

Notes to Financial Statements

30 June 2002

1. CORPORATE INFORMATION

The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.

The principal activity of the Company is investment holding. The principal activities of the Company's subsidiaries are set out in note 17 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

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

The following recently issued and revised SSAPs and related Interpretations are effective for the first time for the current year's financial statements:

- SSAP 9 (Revised): Events after the balance sheet date
- SSAP 18 (Revised): Revenue
- SSAP 26: Segment reporting
- SSAP 28: Provisions, contingent liabilities and contingent assets
- SSAP 29: Intangible assets
- SSAP 30: Business combinations
- SSAP 31: Impairment of assets
- SSAP 32: Consolidated financial statements and accounting for investments in subsidiaries
- Interpretation 12: Business combinations – subsequent adjustment of fair values and goodwill initially reported
- Interpretation 13: Goodwill – continuing requirements for goodwill and negative goodwill previously eliminated against/credited to reserves

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 and Interpretations are summarised as follows:

SSAP 9 (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. The prior year adjustment arising from the adoption of SSAP 9 (Revised) is detailed in note 12 to the financial statements.

SSAP 18 (Revised) prescribes the recognition of revenue and was revised as a consequence of the revision to SSAP 9 (Revised) 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 18 has had no major impact on these financial statements.

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

SSAP 26 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 26 is the inclusion of significant additional segment reporting disclosures which are set out in note 5 to the financial statements.

SSAP 28 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 28 has had no major impact on these financial statements.

SSAP 29 prescribes the recognition and measurement criteria for intangible assets, together with the disclosure requirements. SSAP 29 has had no major impact on these financial statements.

SSAP 30 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. SSAP 30 requires the disclosure of goodwill in the non-current assets section of the consolidated balance sheet and goodwill is amortised to the consolidated profit and loss account over its estimated useful life. The required disclosures are included in note 16 to the financial statements.

SSAP 31 prescribes the recognition and measurement criteria for impairment of assets. SSAP 31 has had no major impact on these financial statements.

SSAP 32 prescribes the accounting treatment and disclosures for the preparation and presentation of consolidated financial statements. SSAP 32 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 Hong Kong Statements of Standard Accounting Practice, 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 certain fixed assets and investment properties, as further explained below.

Basis of presentation and consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 30 June 2002. 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.

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;
- (c) interest income, on a time proportion basis, taking into account the principal outstanding and the effective interest rate applicable; and
- (d) dividend income, when the shareholders' right to receive payment has been established.

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.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance lease, but are depreciated over their estimated useful lives.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leased assets (continued)

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 rental 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.

Retirement benefit 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 employee's 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.

Dividends

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

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

In previous years, the Company recognised its proposed final dividend to shareholders, which was declared and approved after the balance sheet date, as a liability in its balance sheet. The revised accounting treatments for dividends resulting from the adoption of SSAP 9 (Revised) has given rise to prior year adjustments in both the Group's and the Company's financial statements, further details of which are included in note 12 to the financial statements.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of assets (continued)

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.

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 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 40 years and the lease terms
Plant and machinery	10 years
Furniture, office equipment and motor vehicles	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.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fixed assets and depreciation (continued)

Construction in progress represents leasehold buildings and plant under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of fixed assets when completed and ready for use.

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 investments in subsidiaries are stated at cost less any impairment losses.

Goodwill

Goodwill arising on acquisition of subsidiaries represents the excess of the cost of the acquisition over the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life of 20 years.

On disposal of subsidiaries, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate.

The carrying amount of goodwill is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Long term investments

Long term investments in listed and unlisted equity securities, intended to be held for a continuing strategic or long term purpose, are stated at cost less any impairment losses, on an individual investment basis.

When impairments in values have occurred, the carrying amounts of the securities are reduced to their fair values, as estimated by the directors, and the amounts of the impairments are charged to the profit and loss account for the period in which they arise. Where the circumstances and events which led to the impairments in values cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the amounts of the impairments previously charged are credited to the profit and loss account to the extent of the amounts previously charged.

Short term investments

Short term investments are investments in equity securities held for trading purposes and are stated at their fair values on the basis of their quoted market prices at the balance sheet date, on an individual investment basis. The gains or losses arising from changes in the fair value of a security are credited or charged to the profit and loss account in the period in which they arise.

Inventories

Inventories are stated at the lower of cost and net realisable value after allowance 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 for 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.

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.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, and after eliminations of all significant intra-Group transactions during the year.

5. SEGMENT INFORMATION

SSAP 26 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 geographical segment; and (ii) on a secondary segment reporting basis, by business segment.

The principal activity of the Group is the manufacture and sale of garment, which is managed according to the geographical location of the Group's markets.

Each of the Group's geographical segments, based on the location of markets, represents a strategic business unit that offers products to customers located in different geographical areas which are subject to risks and returns that are different from those of other geographical segments.

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5. SEGMENT INFORMATION (continued)

(a) Geographical segments

The following tables represent revenue, profit and certain asset, liability and expenditure information for the Group's geographical segments for the years ended 30 June 2002 and 2001.

Group

	The People's Republic of China (the "PRC")		Hong Kong		Consolidated	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Segment revenue:						
Sales to external customers	<u>219,188</u>	<u>197,969</u>	<u>29,641</u>	<u>27,632</u>	<u>248,829</u>	<u>225,601</u>
Segment results	<u>61,938</u>	<u>59,633</u>	<u>472</u>	<u>2,837</u>	62,410	62,470
Unallocated revenue					20,084	5,343
Unallocated expenses					<u>(6,590)</u>	<u>(8,187)</u>
Profit from operating activities					75,904	59,626
Finance costs					<u>(220)</u>	<u>(793)</u>
Profit before tax					75,684	58,833
Tax					<u>(10,816)</u>	<u>(8,745)</u>
Net profit from ordinary activities attributable to shareholders					<u>64,868</u>	<u>50,088</u>

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5. SEGMENT INFORMATION (continued)

(a) Geographical segments (continued)

Group

	PRC		Hong Kong		Unallocated		Consolidated	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Segment assets	249,284	204,338	77,193	80,801	-	-	326,477	285,139
Goodwill	-	-	-	-	53,332	32,512	53,332	32,512
Long term investments	-	-	-	-	6,667	17,667	6,667	17,667
Unallocated assets	-	-	-	-	19,796	25,375	19,796	25,375
Total assets	249,284	204,338	77,193	80,801	79,795	75,554	406,272	360,693
Segment liabilities	7,416	7,841	1,263	2,968	-	-	8,679	10,809
Unallocated liabilities	-	-	-	-	11,072	16,695	11,072	16,695
Total liabilities	7,416	7,841	1,263	2,968	11,072	16,695	19,751	27,504
Other segment information:								
Capital expenditure	4,500	13,658	1,767	3,194	-	-	6,267	16,852
Depreciation	6,346	5,601	538	420	-	-	6,884	6,021

(b) Business segments

No business segment information has been disclosed as the Group is solely engaged in the manufacture and sale of garments.

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6. PROFIT FROM OPERATING ACTIVITIES

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

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Cost of inventories sold	161,994	142,703
Depreciation	6,884	6,021
Minimum lease payments under operating leases on leasehold land and buildings	112	161
Staff costs (excluding directors' remuneration – note 7)		
Wages and salaries	8,946	8,265
Retirement benefits scheme contributions	157	62
Auditors' remuneration	1,050	1,000
Amortisation of goodwill	1,996	1,711
Deficit on revaluation of an leasehold land and buildings in Hong Kong - note 14	1,080	49
Deficit on revaluation of an investment property in Hong Kong - note 15	250	–
Loss on disposal of fixed assets	243	–
Realised (gain)/loss on disposal of short term investments	(12,791)	2,752
Gross rental income	(71)	(303)
Less: Outgoings	7	–
Net rental income	<u>(64)</u>	<u>(303)</u>
Interest income	(1,950)	(3,066)
Dividend income from listed securities	(818)	(93)
Gain on disposal of subsidiaries	(20)	(20)
Unrealised gain on short term investments	<u>(4,189)</u>	<u>(1,382)</u>

During the year, no (2001: 10,150,000) share options to subscribe for ordinary shares in the Company were granted to certain non-director employees of the Group. In the absence of a readily available market value for the share options on the ordinary shares in the Company, the directors of the Company are unable to arrive at an accurate estimated monetary value of the share options granted. Accordingly, no value was included in staff costs above in respect of the share options granted. Further details of the share option scheme are included in note 27 to the financial statements.

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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 follows:

	Group	
	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Fees:		
Executive directors	–	–
Non-executive directors	–	–
Other emoluments:		
Basic salaries, housing benefits, other allowances and benefits in kind		
Executive directors	1,910	2,854
Non-executive directors	–	–
Retirement benefits scheme contributions:		
Executive directors	36	28
Non-executive directors	–	–
	<u>1,946</u>	<u>2,882</u>

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

	Group	
	2002 Number of directors	2001 Number of directors
Nil – HK\$1,000,000	<u>7</u>	<u>7</u>

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

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

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8. SIX HIGHEST PAID EMPLOYEES

The six highest paid employees during the year included three (2001: four) directors, details of whose remuneration are set out in note 7 above. Details of the remuneration of the remaining three (2001: two) non-directors, highest paid employees, are as follows:

	Group	
	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Basic salaries, housing benefits, other allowances and benefits in kind	1,602	1,168
Retirement benefits scheme contributions	36	14
	<u>1,638</u>	<u>1,182</u>

The remuneration of each of the remaining three (2001: two) non-directors, highest paid employees fell within the band of nil – HK\$1,000,000.

9. FINANCE COSTS

	Group	
	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Interest on bank loans and overdrafts, wholly repayable within five years	16	239
Interest on a bank loan wholly repayable beyond five years	138	301
Interest on trust receipt loans	2	18
Interest on a finance lease	64	–
Interest on other loans	–	235
	<u>220</u>	<u>793</u>
Total finance costs	<u><u>220</u></u>	<u><u>793</u></u>

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10. TAX

	Group	
	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Current year provision:		
Hong Kong	2,684	385
Elsewhere	8,132	8,360
	<u>10,816</u>	<u>8,745</u>
Tax charge for the year	<u><u>10,816</u></u>	<u><u>8,745</u></u>

Hong Kong profits tax had been provided at the rate of 16% (2001: 16%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere had been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

According to the Income Tax Law of the PRC, Huatong Garment Co., Ltd. Putian, a subsidiary of the Company, which operates in one of the coastal economic open zones of the PRC, was exempt from the PRC state income tax rate of 24% and the PRC local income tax rate of 3% for two years starting from the first profitable year of its operations, ie, from 1 January 1998 to 31 December 1999. The subsidiary is also entitled to a 50% relief from the state income tax and exempt from the PRC local income tax rate of 3% for the following three years, ie, from 1 January 2000 to 31 December 2002. Accordingly, the subsidiary was subject to the PRC state income tax rate of 12% during the year. Upon expiry of the tax relief period, the usual income tax rate of 27% is applicable to this subsidiary.

According to the Income Tax law of the PRC, Fujian Yingfu Industry Co., Ltd. ("Fujian Yingfu"), a subsidiary of the Company, which operates in one of the coastal economic open zones of the PRC, is exempt from the PRC state income tax rate of 24% and the PRC local income tax rate of 3% for two years starting from the first profitable year of its operations. The subsidiary is also entitled to a 50% relief from the PRC state income tax and exempt from the PRC local income tax rate of 3% for the following three years. Upon expiry of the tax relief period, the usual income tax rate of 27% is applicable to this subsidiary.

According to the Income Tax Law of the PRC, Good Fellow Garment (Fujian) Co., Ltd., a subsidiary of the Company, which operates in one of the coastal economic open zones of the PRC, was subject to the PRC state income tax rate of 24% and the PRC local income tax rate of 3% during the year.

No provision for deferred tax had been made as the Group did not have any significant unprovided deferred tax liabilities in respect of the year (2001: Nil).

The revaluation of the Group's leasehold land and buildings and investment property does not constitute a timing difference and, consequently, there is no deferred tax arising thereon.

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11. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders for the year ended 30 June 2002 dealt with in the financial statements of the Company was approximately HK\$13,156,000 (2001: HK\$14,347,000).

12. DIVIDEND

Proposed final - HK0.4 cent (2001: HK1 cent)
per ordinary share

Group	
2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
<u>9,488</u>	<u>7,760</u>

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

During the year, the Group adopted the revised SSAP 9 "Events after the balance sheet date" as detailed in note 2 to the financial statements. To comply with this revised SSAP, a prior year adjustment has been made to reclassify the proposed final dividend for the year ended 30 June 2001 of HK\$7,760,000, which was recognised as a current liability at the prior year end, to the proposed final dividend reserve account within the capital and reserves section of the balance sheet. The result of this has been to reduce both the Group's and the Company's current liabilities and increase the reserves previously reported as at 30 June 2001, by HK\$7,760,000.

The effect of this change in accounting policy as at 30 June 2002, is that the current year's proposed final dividend of approximately HK\$9,488,000 has been included in the proposed final dividend reserve account within the capital and reserves section of the balance sheet at that date, whereas in previous years it would have been recognised as a current liability at the balance sheet date.

13. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the Group's net profit from ordinary activities attributable to shareholders for the year of approximately HK\$64,868,000 (2001: HK\$50,088,000) and the weighted average number of 2,339,465,120 (2001: 2,288,050,998, as adjusted for the two for one bonus issue) ordinary shares in issue during the year.

The calculation of diluted earnings per share is based on the Group's net profit from ordinary activities attributable to shareholders for the year of approximately HK\$64,868,000 (2001: HK\$50,088,000) and on 2,358,989,471 (2001: 2,330,518,536, as adjusted for the two for one bonus issue) ordinary shares, being the weighted average number of 2,339,465,120 (2001: 2,288,050,998, as adjusted for the two for one bonus issue) ordinary shares in issue during the year, as used in the basic earnings per share calculation plus the weighted average of 19,524,351 (2001: 42,467,538, as adjusted for the two for one bonus issue) ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options during the year

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14. FIXED ASSETS

Group

	Leasehold land and buildings <i>HK\$'000</i>	Construction in progress <i>HK\$'000</i>	Plant and machinery <i>HK\$'000</i>	Furniture, office equipment and motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost or valuation:					
At beginning of year	53,780	–	44,956	6,129	104,865
Additions	750	2,191	289	3,037	6,267
Disposals	–	–	–	(728)	(728)
Revaluation	(2,680)	–	–	–	(2,680)
At end of year	<u>51,850</u>	<u>2,191</u>	<u>45,245</u>	<u>8,438</u>	<u>107,724</u>
Analysis of cost or valuation:					
At cost	–	2,191	45,245	8,438	55,874
At valuation	<u>51,850</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>51,850</u>
	<u>51,850</u>	<u>2,191</u>	<u>45,245</u>	<u>8,438</u>	<u>107,724</u>
Accumulated depreciation:					
At beginning of year	–	–	15,208	1,719	16,927
Provided during the year	1,415	–	4,516	953	6,884
Written back on disposals	–	–	–	(165)	(165)
Written back on revaluation	(1,415)	–	–	–	(1,415)
At end of year	<u>–</u>	<u>–</u>	<u>19,724</u>	<u>2,507</u>	<u>22,231</u>
Net book value:					
At 30 June 2002	<u>51,850</u>	<u>2,191</u>	<u>25,521</u>	<u>5,931</u>	<u>85,493</u>
At 30 June 2001	<u>53,780</u>	<u>–</u>	<u>29,748</u>	<u>4,410</u>	<u>87,938</u>

The net book value of the Group's fixed assets held under finance leases included in the total amount of furniture, office equipment and motor vehicles as at 30 June 2002, amounted to approximately HK\$1,012,000 (2001: Nil).

Notes to Financial Statements

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14. FIXED ASSETS (continued)

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

	Group	
	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
At valuation:		
Medium term leases in Hong Kong	7,100	8,400
Medium term leases outside Hong Kong	<u>44,750</u>	<u>45,380</u>
	<u><u>51,850</u></u>	<u><u>53,780</u></u>

At 30 June 2002, the Group's leasehold land and buildings in Hong Kong were revalued on an open market, existing use basis by LCH (Asia-Pacific) Surveyors Limited ("LCH"), an independent firm of professional valuers, at HK\$7,100,000. A deficit on revaluation of approximately HK\$1,080,000 (2001: HK\$49,000) arising from the above valuation had been charged to the profit and loss account (note 6).

At 30 June 2002, the Group's leasehold land and buildings in Macau were revalued on an open market, existing use basis by LCH, at HK\$750,000. There is no revaluation difference arising from the above valuation.

At 30 June 2002, the Group's leasehold land and buildings in the PRC were revalued on a depreciated replacement cost basis by LCH, at HK\$44,000,000. A deficit on revaluation of approximately HK\$185,000 (2001: a surplus of HK\$996,000) arising from the above valuation had been charged to the fixed asset revaluation reserve (note 28).

Had the Group's leasehold land and buildings held in Hong Kong been carried at historical cost less accumulated depreciation, their carrying value would have been approximately HK\$8,209,000 (2001: HK\$8,665,000).

Had the Group's leasehold land and buildings held outside Hong Kong been carried at historical cost less accumulated depreciation, their carrying value would have been approximately HK\$43,287,000 (2001: HK\$43,908,000).

At 30 June 2002, certain of the Group's leasehold land and buildings with a carrying value of HK\$4,300,000 (2001: HK\$5,400,000) held in Hong Kong was pledged to secure certain banking facilities granted to the Group (note 24).

Notes to Financial Statements

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15. INVESTMENT PROPERTY

	Group	
	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Valuation:		
At beginning of year	1,350	1,350
Deficit on revaluation	(250)	—
	<hr/>	<hr/>
At end of year	<u>1,100</u>	<u>1,350</u>

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

At 30 June 2002, the Group's investment property was revalued on the open market, income capitalisation basis by LCH at HK\$1,100,000. The resulting revaluation deficit of approximately HK\$250,000 (2001: Nil) had been charged to the profit and loss account.

The investment property is leased to a third party under an operating lease, further summary details of which are included in note 31 to the financial statements.

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16. GOODWILL

SSAP 30 was adopted during the year, as detailed in notes 2 and 3 to the financial statements. The amount of goodwill capitalised as an asset, arising from the acquisition of an equity interest in a subsidiary, is as follows:

	Group HK\$'000
Cost:	
At beginning of year	34,223
Additions	22,816
	<u>57,039</u>
At end of year	57,039
Accumulated amortisation and impairment:	
At beginning of year	1,711
Amortisation provided during the year	1,996
	<u>3,707</u>
At end of year	3,707
Net book value:	
At 30 June 2002	<u>53,332</u>
At 30 June 2001	<u>32,512</u>

17. INTERESTS IN SUBSIDIARIES

	Company	
	2002 HK\$'000	2001 HK\$'000
Unlisted shares, at cost	64,522	64,522
Due from a subsidiary	171,135	152,378
	<u>235,657</u>	<u>216,900</u>

The amounts due from a subsidiary is unsecured and interest-free. Except for the amount of approximately HK\$171,135,000 which is not repayable before 30 June 2003, an amount of HK\$15,000,000 is repayable on demand.

Notes to Financial Statements

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17. INTERESTS IN SUBSIDIARIES (continued)

Particulars of the Company's major 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				
Holt Hire Holdings Limited	British Virgin Islands ("BVI")	Ordinary US\$3	100%	Investment holding
Indirectly held				
Cannon Ape Company Limited	Hong Kong	Ordinary HK\$10,000	100%	Property and intellectual property holding
Clothes Galore Limited	BVI	Ordinary US\$1	100%	Intellectual property holding
Crown Hero Assets Limited	BVI	Ordinary US\$1	100%	Investment holding
Digital 910 Limited	Hong Kong	Ordinary HK\$10,000	100%	Investment holding
Fancy Spirit Limited	Hong Kong	Ordinary HK\$2	100%	Property holding
Fujian Yingfu Industry Co., Ltd.	PRC	HK\$15,000,000	100%	Development and sale of computer software
Good Country Investment Limited	Hong Kong	Ordinary HK\$2 Non-voting deferred HK\$10,000	100%	Property holding and trading of securities
Good Fellow (Macau) Commercial Offshore Limited	Macau	MOP\$100,000	100%	Trading of garments

Notes to Financial Statements

30 June 2002

17. INTERESTS IN SUBSIDIARIES (continued)

Particulars of the Company's major subsidiaries are as follows: (continued)

Name	Place of incorporation/ establishment and operations*	Paid-up share/ registered capital	Percentage of equity attributable to the Company	Principal activities
Indirectly held (continued)				
Good Fellow Fashion (Group) Limited	Hong Kong	Ordinary HK\$10,000	100%	Distribution of garments and provision of marketing services
Good Fellow Garment (Fujian) Co., Ltd.	PRC	US\$5,000,000	100%	Manufacture and sale of garments
Hi-Tech Market Limited ("Hi-Tech Market")	BVI	Ordinary US\$100	100%	Investment holding
Huatong Garment Co., Ltd. Putian	PRC	US\$600,000	100%	Manufacture and sale of garments
Strike Again Group Limited	BVI/ PRC	Ordinary US\$1	100%	Trading of garments

* Where different

Notes to Financial Statements

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18. LONG TERM INVESTMENTS

	Group		Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Equity securities:				
Listed in Hong Kong	–	11,000	–	11,000
Unlisted outside Hong Kong	6,667	6,667	–	–
	<u>6,667</u>	<u>17,667</u>	<u>–</u>	<u>11,000</u>
Market value of listed equity investments	<u>–</u>	<u>17,463</u>	<u>–</u>	<u>17,463</u>

The particulars of the investee company is as follows:

Name	Place of establishment	Paid-up registered capital	Percentage of equity attributable to the Company	Principal activities
Global Network Corporation	PRC	Ordinary RMB20,000,000	36%	Computer software and network system development

The above investment is not equity-accounted for in accordance with SSAP 10 "Accounting for investments in associates" because the directors of the Company consider that the Group has no significant influence on the daily financial and operating decisions of Global Network Corporation.

Notes to Financial Statements

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19. INVENTORIES

	Group	
	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Raw materials	28,532	27,822
Work in progress	1,481	2,925
Finished goods	16,867	13,655
	<u>46,880</u>	<u>44,402</u>

20. TRADE RECEIVABLES

The Group normally allows credit terms to established customers ranging from 30 to 120 days.

An aging analysis of the trade receivables as at the balance sheet date, based on the date of recognition of the sales, is as follows:

	Group	
	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
0 – 30 days	17,400	24,514
31 – 60 days	20,542	10,343
61 – 90 days	7,742	3,971
Over 90 days	3,057	1,324
	<u>48,741</u>	<u>40,152</u>

21. SHORT TERM INVESTMENTS

	Group	
	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Equities listed in Hong Kong, at market value	<u>17,925</u>	<u>23,576</u>

Notes to Financial Statements

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22. CASH AND CASH EQUIVALENTS AND PLEDGED TIME DEPOSITS

	Group		Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Cash and bank balances	67,848	35,363	64	21
Time deposits	63,703	65,343	–	–
	<u>131,551</u>	<u>100,706</u>	<u>64</u>	<u>21</u>
Less: Pledged time deposits for banking facilities – note 24	<u>(9,500)</u>	<u>(9,500)</u>	<u>–</u>	<u>–</u>
Cash and cash equivalents	<u><u>122,051</u></u>	<u><u>91,206</u></u>	<u><u>64</u></u>	<u><u>21</u></u>

23. INTEREST-BEARING BANK BORROWINGS, SECURED

	Note	Group	
		2002 HK\$'000	2001 HK\$'000
Bank overdrafts, secured	24	282	423
Trust receipt loans, secured	24	4	–
Bank loans, secured and repayable:	24		
Within one year		263	234
In the second year		274	249
In the third to fifth years, inclusive		899	840
Beyond five years		<u>1,208</u>	<u>1,564</u>
		<u>2,930</u>	<u>3,310</u>
Portion classified as current liabilities		<u>(549)</u>	<u>(657)</u>
Long term portion		<u><u>2,381</u></u>	<u><u>2,653</u></u>

Notes to Financial Statements

30 June 2002

24. BANKING FACILITIES

At 30 June 2002, the Group's banking facilities were secured by the following:

- (a) certain of the Group's leasehold land and buildings in Hong Kong with a carrying value of HK\$4,300,000 (note 14);
- (b) the Group's bank deposits of approximately HK\$9,500,000 (note 22); and
- (c) corporate guarantees given by the Company.

25. FINANCE LEASE PAYABLE

The Group leases a motor vehicle for general business purposes. The lease is classified as a finance lease and has remaining lease term of three years and seven months.

At 30 June 2002, the total future minimum lease payments under the finance lease and its present value, were as follows:

Group	Minimum	Present value	Minimum	Present value
	lease payments	of minimum lease payments	lease payments	of minimum lease payments
	2002	2002	2001	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Amounts payable:				
Within one year	212	203	-	-
In the second year	212	189	-	-
In the third to fifth years, inclusive	334	272	-	-
	<u>758</u>	<u>664</u>	<u>-</u>	<u>-</u>
Total minimum finance lease payments	758	<u>664</u>	-	<u>-</u>
Future finance charges	<u>(94)</u>		<u>-</u>	
Total net finance lease payable	664		-	
Portion classified as a current liability	<u>(203)</u>		<u>-</u>	
Long term portion	<u>461</u>		<u>-</u>	

Notes to Financial Statements

30 June 2002

26. TRADE PAYABLES

The Group normally obtains credit terms ranging from 30 to 120 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	
	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
0 – 30 days	287	1,006
31 – 60 days	539	977
61 – 90 days	3,557	457
Over 90 days	942	802
	<u>5,325</u>	<u>3,242</u>

27. SHARE CAPITAL

Shares

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Authorised:		
5,000,000,000 ordinary shares of HK\$0.10 each (2001: 1,000,000,000 ordinary shares of HK\$0.10 each)	<u>500,000</u>	<u>100,000</u>
Issued and fully paid:		
2,349,465,600 ordinary shares of HK\$0.10 each (2001: 776,030,200 ordinary shares of HK\$0.10 each)	<u>234,947</u>	<u>77,603</u>

During the year, the following movements in share capital were recorded:

- (a) Pursuant to an ordinary resolution passed on 12 April 2002, the authorised share capital of the Company was increased from HK\$100,000,000 to HK\$500,000,000 by the creation of 4,000,000,000 additional shares of HK\$0.10 each, ranking pari passu in all respect with the existing share capital of the Company.

Notes to Financial Statements

30 June 2002

27. SHARE CAPITAL (continued)

Shares (continued)

- (b) Pursuant to an ordinary resolution passed at the general meeting of the Company held on 12 April 2002, an aggregate of 1,565,830,000 new ordinary shares of HK\$0.10 each were issued as fully paid bonus shares by capitalising the sum of HK\$86,069,000, HK\$64,322,000 and HK\$6,192,000 from the amounts standing to the credit of the Company's share premium account, contributed surplus account and retained profits account, respectively, on the basis of two bonus shares for every one ordinary share held by the shareholders whose name appears on the register of members of the Company on that date. The new ordinary shares rank *pari passu* with the existing ordinary shares of the Company.
- (c) During the year, 4,605,000 and 2,280,000 share options before the bonus issue and 720,000 share options after the adjustment for the bonus issue were exercised at the subscription price of HK\$0.257, HK\$0.480 and HK\$0.160 per share, respectively, resulting in the issue of 7,605,000 shares of HK\$0.10 each for a total cash consideration, before expenses, of approximately HK\$2,393,000.

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

	Number of shares issued '000	Nominal value of share issued HK\$'000
Share capital as at 1 July 2000	696,550	69,655
Issue of new shares	60,000	6,000
Share options exercised	26,890	2,689
Repurchase of shares	<u>(7,410)</u>	<u>(741)</u>
Share capital as at 30 June 2001 and 1 July 2001	776,030	77,603
Bonus issue	1,565,830	156,583
Share options exercised	<u>7,605</u>	<u>761</u>
	<u><u>2,349,465</u></u>	<u><u>234,947</u></u>

Notes to Financial Statements

30 June 2002

27. SHARE CAPITAL (continued)

Share options

The Company operates a share option scheme (the "SO Scheme"), further details of which are set out under the heading "Share option schemes" in the Report of the Directors on pages 13 to 16.

The movements in the number of share options to subscribe for ordinary shares in the Company during the year were as follows:

	Number of share options to subscribe for ordinary shares at an exercise price per share of			
	HK\$0.086* HK\$'000	HK\$0.137* HK\$'000	HK\$0.16* HK\$'000	Total HK\$'000
At beginning of year	7,005	7,000	3,030	17,035
Exercised before adjustment for the two for one bonus issue	(4,605)	–	(2,280)	(6,885)
Adjustment during the year for the two for one bonus issue	4,800	14,000	1,500	20,300
Exercised after adjustment for the two for one bonus issue	–	–	(720)	(720)
	<u>7,200</u>	<u>21,000</u>	<u>1,530</u>	<u>29,730</u>

* Adjusted to take into account the two for one bonus issue of the issued share capital of the Company.

The share options exercisable at a subscription price of HK\$0.086, HK\$0.137 and HK\$0.160, respectively, after the adjustment for the two for one bonus issue during the year as at 30 June 2002 will expire on 24 October 2008. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 29,730,000 additional ordinary shares and cash proceeds to the Company of approximately HK\$3,741,000 before the related share issue expenses.

Subsequent to the balance sheet date, on 10 October 2002, 21,000,000 share options to subscribe for the ordinary shares of HK\$0.10 each in the Company were exercised at a subscription price of HK\$1.37 per share, resulting in the issue of 21,000,000 new shares in the Company at a total consideration of approximately HK\$2,877,000.

27. SHARE CAPITAL (continued)

Share options (continued)

Subsequent to the balance sheet date, on 12 July 2002, 1,530,000 share options to subscribe for the ordinary shares of HK\$0.10 each in the Company were exercised at a subscription price of HK\$0.16 per share, resulting in the issue of 1,530,000 new shares in the Company at a total consideration of approximately HK\$245,000.

Warrants

Pursuant to an ordinary resolution passed in the annual general meeting held on 23 December 1999, the Company granted bonus warrants to its shareholders on the basis of one warrant for every five ordinary shares of HK\$0.10 each in the issued share capital of the Company held by the shareholders whose names appear on the register of members of the Company on 23 December 1999. Based on the issued share capital of the Company at that date after the bonus issue, 136,803,000 bonus warrants were issued.

Each of the bonus warrants will entitle the holder thereof to subscribe for one ordinary share at an initial subscription price of HK\$1.30 per share, subject to adjustment, from the date of issue to 31 December 2001 (both dates inclusive). Any shares falling to be issued upon the exercise of the subscription rights attaching to the warrants rank *pari passu* in all respects with the existing fully-paid shares in issue on the relevant subscription date.

At the beginning of the year, the outstanding number of warrants was 136,777,800 and the subscription price of the warrants was HK\$1.30 per share.

During the period from 1 July 2001 to 31 December 2001, no warrants were exercised by the warrant holders and all outstanding warrants lapsed after 31 December 2001.

Subsequent to the balance sheet date, pursuant to the placing and underwriting agreement entered into between the Company and Kingston Securities Limited on 26 June 2002, as amended by a supplemental agreement dated 30 July 2002 and another supplemental agreement dated 31 August 2002, the Company has agreed to place 360,000,000 warrants in registered form at an issue price of HK\$0.07 per warrant on a fully underwritten basis.

The warrants will entitle the holders to subscribe for the new shares at an initial subscription price of HK\$0.37 each (subject to adjustment) for a period of 18 months commencing on the date of dealings of the warrants.

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28. RESERVES

	Share premium <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Fixed asset revaluation reserve <i>HK\$'000</i>	Statutory reserve fund <i>HK\$'000</i>	Exchange fluctuation reserve <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
Group							
At 1 July 2000	29,762	5,415	9,438	562	(1,613)	100,236	143,800
Arising on exercise of share options	7,698	-	-	-	-	-	7,698
Arising on issue of new shares	51,000	-	-	-	-	-	51,000
Share issue expenses	(338)	-	-	-	-	-	(338)
Premium on repurchase of own shares	(3,642)	-	-	-	-	-	(3,642)
Surplus on revaluation	-	-	996	-	-	-	996
Net profit for the year	-	-	-	-	-	50,088	50,088
Proposed final dividend - note 12	-	-	-	-	-	(7,760)	(7,760)
Transfer from retained profits	-	-	-	692	-	(692)	-
At 30 June 2001 and 1 July 2001	84,480	5,415	10,434	1,254	(1,613)	141,872	241,842
Arising on exercise of share options	1,632	-	-	-	-	-	1,632
Arising on issue of bonus shares	(86,069)	(5,415)	-	-	-	(65,099)	(156,583)
Deficit on revaluation - note 14	-	-	(185)	-	-	-	(185)
Net profit for the year	-	-	-	-	-	64,868	64,868
Proposed final dividend - note 12	-	-	-	-	-	(9,488)	(9,488)
Transfer from retained profits	-	-	-	411	-	(411)	-
At 30 June 2002	<u>43</u>	<u>-</u>	<u>10,249</u>	<u>1,665</u>	<u>(1,613)</u>	<u>131,742</u>	<u>142,086</u>

Notes to Financial Statements

30 June 2002

28. RESERVES (continued)

	Share premium <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
Company				
At 1 July 2000	29,762	64,322	2,084	96,168
Arising on exercise of share options	7,698	–	–	7,698
Arising on issue of new shares	51,000	–	–	51,000
Share issue expenses	(338)	–	–	(338)
Premium on repurchase of own shares	(3,642)	–	–	(3,642)
Net profit for the year	–	–	14,347	14,347
Proposed final dividend – note 12	–	–	(7,760)	(7,760)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 30 June 2001 and 1 July 2001	84,480	64,322	8,671	157,473
Arising on exercise of share options	1,632	–	–	1,632
Arising on issue of bonus shares	(86,069)	(64,322)	(6,192)	(156,583)
Net profit for the year – note 11	–	–	13,156	13,156
Proposed final dividend – note 12	–	–	(9,488)	(9,488)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 30 June 2002	<u> 43</u>	<u> –</u>	<u> 6,147</u>	<u> 6,190</u>

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

Notes to Financial Statements

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29. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of profit from operating activities to net cash inflow from operating activities

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Profit from operating activities	75,904	59,626
Interest income	(1,950)	(3,066)
Dividend income from listed securities	(818)	(93)
Unrealised holding gain on investments in securities	(4,189)	(1,382)
Depreciation	6,884	6,021
Amortisation of goodwill	1,996	1,711
Loss on disposal of fixed assets	243	–
Deficit on revaluation of leasehold land and buildings in Hong Kong	1,080	49
Deficit on revaluation of investment property in Hong Kong	250	–
Gain on disposal of subsidiaries	(20)	(20)
Increase in prepayments, deposits and other receivables	(2,193)	(7,424)
Increase in inventories	(16,400)	(14,671)
Increase in trade receivables	(16,296)	(11,091)
Decrease/(increase) in short term and long term investments	20,840	(22,194)
Increase in trade payables	2,083	134
Increase in other payables and accruals	1,342	2,076
	<u>68,756</u>	<u>9,676</u>
Net cash inflow from operating activities	<u><u>68,756</u></u>	<u><u>9,676</u></u>

Notes to Financial Statements

30 June 2002

29. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(b) Acquisition of subsidiaries

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Net assets acquired:		
Long term investment	–	6,667
Other receivables	–	1
Cash and bank balances	–	8,293
Minority interests	–	(5,984)
	<u>–</u>	<u>8,977</u>
Goodwill	–	34,223
	<u>–</u>	<u>43,200</u>
Satisfied by:		
Cash	–	43,200
	<u>–</u>	<u>43,200</u>

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries is as follows:

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Cash consideration	–	(43,200)
Cash and bank balances acquired	–	8,293
	<u>–</u>	<u>–</u>
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	<u>–</u>	<u>(34,907)</u>

The subsidiaries acquired during the prior year did not have significant impacts to the Group.

Notes to Financial Statements

30 June 2002

29. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(c) Disposal of subsidiaries

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Net assets disposed of:		
Prepayments, deposits and other receivables	–	6,213
Inventories	13,922	10,200
Trade receivables	7,707	10,497
Other payables and accruals	(5,510)	(9,030)
Tax payables	(16,119)	(17,880)
	<u>–</u>	<u>–</u>
Gain on disposal of subsidiaries	<u>20</u>	<u>20</u>
	<u><u>20</u></u>	<u><u>20</u></u>
Satisfied by:		
Cash	<u>20</u>	<u>20</u>
	<u><u>20</u></u>	<u><u>20</u></u>

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of subsidiaries:

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Cash consideration and inflow of cash and cash equivalents in respect of the disposal of subsidiaries	<u>20</u>	<u>20</u>
	<u><u>20</u></u>	<u><u>20</u></u>

The subsidiaries disposed of during the year did not have significant impacts to the Group.

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29. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(d) Analysis of changes in financing activities during the year

	Pledged bank deposits <i>HK\$'000</i>	Bank loans <i>HK\$'000</i>	Finance lease payable <i>HK\$'000</i>	Issued share capital and share premium <i>HK\$'000</i>	Minority interests <i>HK\$'000</i>
At 1 July 2000	(9,500)	9,635	–	99,417	–
Acquisition of subsidiaries	–	–	–	–	5,984
Cash (outflow)/inflow from financing activities, net	<u>–</u>	<u>(6,748)</u>	<u>–</u>	<u>62,666</u>	<u>–</u>
At 30 June 2001 and 1 July 2001	(9,500)	2,887	–	162,083	5,984
Acquisition of additional interests in subsidiaries	–	–	–	–	(5,984)
Issue of bonus shares	–	–	–	70,514	–
Inception of finance lease	–	–	900	–	–
Cash (outflow)/inflow from financing activities, net	<u>–</u>	<u>(243)</u>	<u>(236)</u>	<u>2,393</u>	<u>–</u>
At 30 June 2002	<u><u>(9,500)</u></u>	<u><u>2,644</u></u>	<u><u>664</u></u>	<u><u>234,990</u></u>	<u><u>–</u></u>

(e) Major non-cash transactions

- (i) During the year, a bonus issue of the Company's shares was credited by way of capitalisation of the Group's contributed surplus and retained profits of approximately HK\$5,415,000 and HK\$65,099,000, respectively.
- (ii) During the year, the Group entered into finance lease arrangements in respect of assets with a total capital value at the inception of the leases of HK\$900,000 (2001: Nil).

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30. CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities at the balance sheet date.

The Company has given guarantees in favour of certain banks to the extent of HK\$24,100,000 (2001: HK\$23,500,000) in respect of banking facilities granted to certain subsidiaries of the Company. At 30 June 2002, the banking facilities utilised by these subsidiaries amounted to approximately HK\$2,931,000 (2001: HK\$3,310,000).

31. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment property (note 15) under operating lease arrangements, with a lease term of two years.

At 30 June 2002, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2002 HK\$'000	2001 HK\$'000
Within one year	120	–
In the second to fifth years, inclusive	100	–
	<u>220</u>	<u>–</u>

(b) As lessee

The Group leases certain of its leasehold land and buildings under operating lease arrangements, with lease terms of two years.

At 30 June 2002, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2002 HK\$'000	2001 HK\$'000
Within one year	78	52
In the second to fifth years, inclusive	71	–
	<u>149</u>	<u>52</u>

Except for the above operating lease commitments, the Group and the Company did not have any other significant commitments as at the balance sheet date.

32. COMMITMENTS

In addition to the operating lease arrangements detailed in note 31 above, the Company entered into a conditional subscription agreement with an independent third party, U-Right Nano Textile (China) Limited (“U-Right Nano”) (the “Subscription Agreement”), to subscribe for approximately 20% of the enlarged share capital of U-Right Nano for a cash consideration of HK\$40 million on 22 March 2002. The acquisition requires certain conditions to be fulfilled by no later than 31 December 2002. Up to the date of this report, the conditions had not yet been completely fulfilled.

On 22 March 2002, the Company entered into a licence and technology consultancy agreement with U-Right Nano (the “Consultancy Agreement”) to obtain an exclusive right to use and apply texcote technology to the products in the PRC, including Hong Kong and Macau but excluding Taiwan for an initial period of five years with an option to renew for a further five years. The Subscription Agreement has to be completed before the Consultancy Agreement is completely fulfilled.

Save as disclosed above, the Company did not have any significant commitments at the balance sheet date.

33. CONNECTED TRANSACTION

On 20 February 2002, the Group entered into a conditional sale and purchase agreement with Smart Idea Securities Limited, a substantial shareholder of a subsidiary of the Company, to acquire a further 40% equity interest in Hi-Tech Market and its subsidiary, Fujian Yingfu, 60% owned subsidiaries of the Company prior to the acquisition, for a cash consideration of HK\$28,800,000. The acquisition became unconditional on 15 March 2002. Further details of the acquisition are set out in a press announcement dated 22 February 2002.

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34. POST BALANCE SHEET EVENTS

- (a) Pursuant to the placing and underwriting agreement entered into between the Company and Kingston Securities Limited on 26 June 2002, as amended by a supplemental agreement dated 30 July 2002 and another supplemental agreement dated 31 August 2002, the Company has agreed to place 360,000,000 warrants in registered form at an issue price of HK\$0.07 per warrant on a fully underwritten basis.

The warrants entitle the holders to subscribe for the new shares at an initial subscription price of HK\$0.37 each (subject to adjustment) for a period of 18 months from 16 September 2002 to 15 March 2004.

- (b) On 12 July 2002 and 10 October 2002, 1,530,000 and 21,000,000 share options were exercised, respectively, as further detailed in note 27.
- (c) On 15 October 2002, Able Business Developments Limited, a company incorporated on 18 July 2002 and owned as to 60% by the Company, entered into a joint venture agreement with the Institute of Chemistry, the Chinese Academy of Sciences and Beijing Zhongguancun Yongfeng High-tech Industry Base Development Co., Ltd. to form a joint venture company in Beijing, the PRC, namely Zhongke Nanotech Engineering Center Co., Ltd. (the "JV Company"). The JV Company will principally engage in the manufacture and sale of nano materials for use in different industries and industrial applications such as textiles, construction, chemicals and related materials. Further details of the transaction were set out in a press announcement dated 15 October 2002.

35. COMPARATIVE AMOUNTS

As further explained in note 2 to the financial statements, due to the adoption of certain new and revised SSAPs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain prior year adjustments have been made and certain comparative amounts have been reclassified to conform with the current year's presentation.

36. APPROVAL OF THE FINANCIAL STATEMENTS

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