases	—	—	98	—	—	—
Repayment	—	(280,583)	(457)	(14,225)	(31,038)	—
On deemed disposal of a subsidiary	—	—	—	(93,292)	—	(21,157)
Balance at 31 March 2001	1,081,837	—	98	362,626	—	—
Proceeds from issue of new shares	143,394	—	—	—	—	—
Reduction of share capital	(99,276)	—	—	—	—	—
Repayment	—	—	(21)	(70,011)	—	—
Exchange Loss	—	—	—	1,155	—	—
Capital contribution	—	—	—	—	—	468
Share of loss for the year	—	—	—	—	—	(1,173)
Balance at 31 March 2002	1,125,955	—	77	293,770	—	(705)*

* The minority shareholders have committed to make good their respective share of losses in the relevant subsidiaries.

33. Pledge of Assets

Debentures have been executed by the Group in favour of its bankers charging, by way of fixed and floating charges, all of the undertakings, properties and assets of the Company and its subsidiaries (except for those subsidiaries operating outside Hong Kong) as security for, inter alia, all obligations and liabilities, actual or contingent, from time to time owing by the Group to the bankers. Rental revenue of the Group is also charged in favour of the Group's bankers.

Notes to the Financial Statements

For the year ended 31 March 2002



34. Contingent Liabilities

	THE GROUP		THE COMPANY	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Bills discounted with recourse	12,513	8,716	—	—
Corporate guarantees given to banks in respect of credit facilities granted to subsidiaries	—	—	1,059,311	1,059,311
	<u>12,513</u>	<u>8,716</u>	<u>1,059,311</u>	<u>1,059,311</u>

Details of the warranty provided by the Company regarding gross proceeds and market value of properties of 21CN Group held as at 31 March 2000 within three years from completed on 15 May 2000 are described in note 8(a). In the opinion of the directors, no provision at 31 March 2002 in respect of such warranty is necessary.

In addition, the Hong Kong Inland Revenue Department is revisiting the offshore income tax claims by a subsidiary of the Company and has, up to the date of this report, raised demand notes in an aggregate sum of HK\$24,169,289 in respect of the additional assessable profits for the two years ended 31 March 1997 and of the assessable profits for the year ended 31 March 1998. The Group lodged objections for these assessments. However, the then Acting Commissioner of the Hong Kong Inland Revenue (the "Commissioner") delivered the determination which confirms the above assessments and the Group's objections fail. The Group lodged a Notice of Appeal to the Board of Review against the determination of the Commissioner. The Group will continue to defend its offshore income tax claims. The directors of the Company, after taking professional advices, are of the opinion that the Group has been eligible for such offshore tax claims and accordingly, no provision for the tax demanded amounting to HK\$24,169,289 has been made in the financial statements.



Notes to the Financial Statements

For the year ended 31 March 2002

35. Capital Commitments

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
Capital expenditure contracted for but not provided in the financial statements in respect of:		
- development of properties	40,532	6,111
- acquisition of other property, plant and equipment	35	373
	<hr/> 40,567	<hr/> 6,484
Capital expenditure authorised but not contracted for in respect of development of properties	60,000	—
	<hr/> 100,567	<hr/> 6,484
	<hr/> <hr/>	<hr/> <hr/>

The Company had no significant capital commitments at the balance sheet date.

Notes to the Financial Statements

For the year ended 31 March 2002



36. Operating Lease Arrangements

The Group as lessee

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
Minimum lease payments recognised in the income statement during the year	<u>1,144</u>	<u>31</u>

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

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
Within one year	2,095	9
In the second to fifth year inclusive	8,263	—
Over five years	2,727	—
	<u>13,085</u>	<u>9</u>

Operating lease payments represent rentals payable by the Group for certain of its office and factory premises. Leases are negotiated for an average term of five to ten years.

Under the leases entered into by the Group, the lease payments are fixed and no arrangements have been entered into for contingent rental payments.

The Group as lessor

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
Property rental income earned during the year	17,865	19,725
Less: Outgoings	<u>531</u>	<u>438</u>
Net rental income	<u>17,334</u>	<u>19,287</u>



Notes to the Financial Statements

For the year ended 31 March 2002

36. Operating Lease Arrangements - *continued*

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments:

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
Within one year	14,124	12,687
In the second to fifth year inclusive	2,954	8,123
	<u>17,078</u>	<u>20,810</u>

Under the leases entered into by the Group, the rental payments are fixed and no arrangements have been entered into for contingent rental payments.

The Company had no significant lease commitments at the balance sheet date.

Notes to the Financial Statements

For the year ended 31 March 2002

37. Retirement Benefits Schemes

The Group had defined contribution retirement scheme (the "Scheme") for its employees and the assets of the Scheme are held under provident funds managed by independent trustees. With effect from 1 December 2000, the Scheme has become a "Top Up" scheme to supplement the minimum benefit under the mandatory provident fund scheme (the "MPF Scheme") for all the eligible employees of the Group in Hong Kong.

Under the MPF Scheme, the employees are required to contribute 5% of their monthly salaries or up to a maximum of HK\$1,000 and they can choose to make additional contributions. The employer's monthly contributions are calculated at 5% of the employee's monthly salaries or up to a maximum of HK\$1,000 (the "mandatory contributions"). The employees are entitled to 100% of the employer's mandatory contributions upon their retirement at the age of 65, death or total incapacity.

Employees of the subsidiary in the PRC are members of the state-sponsored pension scheme operated by the PRC government. The subsidiary is required to contribute a certain percentage of their payroll to the pension scheme to fund the benefits. The only obligation of the Group with respect to the pension scheme is to make the required contributions.

The aggregate employers' contributions, net of forfeited contributions, which have been dealt with in the income statement of the Group were as follows:

	2002 HK\$'000	2001 HK\$'000
Gross employers' contributions	757	737
Less: Forfeited contributions utilised to offset employers' contributions for the year	(143)	(32)
Net employers' contributions charged to the income statement	<u>614</u>	<u>705</u>

At the balance sheet date, the total amount of forfeited contributions available to reduce the contributions payable in the future years was insignificant.

38. Post Balance Sheet Events

The following events took place subsequent to 31 March 2002:

- (a) As described in note 8(c), the Company entered into an agreement with the Vendor to acquire the entire equity interest of Best Quarter, details of which are set out, inter alia, in the circular of the Company dated 28 June 2002.
- (b) As announced by the Company on 17 July 2002, the Company proposed the followings: (i) to effect a share consolidation pursuant to which every ten issued and unissued existing shares of the Company of HK\$0.01 each will be consolidated into one consolidated share of HK\$0.10 each ("Share Consolidation"); and (ii) upon the Share Consolidation becoming effective, to raise funds by way of rights issue of not less than 661,836,693 rights shares or not more than 694,926,693 rights shares at a price of HK\$0.12 per rights share.

Details of the above are set out, inter alia, in the announcement of the Company dated 17 July 2002.

Notes to the Financial Statements

For the year ended 31 March 2002

39. Particulars of Principal Subsidiaries

Particulars of the Company's principal subsidiaries as at 31 March 2002 are as follows:

Name of subsidiary	Place of incorporation/ establishment and operation	Nominal value of issued share/ registered capital	Proportion of nominal value of issued share capital/ registered capital held by the Company		Principal activities
			Directly	Indirectly	
Cheong Ko Investment Company Limited	Hong Kong	Ordinary HK\$2 (Non-voting preferred HK\$10,000)*	—	100%	Property holding
Easyknit BVI Limited	British Virgin Islands/ Hong Kong	Ordinary US\$100	100%	—	Investment holding
Easyknit International Limited	British Virgin Islands/ Hong Kong	Ordinary US\$1	100%	—	Investment holding
Easyknit International Trading Company Limited	Hong Kong	Ordinary HK\$2	—	100%	Trading of garments
Easyknit Properties Holdings Limited	British Virgin Islands/ Hong Kong	Ordinary US\$1,000	100%	—	Investment holding
Easyknit Trading Company Limited (formerly Nice Progress Investments Limited)	Hong Kong	Ordinary HK\$2	—	100%	Trading of garments
Golden Top Properties Limited	Hong Kong	Ordinary HK\$2	—	100%	Property holding
Good Triumph Development Limited	Hong Kong	Ordinary HK\$2	—	100%	Trading of garments
Grand Modern Investment Limited	Hong Kong	Ordinary HK\$2	—	100%	Property holding
Grand Profit Development Limited	Hong Kong	Ordinary HK\$2	—	100%	Trading of garments
Janson Properties Limited	Hong Kong	Ordinary HK\$2	—	100%	Property holding
Mark Profit Development Limited	Hong Kong	Ordinary HK\$2	—	100%	Property development
Mary Mac Apparel Inc.	USA	Common stock US\$200,000	—	70%	Garment distribution
Perfect Luck Development Limited	Hong Kong	Ordinary HK\$2	—	100%	Property holding

Notes to the Financial Statements

For the year ended 31 March 2002



39. Particulars of Principal Subsidiaries - continued

Name of subsidiary	Place of incorporation/ establishment and operation	Nominal value of issued share/ registered capital	Proportion of nominal value of issued share capital/ registered capital held by the Company		Principal activities
			Directly	Indirectly	
Planetic International Limited	Hong Kong	Ordinary HK\$2	—	100%	Finance company
Po Cheong International Enterprise Limited	Hong Kong	Ordinary HK\$90	—	61%	Investment holding
Touch Profits Limited	British Virgin Islands/ Hong Kong	Ordinary US\$1	100%	—	Investment holding
Wellmake Investments Limited	Hong Kong	Ordinary HK\$9,998 (Non-voting deferred HK\$2)*	—	100%	Property holding
東莞永耀漂染有限公司 ("Wing Yiu")**	PRC	Registered HK\$6,000,000	—	61%	Bleaching and dyeing

* The non-voting preferred shares of Cheong Ko Investment Company Limited and the non-voting deferred shares of Wellmake Investments Limited carry no rights to receive notice of, attend or vote at any general meeting and have very limited rights to participate in a distribution of profits and, on liquidation, to the repayment of the amount paid up on the shares.

** Wing Yiu is a wholly-owned foreign enterprise established in the PRC, to be operated for five years up to 20 August 2006.

The above table lists the subsidiaries of the Company, which, in the opinion of the directors of the Company, principally affected the results of the year or constituted a substantial portion of the assets of the Group. To give details of other subsidiaries would in the opinion of the directors, result in particulars of excessive length.

None of the subsidiaries had issued any debt securities at 31 March 2002.