# NOTES TO FINANCIAL STATEMENTS

30 September 2002

## 1. GROUP REORGANISATION

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 3 January 2002 under the Companies Law (Revised) of the Cayman Islands. Pursuant to a reorganisation scheme (the "Group Reorganisation") to rationalise the structure of the Group in preparation for the public listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 30 August 2002, the Company became the holding company of the companies now comprising the Group on 2 August 2002. This was accomplished by the Company acquiring the entire issued share capital of Treasure Wealth Assets Limited ("Treasure Wealth"), the then holding company of the other subsidiaries, as set out in note 15 to the financial statements in consideration for the allotment and issue of the Company's shares, credited as fully paid, to the former shareholders of Treasure Wealth. Further details of the Group Reorganisation and the subsidiaries acquired pursuant thereto are set out in notes 15 and 22 to the financial statements and in the Company's prospectus dated 20 August 2002.

## 2. CORPORATE INFORMATION

The principal place of business of the Company is located at Room 2803A, Shun Tak Centre, West Tower, 168-200 Connaught Road Central, Hong Kong.

The principal activity of the Company is investment holding. The principal activities of the Company's subsidiaries are set out in note 15 to the financial statements. There were no significant changes in the nature of the Group's principal activity during the year.

## 3. 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 2.109 (Revised) : Events after the balance sheet date
- SSAP 2.118 (Revised) : Revenue
- SSAP 2.126 : Segment reporting
- SSAP 2.128 : Provisions, contingent liabilities and contingent assets
- SSAP 2.129 : Intangible assets
- SSAP 2.130 : Business combinations
- SSAP 2.131 : Impairment of assets
- SSAP 2.132 : Consolidated financial statements and accounting for investments in subsidiaries
- 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

# NOTES TO FINANCIAL STATEMENTS

30 September 2002

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

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

SSAP 2.118 (Revised) prescribes the recognition of revenue and was revised as a consequence of the revision to SSAP 2.109 (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 2.118 has had no major impact on these financial statements.

SSAP 2.126 prescribes the principles to be applied for reporting financial information by segment. It requires that management assesses whether the Group's predominant risks or returns are based on business segments or geographical segments and determines one of these bases to be the primary segment information reporting format, with the other as the secondary segment information reporting format. The impact of this SSAP 2.126 is the inclusion of significant additional segment reporting disclosures which are set out in note 6 to the financial statements.

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

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

SSAP 2.130 prescribes the accounting treatment for business combinations, including the determination of the date of acquisition, the method for determining the fair values of the assets and liabilities acquired, and the treatment of goodwill or negative goodwill arising on acquisition. SSAP 2.130 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. SSAP 2.130 has had no major impact on these financial statements.

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

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

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

## 4. 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 as further explained below.

**Basis of presentation and consolidation**

The Group Reorganisation involved companies under common control. The consolidated financial statements have been prepared using the merger basis of accounting as a result of the Group Reorganisation completed on 2 August 2002. On this basis, the Company has been treated as the holding company of its subsidiaries for the financial years presented, rather than from the date of its acquisition of the subsidiaries. Accordingly, the consolidated results of the Group for the two years ended 30 September 2002 and 2001 include the results of the Company and its subsidiaries with effect from 1 October 2000 or since their respective dates of incorporation/establishment, where this is a shorter period. The comparative consolidated balance sheet as at 30 September 2001 has been prepared on the basis that the existing Group had been in place at that date.

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

All significant intercompany transactions and balances within the Group have been eliminated in the preparation of the consolidated financial statements.

Comparative amounts have not been presented for the Company's balance sheet as the Company did not exist as at 30 September 2001.

# NOTES TO FINANCIAL STATEMENTS

30 September 2002

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Revenue recognition**

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

(a) from the provision of fabric processing services, when the services are rendered; and

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

**Operating leases**

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 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 benefits scheme**

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

The staff in a Company's subsidiary operating in the People's Republic of China (the "PRC") are members of a retirement benefits scheme (the "PRC RB Scheme"), being operated by the local municipal government in Fujian Province, the PRC. The PRC subsidiary is required to contribute 18% to 20% of their payroll to the PRC RB Scheme to fund the retirement benefits. The local municipal government in the PRC undertakes to assume the retirement benefits obligations of all existing and future retired employees of the PRC subsidiary. The only obligation of the PRC subsidiary with respect to the PRC RB Scheme is to meet the required contributions under the PRC RB Scheme. The contributions are charged to the profit and loss account as they become payable in accordance with the relevant laws and regulations of the PRC.

**Research and development costs**

All research costs are charged to the profit and loss account as incurred.

Expenditure incurred on projects to develop new fabrics processing is capitalised and deferred only when the projects are clearly defined; the expenditure is separately identifiable and can be measured reliably; there is reasonable certainty that the projects are technically feasible; and the processes have commercial value. Product development expenditure which does not meet these criteria is expensed when incurred.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**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 dividend. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

In the previous year, the Company and its subsidiaries did not propose or pay any final dividend to shareholders. The revised accounting treatments for dividends resulting from the adoption of SSAP 2.109 (Revised) and SSAP 2.118 (Revised), have therefore not given rise to any prior year adjustments in either the Group's or the Company's 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.

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.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Fixed assets and depreciation**

Fixed assets, other than construction in progress, 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 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 fixed asset revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

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

| | |
|---|---|
| Leasehold land and buildings | The shorter of the lease terms and 20 to 50 years |
| Plant and machinery | 10 years |
| Furniture, fixtures and office equipment | 5 years |
| Motor vehicles | 5 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.

All of the Group's fixed assets, prior to the listing of the Company's shares on the Stock Exchange, were stated at cost less accumulated depreciation. The financial effect arising from the remeasurement of certain of the Group's fixed assets on a valuation basis amounted to a surplus on revaluation in the amount of HK$23,833,000 which was recognised in the fixed asset revaluation reserve. Further details of the changes in accounting policy for the remeasurement of the Group's fixed assets are set out in note 14 to the financial statements.

Construction in progress represents leasehold buildings under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises 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.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, ie, 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 those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. The capitalisation is based on the actual cost of the related borrowings. All other borrowing costs are recognised as expenses in the period in which they are incurred.

**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.

**Inventories**

Inventories held for consumption are stated at the lower of cost and net realisable value after allowances for obsolete or slow-moving items. Cost is determined on the first-in, first-out basis. Net realisable value is based on the estimated selling prices less any estimated costs to be incurred to disposal.

**Deferred tax**

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

**Foreign currencies**

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

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

**Related parties**

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

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**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 the balance sheet classification, cash equivalents represent assets similar in nature to cash, which are not restricted as to use.

## 5. TURNOVER

Turnover represents the net invoiced value of services rendered, after allowances for trade discounts and eliminations of intra-group transactions during the year.

## 6. SEGMENT INFORMATION

SSAP 2.126 prescribes the principles to be applied for reporting financial information by segment. It requires that management assesses whether the predominant risks or returns of the Group 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. 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 provision of fabric processing services, which is managed according to the geographical location of customers.

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

(a) Hong Kong;

(b) The Philippines;

(c) Elsewhere in Asia; and

(d) Africa, Australia and North America.

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

## 6. SEGMENT INFORMATION (continued)

### (a) Geographical segments based on the location of customers

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

**Group**

| | Hong Kong | | The Philippines | | Elsewhere in Asia | | Africa, Australia and North America | | Consolidated | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2002** | 2001 | **2002** | 2001 | **2002** | 2001 | **2002** | 2001 | **2002** | 2001 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Segment revenue: | | | | | | | | | | |
| Sales to external customers | **11,381** | 8,604 | **184,798** | 133,374 | **22,414** | 13,334 | **71,538** | 42,662 | **290,131** | 197,974 |
| Segment results | **3,918** | 3,329 | **57,668** | 42,890 | **7,186** | 4,324 | **25,924** | 16,820 | **94,696** | 67,363 |
| Unallocated revenue | | | | | | | | | **158** | 186 |
| Unallocated expenses | | | | | | | | | **(829)** | – |
| Profit from operating activities | | | | | | | | | **94,025** | 67,549 |
| Finance costs | | | | | | | | | **(770)** | (766) |
| Profit before tax | | | | | | | | | **93,255** | 66,783 |
| Tax | | | | | | | | | **(15,158)** | (10,667) |
| Profit before minority interests | | | | | | | | | **78,097** | 56,116 |
| Minority interests | | | | | | | | | **(50)** | (28) |
| Net profit from ordinary activities attributable to shareholders | | | | | | | | | **78,047** | 56,088 |

# NOTES TO FINANCIAL STATEMENTS

30 September 2002

## 6. SEGMENT INFORMATION (continued)

### (a) Geographical segments based on the location of customers (continued)

**Group**

| | Hong Kong | | The Philippines | | Elsewhere in Asia | | Africa, Australia and North America | | Unallocated | | Consolidated | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **2002** | 2001 | **2002** | 2001 | **2002** | 2001 | **2002** | 2001 | **2002** | 2001 | **2002** | 2001 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Segment assets | **7,999** | 5,274 | **143,548** | 81,765 | **18,817** | 8,174 | **52,869** | 26,154 | **–** | – | **223,233** | 121,367 |
| Unallocated assets | **–** | – | **–** | – | **–** | – | **–** | – | **71,526** | 2,757 | **71,526** | 2,757 |
| Total assets | **7,999** | 5,274 | **143,548** | 81,765 | **18,817** | 8,174 | **52,869** | 26,154 | **71,526** | 2,757 | **294,759** | 124,124 |
| Segment liabilities | **1,467** | 941 | **23,815** | 14,593 | **2,889** | 1,459 | **9,219** | 4,668 | **–** | – | **37,390** | 21,661 |
| Unallocated liabilities | **–** | – | **–** | – | **–** | – | **–** | – | **51,132** | 35,878 | **51,132** | 35,878 |
| Total liabilities | **1,467** | 941 | **23,815** | 14,593 | **2,889** | 1,459 | **9,219** | 4,668 | **51,132** | 35,878 | **88,522** | 57,539 |
| Other segment information: | | | | | | | | | | | | |
| Depreciation | **298** | 188 | **4,840** | 2,918 | **587** | 292 | **1,875** | 933 | **–** | – | **7,600** | 4,331 |
| Capital expenditure | **1,778** | 1,099 | **28,876** | 17,029 | **3,502** | 1,702 | **11,181** | 5,447 | **–** | – | **45,337** | 25,277 |

### (b) Geographical segments based on the location of assets

**Group**

| | Hong Kong | | Elsewhere in the PRC | | Macau | | Unallocated | | Consolidated | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2002** | 2001 | **2002** | 2001 | **2002** | 2001 | **2002** | 2001 | **2002** | 2001 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Segment assets | **806** | – | **205,842** | 67,740 | **88,111** | 56,384 | **–** | – | **294,759** | 124,124 |
| Unallocated assets | **–** | – | **–** | – | **–** | – | **–** | – | **–** | – |
| | **806** | – | **205,842** | 67,740 | **88,111** | 56,384 | **–** | – | **294,759** | 124,124 |
| Capital expenditure | **72** | – | **45,265** | 25,277 | **–** | – | **–** | – | **45,337** | 25,277 |

### (c) Business segments

All of the revenue and assets of the Group are derived from its principal activity of the provision of fabric processing services.

## 7. PROFIT FROM OPERATING ACTIVITIES

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

| | 2002 HK$'000 | 2001 HK$'000 |
|---|---|---|
| Cost of services provided | **164,471** | 109,878 |
| Depreciation | **7,600** | 4,331 |
| Minimum lease payments under operating leases on leasehold land and buildings | **550** | 322 |
| Staff costs (excluding directors' remuneration – note 8): | | |
| Wages and salaries | **10,436** | 6,394 |
| Retirement benefits scheme contributions | **1,171** | 703 |
| | **11,607** | 7,097 |
| Auditors' remuneration | **1,000** | 1,000 |
| Research and development costs | **3,264** | 1,420 |
| Interest income | **(131)** | (125) |

## 8. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES

| | Group 2002 HK$'000 | 2001 HK$'000 |
|---|---|---|
| Fees: | | |
| Executive directors | **–** | – |
| Independent non-executive directors | **–** | – |
| | **–** | – |
| Basic salaries, housing benefits, other allowances and benefits in kind: | | |
| Executive directors | **1,795** | 1,580 |
| Independent non-executive directors | **20** | – |
| | **1,815** | 1,580 |
| Retirement benefits scheme contributions: | | |
| Executive directors | **–** | – |
| Independent non-executive directors | **–** | – |
| | **–** | – |
| | **1,815** | 1,580 |

## 8. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES (continued)

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

| | Number of directors | |
|---|---|---|
| | **2002** | 2001 |
| Nil – HK$1,000,000 | **7** | 7 |

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

The five highest paid employees during the year included two directors (2001: one director), details of whose remuneration are disclosed above. The details of the remuneration of the remaining three (2001: four) non-director, highest paid employees, which fell within the nil to HK$1,000,000 band, are as follows:

| | Group | |
|---|---|---|
| | **2002** | 2001 |
| | **HK$'000** | HK$'000 |
| Basic salaries, housing benefits, other allowances and benefits in kind | **1,473** | 1,752 |
| Retirement benefits scheme contributions | **–** | – |
| | **1,473** | 1,752 |

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

## 9. FINANCE COSTS

| | Group | |
|---|---|---|
| | **2002** | 2001 |
| | **HK$'000** | HK$'000 |
| Interest on bank loans wholly repayable within five years | **1,063** | 1,132 |
| Less: Interest capitalised | **(293)** | (366) |
| | **770** | 766 |

## 10. TAX

| | Group | |
|---|---|---|
| | **2002** | 2001 |
| | **HK$'000** | HK$'000 |
| Current year provision: | | |
| Macau | **14,696** | 10,405 |
| Elsewhere in the PRC | **462** | 262 |
| Tax charge for the year | **15,158** | 10,667 |

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong in respect of the year (2001: Nil).

Macau Complementary Tax has been calculated at the rate of 15.75% (2001: 15.75%) on the estimated assessable profits of Huafeng Trading Limited, a wholly-owned subsidiary of the Company, in respect of the year.

According to the Income Tax Law of the PRC, Huafeng Knitting Co., Ltd. Shishi City, Fujian which operates in one of the coastal economic open zones of the PRC, is subject to a 24% state income tax and a 3% local income tax of the PRC.

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).

## 11. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders dealt with in the financial statements of the Company for the period from 3 January 2002 (date of incorporation) to 30 September 2002 was approximately HK$13,314,000.

# NOTES TO FINANCIAL STATEMENTS

30 September 2002

## 12. DIVIDENDS

| | 2002<br>HK$'000 | 2001<br>HK$'000 |
|---|---|---|
| Interim | – | 30,000 |
| Proposed final – HK2 cents per ordinary share | 12,800 | – |
| | 12,800 | 30,000 |

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 2.109 "Events after the balance sheet date", as detailed in note 3 to the financial statements. The effect of this change in accounting policy as at 30 September 2002 is that the current year's proposed final dividend of HK$12,800,000 has been included in the proposed final dividend reserve account within the capital and reserves section of the balance sheet, whereas in previous years it would have been recognised as a current liability at the balance sheet date.

The interim dividend declared and paid for the year ended 30 September 2001 was paid by a subsidiary of the Company to its then shareholders prior to the Group Reorganisation, as set out in note 1 to the financial statements.

## 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$78,047,000 (2001: HK$56,088,000) and the pro forma weighted average number of 552,416,438 (2001: 544,000,000) ordinary shares in issue during the year.

The weighted average number of ordinary shares used to calculate the earnings per share for the year ended 30 September 2001 includes the pro forma issued share capital of the Company, comprising 10,000,000 ordinary shares issued nil paid on 23 January 2002 and sub-divided, 10,000,000 ordinary shares issued for the acquisition of the entire issued share capital of Treasure Wealth and the capitalisation issue of 524,000,000 ordinary shares, as further detailed in note 22 to the financial statements. The weighted average number of ordinary shares used to calculate the earnings per share for the year ended 30 September 2002 includes the additional 96,000,000 ordinary shares issued upon the listing of the Company's shares on the Stock Exchange on 30 August 2002.

There were no potential dilutive ordinary shares in existence for the years ended 30 September 2002 and 2001 and, accordingly, no diluted earnings per share amounts have been presented for either of the two years.

## 14. FIXED ASSETS

**Group**

| | Leasehold land and buildings HK$'000 | Plant and machinery HK$'000 | Furniture, fixtures, office equipment and motor vehicles HK$'000 | Construction in progress HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| Cost or valuation: | | | | | |
| At 1 October 2001 | 9,874 | 52,136 | 737 | 4,396 | 67,143 |
| Additions | – | 44,760 | 146 | 431 | 45,337 |
| Transfer | 4,827 | – | – | (4,827) | – |
| Revaluation | 23,034 | – | – | – | 23,034 |
| **At 30 September 2002** | **37,735** | **96,896** | **883** | **–** | **135,514** |
| Analysis of cost or valuation: | | | | | |
| At cost | – | 96,896 | 883 | – | 97,779 |
| At valuation | 37,735 | – | – | – | 37,735 |
| | 37,735 | 96,896 | 883 | – | 135,514 |
| Accumulated depreciation: | | | | | |
| At 1 October 2001 | 380 | 6,843 | 246 | – | 7,469 |
| Provided during the year | 419 | 7,039 | 142 | – | 7,600 |
| Written back on revaluation | (799) | – | – | – | (799) |
| **At 30 September 2002** | **–** | **13,882** | **388** | **–** | **14,270** |
| Net book value: | | | | | |
| **At 30 September 2002** | **37,735** | **83,014** | **495** | **–** | **121,244** |
| At 30 September 2001 | 9,494 | 45,293 | 491 | 4,396 | 59,674 |

The Group's leasehold land and buildings included above are all held under medium term leases in the PRC.

At 30 September 2002, the Group's leasehold land and buildings in the PRC were revalued on a depreciated replacement cost basis by BMI Appraisals Limited ("BMI"), an independent firm of professional valuers, at HK$37,735,000. The resulting revaluation surplus of approximately HK$23,833,000 has been credited to the fixed asset revaluation reserve (note 23).

Had the Group's leasehold land and buildings been carried at historical cost less accumulated depreciation, their carrying amounts would have been approximately HK$13,902,000 (2001: HK$9,494,000).

# NOTES TO FINANCIAL STATEMENTS

30 September 2002

## 14. FIXED ASSETS (continued)

Prior to its transfer to other categories of fixed assets, the carrying amount of construction in progress included capitalised interest of approximately HK$445,000 (2001: HK$619,000).

At 30 September 2002, certain of the Group's plant and machinery with an aggregate net book value of approximately HK$28,321,000 were pledged to secure banking facilities granted to the Group (note 20).

## 15. INVESTMENTS IN SUBSIDIARIES

| | Company 2002 HK$'000 |
|---|---|
| Unlisted shares, at cost | **133,900** |

The balances with subsidiaries included in the Company's current assets and current liabilities are unsecured, interest-free and have no fixed terms of repayment.

Particulars of the subsidiaries as at the balance sheet date are as follows:

| Name | Place of incorporation/ establishment/ and operations | Paid-up share/ registered capital | Percentage of equity interest attributable to the Company | Principal activities |
|---|---|---|---|---|
| **Directly held** | | | | |
| Treasure Wealth Assets Limited | British Virgin Islands ("BVI") | Ordinary US$600 | 100 | Investment holding |
| **Indirectly held** | | | | |
| Huafeng Knitting Co., Ltd. Shishi City, Fujian | PRC | RMB20,000,000 | 96 | Provision of fabric processing services |
| Huafeng Marketing Limited | BVI/ PRC | Ordinary US$100 | 100 | Provision of marketing services |
| Huafeng Quality Control Limited | BVI/ PRC | Ordinary US$100 | 100 | Provision of quality control services |
| Huafeng Technical Services Limited | BVI/ PRC | Ordinary US$100 | 100 | Provision of technical support services |
| Huafeng Trading Limited | BVI/ Macau | Ordinary US$100 | 100 | Provision of fabric processing services |
| Powerful China Development Limited | Hong Kong | Ordinary HK$100 | 100 | Provision of administrative services |

## 16. INVENTORIES

| | Group | |
|---|---|---|
| | **2002** | 2001 |
| | **HK$'000** | HK$'000 |
| Consumables | **21,395** | 12,624 |

## 17. TRADE RECEIVABLES

The Group normally allows credit terms to well-established customers ranging from 30 to 120 days. A 100% provision is made for outstanding debts aged over 365 days.

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

| | Group | |
|---|---|---|
| | **2002** | 2001 |
| | **HK$'000** | HK$'000 |
| 1 – 30 days | **27,861** | 19,783 |
| 31 – 60 days | **20,412** | 14,250 |
| 61 – 90 days | **17,407** | 11,359 |
| Over 90 days | **6,220** | – |
| | **71,900** | 45,392 |

## 18. CASH AND CASH EQUIVALENTS

| | Group | | Company |
|---|---|---|---|
| | **2002** | 2001 | **2002** |
| | **HK$'000** | HK$'000 | **HK$'000** |
| Cash and bank balances | **23,962** | 2,757 | **656** |
| Short-term deposits | **47,564** | – | **–** |
| Cash and cash equivalents | **71,526** | 2,757 | **656** |

# NOTES TO FINANCIAL STATEMENTS

30 September 2002

## 19. INTEREST-BEARING BANK BORROWINGS, SECURED

| | Group | |
|---|---|---|
| | **2002** | 2001 |
| | **HK$'000** | HK$'000 |
| Short-term bank loans, secured | **15,755** | 15,764 |

## 20. BANKING FACILITIES

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

(i) Fixed charges on certain of the Group's plant and machinery (note 14); and

(ii) A corporate guarantee given by a related company.

On 20 December 2002, the Group received a confirmation from Industrial and Commercial Bank of China indicating that the corporate guarantee given by a related company was released and replaced by the corporate guarantees from the Company.

## 21. TRADE PAYABLES

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

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

| | Group | |
|---|---|---|
| | **2002** | 2001 |
| | **HK$'000** | HK$'000 |
| 1 – 30 days | **12,581** | 7,894 |
| 31 – 60 days | **9,933** | 5,737 |
| 61 – 90 days | **6,614** | 4,998 |
| | **29,128** | 18,629 |

## 22. SHARE CAPITAL

**Shares**

| | 2002 HK$'000 |
|---|---|
| Authorised: | |
| 2,000,000,000 ordinary shares of HK$0.01 each | **20,000** |
| Issued and fully paid: | |
| 640,000,000 ordinary shares of HK$0.01 each | **6,400** |

The following changes in the Company's authorised and issued share capital took place during the period from 3 January 2002 (date of incorporation) to 30 September 2002:

(i) On incorporation, the authorised share capital of the Company was HK$100,000 divided into 1,000,000 ordinary shares of HK$0.10 each, all of which were allotted and issued nil paid on 23 January 2002.

(ii) On 2 August 2002, each of the then issued ordinary shares in the share capital of the Company, having a par value of HK$0.10 each, was sub-divided into ten ordinary shares of HK$0.01 each, and the authorised share capital of the Company was increased to HK$200,000 by the creation of a further 10,000,000 ordinary shares of HK$0.01 each, ranking pari passu with the existing share capital of the Company.

(iii) On 2 August 2002, as part of the Group Reorganisation, the Company issued an aggregate of 10,000,000 ordinary shares of HK$0.01 each credited as fully paid in consideration for the acquisition of the entire issued share capital of Treasure Wealth. The excess of the fair value of the ordinary shares of Treasure Wealth, determined on the basis of its consolidated net assets at that date, over the nominal value of the Company's ordinary shares issued and credited as fully paid in exchange therefor, amounting to approximately HK$133,800,000, was credited to the Company's share premium account as set out in note 23 to the financial statements.

(iv) On 2 August 2002, an amount of HK$100,000, being a portion of the amount credited to the share premium account of the Company on the issue of ordinary shares in exchange for the ordinary shares of Treasure Wealth as set out in (iii) above, was applied to pay up, in full at par value, the 10,000,000 sub-divided ordinary shares issued and allotted nil paid on 23 January 2002.

(v) On 2 August 2002, the authorised share capital of the Company was increased from HK$200,000 to HK$20,000,000 by the creation of a further 1,980,000,000 ordinary shares of HK$0.01 each, ranking pari passu with the existing share capital of the Company.

# NOTES TO FINANCIAL STATEMENTS

30 September 2002

## 22. SHARE CAPITAL (continued)

**Shares** (continued)

(vi) On 2 August 2002, a total of 524,000,000 ordinary shares of HK$0.01 each were allotted and issued as fully paid at par to the holders of the ordinary shares whose names appeared on the register of members of the Company at that date, in proportion to their respective shareholdings, by way of the capitalisation of the sum of HK$5,240,000 standing to the credit of the share premium account of the Company (the "Capitalisation Issue"), conditional on the share premium account being credited as a result of the issue of new ordinary shares to the public on 30 August 2002 as detailed in (vii) below.

(vii) On 30 August 2002, a total of 96,000,000 ordinary shares of HK$0.01 each were issued at HK$0.50 (the "New Issue") each to the public for a total cash consideration, before the related share issue expenses, of HK$48,000,000.

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

| | Notes | **Number of shares issued** '000 | **Nominal value of shares issued** HK$'000 |
|---|---|---|---|
| Shares allotted and issued nil paid on 23 January 2002 | (i) | 1,000 | – |
| Sub-division of each of the shares of the Company into ten shares | (ii) | 10,000 | – |
| Shares issued as consideration for the acquisition of the entire issued share capital of Treasure Wealth pursuant to the Group Reorganisation | (iii) | 10,000 | 100 |
| Application of share premium account to pay up nil paid shares issued on 23 January 2002 | (iv) | – | 100 |
| Pro forma share capital as at 30 September 2001 | | 20,000 | 200 |
| Capitalisation issue credited as fully paid conditional on the share premium account of the Company being credited as a result of the New Issue | (vi) | 524,000 | 5,240 |
| New Issue | (vii) | 96,000 | 960 |
| **Share capital as at 30 September 2002** | | **640,000** | **6,400** |

## 22. 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 scheme" in the Report of the Directors on page 14 and 15.

Up to 30 September 2002, no share options have been granted under the SO Scheme.

**Warrants**

Following the placing and the new issue of shares on 29 August 2002, the Company granted one bonus warrant for every two ordinary shares of HK$0.01 each in the share capital of the Company to: (i) the successful subscribers under the new issue of ordinary shares and the placees under the placing of ordinary shares; and (ii) Mr. Cai Zhen Rong of the balance of the warrants created and issuable.

Each of the bonus warrants will entitle the holder thereof to subscribe for one ordinary share of the Company at an initial subscription price of HK$0.65 per share, subject to adjustment, from the date of issue to 21 August 2005 (both dates inclusive). Any ordinary shares failing to be issued upon the exercise of the subscription rights attaching to the bonus warrants will rank pari passu in all respects with the existing fully-paid ordinary shares in issue of the Company on the relevant subscription date.

The exercise in full of the subscription rights attaching to the bonus warrants at the subscription price of HK$0.65 per share would, based on the placing and the new issue of ordinary shares of the Company, result in the issue of 128,000,000 additional ordinary shares and the receipt by the Company of approximately HK$83,200,000 before any related issue expenses.

# NOTES TO FINANCIAL STATEMENTS

30 September 2002

## 23. RESERVES

| | Share premium HK$'000 | Fixed asset revaluation reserve HK$'000 | Retained profits HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| **Group** | | | | |
| At 1 October 2000 | 1,153 | – | 38,320 | 39,473 |
| Net profit for the year | – | – | 56,088 | 56,088 |
| Interim dividend – note 12 | – | – | (30,000) | (30,000) |
| At 30 September 2001 and 1 October 2001 | 1,153 | – | 64,408 | 65,561 |
| New Issue – note 22 | 47,040 | – | – | 47,040 |
| Capitalisation Issue – note 22 | (5,240) | – | – | (5,240) |
| Share issue expenses | (10,278) | – | – | (10,278) |
| Surplus on revaluation of leasehold land and buildings – note 14 | – | 23,833 | – | 23,833 |
| Surplus on revaluation of leasehold land and buildings shared by minority shareholders | – | (953) | – | (953) |
| Net profit for the year | – | – | 78,047 | 78,047 |
| Proposed final dividend – note 12 | – | – | (12,800) | (12,800) |
| **At 30 September 2002** | **32,675** | **22,880** | **129,655** | **185,210** |

| | Share premium HK$'000 | Retained profits HK$'000 | Total HK$'000 |
|---|---|---|---|
| **Company** | | | |
| Arising on acquisition of Treasure Wealth and applied in payment of 10,000,000 ordinary shares allotted nil paid on 23 January 2002 | 133,700 | – | 133,700 |
| New Issue – note 22 | 47,040 | – | 47,040 |
| Capitalisation Issue – note 22 | (5,240) | – | (5,240) |
| Share issue expenses | (10,278) | – | (10,278) |
| Net profit for the period – note 11 | – | 13,314 | 13,314 |
| Proposed final dividend – note 12 | – | (12,800) | (12,800) |
| **At 30 September 2002** | **165,222** | **514** | **165,736** |

The share premium account of the Group includes: (i) the difference between the nominal value of the share capital of the subsidiaries acquired pursuant to the Group Reorganisation, as set out in notes 1 and 22 to the financial statements, over the nominal value of the share capital of the Company issued in exchange therefor; (ii) the premium arising from the New Issue during the year; less (iii) the premium arising from the Capitalisation Issue during the year.

## 23. RESERVES (continued)

The share premium account of the Company includes: (i) the difference between the then combined net asset value of the subsidiaries acquired pursuant to the Group Reorganisation, as set out in notes 1 and 22 to the financial statements, over the nominal value of the share capital of the Company issued in exchange therefor; (ii) the premium arising from the New Issue during the year; less (iii) the premium arising from the Capitalisation Issue during the year.

In accordance with the Companies Law (Revised) of the Cayman Islands, the share premium account is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business. The share premium account may also be distributed in the form of fully paid bonus shares.

## 24. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

| | **2002 HK$'000** | 2001 HK$'000 |
|---|---|---|
| Profit from operating activities | **94,025** | 67,549 |
| Interest income | **(131)** | (125) |
| Depreciation | **7,600** | 4,331 |
| Increase in prepayments, deposits and other receivables | **(5,017)** | (189) |
| Increase in inventories | **(8,771)** | (5,571) |
| Increase in trade receivables | **(26,508)** | (19,413) |
| Increase in trade payables | **10,499** | 8,296 |
| Increase in other payables and accruals | **5,827** | 1,103 |
| Net cash inflow from operating activities | **77,524** | 55,981 |

### (b) Analysis of changes in financing activities during the years

| | **Bank loans, secured** HK$'000 | **Minority interests** HK$'000 | **Issued capital and share premium** HK$'000 |
|---|---|---|---|
| At 1 October 2000 | 13,491 | 796 | 1,353 |
| Cash inflow from financing activities, net | 2,273 | – | – |
| Share of profit for the year | – | 28 | – |
| At 30 September 2001 and 1 October 2001 | 15,764 | 824 | 1,353 |
| Cash inflow/(outflow) from financing activities, net | (9) | – | 37,722 |
| Share of profit for the year | – | 50 | – |
| Share of revaluation surplus – note 23 | – | 953 | – |
| **At 30 September 2002** | **15,755** | **1,827** | **39,075** |

# NOTES TO FINANCIAL STATEMENTS

30 September 2002

## 24. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

**(c) Major non-cash transaction**

The Group Reorganisation in preparation for the public listing of the Company's shares involved the acquisition of Treasure Wealth by the issue of ordinary shares of the Company, further details of which are set out in notes 1 and 22 to the financial statements.

## 25. CONTINGENT LIABILITIES

At 30 September 2002, neither the Company, nor the Group had any significant contingent liabilities (2001: Nil).

## 26. OPERATING LEASE ARRANGEMENTS

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

At 30 September 2002, the Group had total future minimum lease payments under non-cancellable operating leases for leasehold land and buildings falling due as follows:

| | Group | |
|---|---|---|
| | **2002** | 2001 |
| | **HK$'000** | HK$'000 |
| Within one year | **545** | 317 |
| In the second to fifth years, inclusive | **1,436** | 1,268 |
| After five years | **1,189** | 1,506 |
| | **3,170** | 3,091 |

The Company did not have any operating lease arrangements as at 30 September 2002 (2001: Nil).

## 27. COMMITMENTS

In addition to the operating lease commitments detailed in note 26 above, the Group had capital commitments as at the balance sheet date as follows:

| | Group | |
|---|---|---|
| | **2002** | 2001 |
| | **HK$'000** | HK$'000 |
| Construction of leasehold land and buildings, contracted for | **3,596** | – |
| Purchases of plant and machinery, contracted for | **8,504** | 1,349 |
| | **12,100** | 1,349 |

The Company did not have any significant commitments as at 30 September 2002 (2001: Nil).

## 28. RELATED PARTY TRANSACTIONS

During the year, the Group had a corporate guarantee from a related company for banking facilities granted to the Group at nil consideration.

Subsequent to the balance sheet date, on 20 December 2002, the Group received a confirmation from Industrial and Commercial Bank of China indicating that the corporate guarantee given by a related company was released and replaced by the corporate guarantees from the Company.

## 29. POST BALANCE SHEET EVENTS

On 17 January 2003, the Company proposed to declare a final dividend of HK2 cents per ordinary share to its shareholders whose names appeared on the register of members of the Company on 17 February 2003, as further detailed in note 12 to the financial statements.

## 30. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 17 January 2003.