

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2002

1. GENERAL

The Company is incorporated as an exempted company with limited liability in Bermuda under the Companies Act 1981 of Bermuda (as amended) and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its ultimate holding company is Angel Field Limited ("Angel Field"), a company which is incorporated in the British Virgin Islands. The activities of the Company's principal subsidiaries are set out in note 31.

2. ADOPTION OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE

In the current year, the Group has adopted, for the first time, a number of new and revised Statements of Standard Accounting Practice (SSAPs) issued by the Hong Kong Society of Accountants. The adoption of these Standards has resulted in a change in the format of presentation of the cash flow statement and the statement of changes in equity, and in the adoption of the following new and revised accounting policies. Further details of the effect on the adoption of these SSAPs are as follows:

Foreign currencies

The revisions to SSAP 11 "Foreign Currency Translation" have eliminated the choice of translating the income statements of overseas subsidiaries at the closing rate for the year, the policy previously followed by the Group. They are now required to be translated at an average rate. This change in accounting policy has not had any material effect on the results for the current or prior accounting periods.

Cash flow statements

Under SSAP 15 (Revised) "Cash Flow Statements", cash flows are classified under three headings – operating, investing and financing, rather than the previous five headings. Interest received, which was previously presented under a separate heading is classified as investing cash flows. Interest paid which was previously presented under a separate heading is classified as operating cash flows, cash flow arising from taxes on income are classified as operating activities unless they can be separately identified with investing or financing activities. In addition, the amounts presented for cash and cash equivalents have been amended to exclude short-term loans that are financing in nature. The re-definition of cash and cash equivalents has resulted in a restatement of the comparative amounts shown in the cash flow statement.

Employee benefits

SSAP 34 "Employee Benefits" introduces measurement rules for employee benefits, including retirement benefit plans. Because the Group participates only in defined contribution retirement benefit schemes, the adoption of SSAP 34 has not had any material impact on the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

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3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention and in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are set out below:

Basis of consolidation

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

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

Investment in subsidiaries

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

Revenue recognition

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

Service income is recognised when services are provided.

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

Property, plant and equipment

Property, plant and equipment is stated at cost less depreciation, amortisation and accumulated impairment losses.

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

Leasehold land	Over the shorter of the term of the lease, or 50 years
Leasehold buildings	Over the shorter of the term of the lease, or 50 years
Leasehold improvements	Over the shorter of the term of the lease, or 20%
Plant and machinery	12%
Furniture, fixtures and equipment	20 – 33 $\frac{1}{3}$ %
Motor vehicles	20 – 25%

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2002

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment *(Continued)*

Construction in progress is carried at cost, less any identified impairment loss. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

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

Inventories

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

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that these assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Foreign currencies

Transactions in foreign currencies are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates prevailing on the balance sheet date. Profits and losses arising on exchange are included in net profit or loss for the year.

On consolidation, the assets and liabilities of the Group's operations outside Hong Kong are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2002

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation

The charge for taxation is based on the results for the year after adjusting for items which are non-assessable or disallowed. Timing differences arise from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in the financial statements. The tax effect of the resulting timing differences, computed using the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or an asset will crystallise in the foreseeable future.

Retirement benefit costs

Payments to the Mandatory Provident Fund Scheme are charged as an expense as they fall due.

4. TURNOVER

Turnover represents the amount received and receivable for goods sold to outside customers, less returns and allowances for the year, and is analysed as follows:

	2002 HK\$'000	2001 HK\$'000
Continuing operations:		
Trading – base metals	346,072	–
– fabric	52,567	13,540
Others	3,129	–
	<u>401,768</u>	<u>13,540</u>
Discontinuing operations:		
Fabric processing	1,632	6,164
Manufacture and sale of snack food	349	18,436
	<u>403,749</u>	<u>38,140</u>

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2002

5. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

For management purposes, the Group is currently organised into two operating divisions – trading of base metals and trading of fabric, trading of base metal being a new business line commenced during the year. These divisions are the basis on which the Group report its primary segment information.

Principal activities are as follows:

Continuing operations:

- | | | |
|------------------------|---|------------------------|
| Trading of base metals | – | trading of base metals |
| Trading of fabric | – | trading of fabric |

Discontinuing operations:

- | | | |
|-------------------|---|--|
| Fabric processing | – | processing of raw fabric and the sale of finished fabric |
| Snack food | – | manufacture and sale of potato chips |

Segment information about these businesses is presented below.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2002

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Business segments (Continued)

2002

	Continuing operations			Discontinuing operations (note 8)		Consolidated HK\$'000
	Trading of base metals HK\$'000	Trading of fabric HK\$'000	Others HK\$'000	Fabric processing HK\$'000	Snack food HK\$'000	
RESULTS						
TURNOVER						
External sales	<u>346,072</u>	<u>52,567</u>	<u>3,129</u>	<u>1,632</u>	<u>349</u>	<u>403,749</u>
RESULTS						
Segment profit (loss)	<u>4,505</u>	<u>(11,442)</u>	<u>(2)</u>	<u>(36,095)</u>	<u>(361)</u>	<u>(43,395)</u>
Unallocated corporate expenses						(6,353)
Interest on bank borrowings wholly repayable within five years						(582)
Gain on disposal of subsidiaries						261
Loss before taxation						(50,069)
Taxation						(24)
Loss after taxation						<u>(50,093)</u>
BALANCE SHEET						
ASSETS						
Segment assets	<u>51,744</u>	<u>4,056</u>	<u>1,069</u>	<u>24,803</u>	<u>-</u>	<u>81,672</u>
Unallocated corporate assets						13,790
Consolidated total assets						<u>95,462</u>
LIABILITIES						
Segment liabilities	<u>13,170</u>	<u>24</u>	<u>1,069</u>	<u>10,562</u>	<u>-</u>	<u>24,825</u>
Unallocated corporate liabilities						13,942
Consolidated total liabilities						<u>38,767</u>
OTHER INFORMATION						
Capital additions	145	-	1,040	-	-	1,185
Depreciation and amortisation	23	-	54	3,991	697	4,765
Impairment loss recognised in respect of property, plant and equipment	-	-	-	29,623	-	29,623
Non-cash expenses	<u>-</u>	<u>12,371</u>	<u>926</u>	<u>4,437</u>	<u>-</u>	<u>17,734</u>

More than 90% of the assets and liabilities of the Group were located in the People's Republic of China ("PRC") and more than 90% of the Group's turnover and operating results were derived from the PRC.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2002

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Business segments (Continued)

2001

RESULTS	Continuing	Discontinuing operations (note 8)		Consolidated HK\$'000
	operation Trading of fabric HK\$'000	Fabric processing HK\$'000	Snack food HK\$'000	
TURNOVER				
External sales	<u>13,540</u>	<u>6,164</u>	<u>18,436</u>	<u>38,140</u>
Segment loss	<u>(2,642)</u>	<u>(19,505)</u>	<u>(19,802)</u>	(41,949)
Unallocated corporate expenses				(3,478)
Interest on bank borrowings wholly repayable within five years				<u>(1,622)</u>
Loss before taxation				(47,049)
Taxation				<u>52</u>
Loss after taxation				<u>(46,997)</u>
BALANCE SHEET				
ASSETS				
Segment assets	<u>13,535</u>	<u>57,969</u>	<u>54,611</u>	126,115
Unallocated corporate assets				<u>5</u>
Consolidated total assets				<u>126,120</u>
LIABILITIES				
Segment liabilities	<u>15,974</u>	<u>14,288</u>	<u>1,033</u>	31,295
Unallocated corporate liabilities				<u>23,814</u>
Consolidated total liabilities				<u>55,109</u>
OTHER INFORMATION				
Capital additions	–	10,094	3,096	13,190
Depreciation and amortisation	184	6,604	4,446	11,234
Impairment loss recognised in respect of intangible assets	–	–	1,188	1,188
Non-cash expenses	<u>88</u>	<u>10,597</u>	<u>8,492</u>	<u>19,177</u>

All the assets and liabilities of the Group were located in the People's Republic of China ("PRC") and more than 90% of the Group's turnover and operating results were derived from the PRC.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2002

6. OTHER OPERATING EXPENSES

Other operating expenses comprise the followings:

	2002 HK\$'000	2001 HK\$'000
Loss on disposal of property, plant and equipment	5,363	10,685
Allowance for doubtful debts	12,371	8,492
	<u>17,734</u>	<u>19,177</u>

7. LOSS FROM OPERATIONS

	2002 HK\$'000	2001 HK\$'000
Loss from operations has been arrived at after charging:		
Amortisation of intangible assets (included within cost of sales)	–	395
Auditors' remuneration	350	440
Staff costs, including directors' emoluments	3,145	8,122
Retirement benefits scheme contributions, net of forfeited contributions	66	137
Depreciation and amortisation of property, plant and equipment	4,765	10,839
Impairment loss recognised in respect of intangible assets (included within cost of sales)	–	1,188
and after crediting:		
Interest income from bank deposits	<u>30</u>	<u>898</u>

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2002

8. DISCONTINUING OPERATION

- (i) During the year, the directors determined to phase out the Group's fabric processing operation. It is anticipated that the operation will be permanently ceased during 2003.

The results of the fabric processing operation for the year were as follows:

	2002 HK\$'000	2001 HK\$'000
Turnover	1,632	6,164
Operating costs	(3,667)	(25,669)
Loss on disposal of property, plant and equipment	(4,437)	–
Impairment loss recognised in respect of property, plant and equipment	(29,623)	–
Loss from ordinary activities	<u>(36,095)</u>	<u>(19,505)</u>

During the year, the fabric processing operation utilised HK\$1,486,000 of the Group's net operating cash flows, received HK\$248,000 in respect of investing activities and received HK\$2,365,000 in respect of financing activities.

At the balance sheet date, the carrying amounts of the assets and liabilities of the fabric processing operation are as follows:

	2002 HK\$'000	2001 HK\$'000
Total assets	<u>24,803</u>	<u>57,969</u>
Total liabilities	<u>10,562</u>	<u>14,288</u>

There is no material movement on the carrying amounts of the assets and liabilities of the fabric processing operation subsequent to the balance sheet date.

During the year, the Group recognised impairment loss on assets relating to the fabric processing operation amounting to HK\$29,623,000.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2002

8. DISCONTINUING OPERATION *(Continued)*

- (ii) Pursuant to a conditional sales and purchase agreement dated 22 January 2002, the Group agreed to dispose of certain of its subsidiaries, which were engaged in the snack food operations, to Feng Lin Holdings Limited, a then substantial shareholder of the Company, for a consideration of HK\$24,600,000. The transaction was completed on 12 March 2002 (note 22).

The results of the snack food operation for the year, which have been included in the consolidated financial statements, are as follows:

	2002	2001
	HK\$'000	HK\$'000
Turnover	349	18,436
Operating costs	(710)	(38,238)
	<hr/>	<hr/>
Loss from ordinary activities	(361)	(19,802)
	<hr/> <hr/>	<hr/> <hr/>

9. DIRECTORS' EMOLUMENTS

	2002	2001
	HK\$'000	HK\$'000
Fees:		
Executive directors	208	–
Independent non-executive directors	101	90
Other emoluments of executive directors:		
Basic salaries and allowances	256	2,613
Retirement benefits scheme contribution	7	85
	<hr/>	<hr/>
	263	2,698
	<hr/>	<hr/>
	572	2,788
	<hr/> <hr/>	<hr/> <hr/>

The emoluments of each of the Company's directors were below HK\$1,000,000 for each of the two years ended 31 December 2002.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2002

10. EMPLOYEES' EMOLUMENTS

During the year, the five highest paid individuals did not include any director of the Company.

During the year ended 31 December 2001, the five highest paid individuals included four executive directors, details of whose emoluments are set out in note 9 above.

The following emolument disclosed are related to the five highest paid individuals (none of them are director of the Company) for the year ended 31 December 2002 and the remaining one individual who was among the five highest paid individuals for the year ended 31 December 2001.

	2002	2001
	HK\$'000	HK\$'000
Basic salaries and allowances	1,280	442
Retirement benefits scheme contribution	35	12
	<u>1,315</u>	<u>454</u>

The emoluments of each of the Company's five highest paid individual were below HK\$1,000,000 for each of the two years ended 31 December 2002.

During the year, no emoluments were paid by the Group to the five highest paid individuals, including directors, as an inducement to join or upon joining the Group or as compensation for loss of office. In addition, none of the directors has waived any emoluments during the year.

11. TAXATION

Hong Kong Profits Tax is calculated at 16% of the assessable profit for the year.

In the opinion of the directors, a substantial portion of the Group's income is not subject to taxation in the jurisdiction in which the Group operates.

In 2001, the taxation credit represented the overprovision for Hong Kong Profits Tax in prior year.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2002

11. TAXATION *(Continued)*

Pursuant to the relevant laws and regulations in PRC, the Company's PRC subsidiary is entitled to exemption from PRC enterprise income tax for two years commencing from its first profit-making year of operation, followed by a 50 per cent reduction in PRC enterprise income tax for the next three years. No provision for PRC enterprise income tax has been made in the financial statements as the Company's PRC subsidiary had no assessable profit for the current year.

The Group and the Company had no significant unprovided deferred taxation for the year or at the balance sheet date.

12. LOSS PER SHARE

The calculation of the loss per share is based on the loss for the year of HK\$49,994,000 (2001: HK\$45,558,000) and on the weighted average number of 241,014,247 (2001: 200,000,000) shares in issue during the year.

No diluted loss per share has been presented as the share options outstanding during the year would have an anti-dilutive effect on the basic loss per share for the year.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2002

13. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings	Leasehold improvements	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles	Construction in process	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
THE GROUP							
COST							
At 1 January 2002	54,709	387	64,215	1,558	2,158	1,563	124,590
Additions	-	926	-	259	-	-	1,185
Disposals	(4,114)	(926)	(1,288)	(32)	(420)	-	(6,780)
Disposal of subsidiaries	(3,017)	(387)	(37,942)	(770)	(1,738)	(1,563)	(45,417)
At 31 December 2002	47,578	-	24,985	1,015	-	-	73,578
DEPRECIATION AND AMORTISATION							
At 1 January 2002	6,378	387	14,750	894	1,887	-	24,296
Provided for the year	1,069	-	3,536	159	1	-	4,765
Impairment losses recognised	26,524	-	3,052	47	-	-	29,623
Eliminated on disposals	(466)	-	(538)	(31)	(152)	-	(1,187)
Eliminated on disposal of subsidiaries	(475)	(387)	(5,010)	(281)	(1,736)	-	(7,889)
At 31 December 2002	33,030	-	15,790	788	-	-	49,608
NET BOOK VALUE							
At 31 December 2002	14,548	-	9,195	227	-	-	23,970
At 31 December 2001	48,331	-	49,465	664	271	1,563	100,294

The leasehold land and buildings of the Group are situated in the PRC and are held under medium term leases.

During the year, the directors determined to gradually phase out the Group's fabric processing operation. The directors conducted a review of the Group's assets which were used for the fabric processing operation, and determined that a number of those assets were impaired, due to physical damage and technical obsolescence. Accordingly, impairment losses of approximately HK\$26,524,000 and HK\$3,052,000, were recognised in respect of buildings and plant and machinery, respectively.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2002

13. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

In 2001, the Group pledged leasehold land and buildings having a net book value of approximately HK\$48,331,000 to secure banking facilities granted to the Group. This pledge was released during the year following the repayment of the related bank borrowings.

14. INTERESTS IN SUBSIDIARIES

	2002 HK\$'000	2001 HK\$'000
Unlisted shares	75,274	75,274
Amounts due from subsidiaries	65,920	40,866
	<u>141,194</u>	<u>116,140</u>
Provision for impairment loss	(98,000)	(48,000)
	<u>43,194</u>	<u>68,140</u>

In the opinion of the directors, impairment loss of the subsidiaries are recognised up to their net assets value as at the balance sheet date.

The amounts due from subsidiaries are unsecured, non-interest bearing and are repayable after one year.

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

15. INVENTORIES

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
Raw materials	–	2,784
Work in progress	–	61
Finished goods	6,435	123
	<u>6,435</u>	<u>2,968</u>

At 31 December 2002, all the inventories were carried at cost. At 31 December 2001, all inventories were carried at net realisable value.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2002

16. TRADE AND OTHER RECEIVABLES

The Group allows an average credit period of 0 – 90 days (2001: 90 days) to its trade customers.

The following is an aged analysis of trade receivables at the balance sheet date:

	THE GROUP	
	2002	2001
	HK\$'000	HK\$'000
Trade receivables – 0 to 30 days	26,722	16,948
Other receivables	12,260	5,836
	<u>38,982</u>	<u>22,784</u>

17. PLEDGED BANK DEPOSITS

The amount represents deposits pledged to a bank to secure general banking facilities granted to the Group.

18. TRADE AND OTHER PAYABLES

The following is an aged analysis of trade payables at the balance sheet date:

	THE GROUP	
	2002	2001
	HK\$'000	HK\$'000
Trade payables		
0 to 30 days	14,046	13,031
31 to 60 days	–	198
Over 60 days	–	949
	<u>14,046</u>	<u>14,178</u>
Other payables	1,781	8,305
	<u>15,827</u>	<u>22,483</u>

19. AMOUNT DUE TO A DIRECTOR

The amount was unsecured, non-interest bearing and was fully repaid during the year.

NOTES TO THE FINANCIAL STATEMENTS

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20. BANK BORROWINGS

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
Bank loans	–	16,954
Trust receipt loans	12,870	2,951
Bank overdrafts	–	12
	<u>12,870</u>	<u>19,917</u>
Secured	12,870	19,905
Unsecured	–	12
	<u>12,870</u>	<u>19,917</u>

The borrowings are repayable on demand or within one year.

21. SHARE CAPITAL AND SHARE PREMIUM

	Number of ordinary shares	Share capital HK\$'000	Share premium HK\$'000
Ordinary shares of HK\$0.10 each			
Authorised:			
At 1 January 2001, 31 December 2001 and 31 December 2002	<u>1,000,000,000</u>	<u>100,000</u>	
Issued and fully paid:			
At 1 January 2001 and 31 December 2001	<u>200,000,000</u>	<u>20,000</u>	<u>37,164</u>
Shares issued during the year:			
In April 2002 (note i)	33,800,000	3,380	14,534
In May 2002 (note ii)	6,200,000	620	3,224
In September 2002 (note iii)	<u>48,000,000</u>	<u>4,800</u>	<u>15,264</u>
	<u>88,000,000</u>	<u>8,800</u>	<u>33,022</u>
Share issue expenses	–	–	(648)
At 31 December 2002	<u>288,000,000</u>	<u>28,800</u>	<u>69,538</u>

NOTES TO THE FINANCIAL STATEMENTS

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21. SHARE CAPITAL AND SHARE PREMIUM *(Continued)*

Notes:

- (i) Pursuant to a subscription agreement dated 16 April 2002, Angel Field, the substantial shareholder of the Company, subscribed for 33,800,000 shares of HK\$0.10 each in the Company at a price of HK\$0.53 per share. These new shares were issued under the general mandate granted to the Directors at the annual general meeting of the Company held on 15 May 2001 and ranked pari passu with other shares in issue in all respects. The issue price of HK\$0.53 represented a premium of approximately 14.22% to the average closing price of HK\$0.464 per share as quoted on the Stock Exchange for the last 10 trading days up to and including 15 April 2002.
- (ii) Pursuant to a placing agreement dated 7 May 2002 entered into between the Company and the placing agent, 6,200,000 shares of HK\$0.10 each in the Company at a price of HK\$0.62 per share were issued to independent investors. These shares were issued under the general mandate granted to the Directors at the annual general meeting of the Company held on 15 May 2001 and ranked pari passu with other shares in issue in all respects. The issue price of HK\$0.62 represented a discount of approximately 6.06% to the closing price of HK\$0.66 per share as quoted on the Stock Exchange on 7 May 2002.
- (iii) Pursuant to a subscription agreement dated 29 July 2002, Angel Field subscribed for 48,000,000 shares of HK\$0.10 each in the Company at a price of HK\$0.418 per share. These new shares were approved by shareholders of the Company at the special general meeting of the Company held on 10 September 2002 and ranked pari passu with other shares in issue in all respects. The issue price of HK\$0.418 represented a discount of approximately 8.10% to the average closing price of HK\$0.455 per share as quoted on the Stock Exchange for the last 10 trading days up to and including 29 July 2002.

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22. DISPOSAL OF SUBSIDIARIES

As referred to in note 8, on 12 March 2002 the Group discontinued its snack food operation at the time of disposal of certain subsidiaries. The net assets of these subsidiaries at the date of disposal were as follows:

	2002 HK\$'000	2001 HK\$'000
NET ASSETS DISPOSED OF		
Property, plant and equipment	37,528	—
Inventories	3,169	—
Trade and other receivables	8,728	—
Bank balances and cash	84	—
Trade and other payables	(3,159)	—
Taxation payable	(2,610)	—
Bank borrowings	(14,004)	—
Minority interests	(5,397)	—
	<u>24,339</u>	—
Gain on disposal of subsidiaries	<u>261</u>	—
Total consideration satisfied by assumption of the following liabilities of the Group by the buyer (see note 29(i)):		
Trade and other payables	18,600	—
Bank borrowings	<u>6,000</u>	—
Net cash outflow arising on disposal:		
Bank balances and cash disposed of	<u>(84)</u>	—

The subsidiaries disposed of during the year contributed HK\$349,000 to the Group's turnover and HK\$361,000 to the Group's loss.

23. MAJOR NON-CASH TRANSACTION

As settlement of the consideration for the disposal of subsidiaries set out in note 22, the buyer assumed certain liabilities and obligations of the Group in the same amount. Further details of the disposal are set out in note 29(i).

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24. OPERATING LEASE COMMITMENTS

The Group as lessee	2002	2001
	HK\$'000	HK\$'000
Minimum lease payments under operating leases in respect of rented premises during the year	<u>2,157</u>	<u>1,969</u>

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

	THE GROUP	
	2002	2001
	HK\$'000	HK\$'000
Within one year	<u>2,443</u>	1,768
In the second to fifth year inclusive	<u>1,376</u>	877
	<u>3,819</u>	<u>2,645</u>

Operating lease payments represent rental payable by the Group for certain of its office premises and staff quarters. Leases are negotiated for an average term of three years.

The Company had no operating lease commitment at the balance sheet date.

25. CAPITAL COMMITMENTS

	2002	2001
	HK\$'000	HK\$'000
THE GROUP		
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the financial statements	<u>—</u>	<u>78</u>
THE COMPANY		
Capital investment in respect of capital contribution to a subsidiary	<u>—</u>	<u>3,920</u>

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2002

26. SHARE OPTION SCHEMES

The Company has the following share option schemes:

(i) The 1998 scheme

A share option scheme was adopted by the Company pursuant to a resolution passed on 10 December 1998 for the primary purpose of providing incentives to directors and eligible employees (the "1998 Scheme"), and it was for a period of 10 years ending on 9 December 2008. However, on 7 June 2002, the 1998 Scheme was terminated by shareholders of the Company pursuant to a resolution passed on that date.

Under the 1998 Scheme, the Board of Directors of the Company could grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company.

The total number of shares in respect of which options could be granted under the 1998 Scheme was not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders.

Options granted had to be taken up within 28 days from the date of grant, upon payment of HK\$1 per grant. Options could be exercised at any time from the date of grant of the share option to the 10th anniversary of the date of grant. The exercise price was to be determined by the directors of the Company, and would not be less than the higher of the nominal value of the Company's shares, and 80% of the average closing price of the shares for the five business days immediately preceding the date of grant.

No option was granted under the 1998 Scheme during the period of operation.

(ii) The 2002 scheme

A new share option scheme was adopted by the Company pursuant to a resolution passed on 7 June 2002 for the primary purpose of providing incentives to directors and eligible employees, and will expire on 6 June 2012 (the "2002 Scheme"). Under the 2002 Scheme, the Board of Directors of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company.

During the year, the Company granted 9,840,000 share options under the 2002 Scheme to the directors and employees. The share options are exercisable for a period from 2 July 2002 to 1 July 2007 at an exercise price of HK\$0.556 per option. Among the 9,840,000 share options granted, 7,440,000 share options were granted to the directors of the Company.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2002

26. SHARE OPTION SCHEMES *(Continued)*

(ii) The 2002 scheme *(Continued)*

Options granted must be taken up within 28 days of the date of grant, upon payment of HK\$1 per grant. Options may be exercised at any time from the date of grant of the share option to the 10th anniversary of the date of grant. The exercise price is determined by the directors of the Company, and will not be less than the highest of the closing price of the Company's shares on the date of grant, the nominal value of the Company's share and the average closing price of the shares for the five business days immediately preceding the date of grant.

At 31 December 2002, the number of shares in respect of which options had been granted and remained outstanding under the 2002 Scheme was 9,840,000, representing 3.42% of the shares of the Company in issue at that date. The total number of shares in respect of which options may be granted under the 2002 Scheme is not permitted to exceed 10% of the shares of the Company in issue as at 7 June 2002, being the date of the passing the resolution regarding the 2002 Scheme, without prior approval from the Company's shareholders. The number of shares in respect of which options may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted to substantial shareholders or independent non-executive directors in excess of 0.1% of the Company's share capital or with a value in excess of HK\$5 million must be approved in advance by the Company's shareholders.

No option was exercised, cancelled or lapsed during the year.

The financial impact of share options granted is not recorded in the Company's or the Group's balance sheet until such time as the share options are exercised, and no charge is recorded in the income statement or balance sheet for their cost. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Share options which are cancelled prior to their exercise are deleted from the register of outstanding options.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2002

27. CONTINGENT LIABILITIES

At the balance sheet date, the Group had discounted bills with recourse of approximately HK\$26,529,000 (2001: Nil).

At the balance sheet date, the Company had no material contingent liability.

28. RETIREMENT BENEFITS SCHEME

The Group operates Mandatory Provident Fund (MPF) scheme for all qualifying employees of its Hong Kong subsidiaries. The assets of the scheme are held separately from those of the Group in funds under the control of trustees. The Group contributed 5% of the relevant payroll costs to the scheme, which contribution is matched by employees.

The retirement benefits cost charged to income statement represents contributions payable to the scheme by the Group at rates specified in the rules of the scheme.

The employees of the Group's PRC subsidiary are members of a state-managed retirement benefits scheme operated by the PRC government. The subsidiary is required to contribute a specified percentage of their payroll costs to the retirement benefit scheme. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions.

The total cost charged to the income statement of HK\$66,000 (2001: HK\$137,000) represents contributions payable to these schemes by the Group at rates specified in the rules of the schemes.

At the balance sheet date, there was no significant forfeited contribution, which arose upon employees leaving the retirement benefits scheme and which was available to reduce the contribution payable in the future years.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2002

29. RELATED PARTY TRANSACTIONS/DISCLOSURE

- (i) Pursuant to a disposal agreement (the "Disposal Agreement") the Group disposed of its entire interest in certain subsidiaries which are principally engaged in the snack food business, to Feng Lin Holdings Limited ("Feng Lin"), a then substantial shareholder of the Company which was beneficially interested in approximately 74.48% of the issued share capital of the Company, for a consideration of HK\$24,600,000. As settlement of the consideration, Feng Lin assumed certain liabilities and obligations of the Group in the same amount. Certain former directors of the Company, namely Tsoi Hon Chung, Tsoi Chun Bun and Tsoi Chun Hung have beneficial interest in Feng Lin. Details of the Disposal Agreement were set out in the circular of the Company dated 22 February 2002. The resolution in relation to the Disposal Agreement was unanimously passed by way of a poll at the special general meeting of the Company held on 11 March 2002. Completion of the Disposal Agreement took place on 12 March 2002.

Simultaneously with the entering into of the Disposal Agreement, a sale and purchase agreement (the "Sale and Purchase Agreement") was entered into between, amongst others, Feng Lin and Angel Field, pursuant to which Feng Lin sold 148,000,000 shares in the Company, representing 74% of the then issued share capital of the Company, to Angel Field at a consideration of approximately HK\$0.418 per share. Completion of the Sale and Purchase Agreement took place on 12 March 2002.

- (ii) Subscription of shares in the Company by Angel Field during the year are set out in note 21.
- (iii) On 21 November 2002, a sub-tenancy agreement (the "Sub-tenancy Agreement") was entered into between Worldmark (Far East) Limited ("Worldmark"), a wholly-owned subsidiary of the Company, and Profitex Investments Limited ("Profitex"), a wholly-owned subsidiary of Shanghai Land Holdings Limited ("Shanghai Land"), in respect of the sub-leasing of 2,487 square feet of the office premises located at 67th Floor, The Center, 99 Queen's Road Central, Hong Kong, by Profitex to Worldmark for a term commencing on 4 August 2002 and expiring on 19 June 2005 inclusive at the following rentals:

Period	Monthly rent (approximate HK\$)
4 August 2002 – 31 May 2004	74,610
1 June 2004 – 30 June 2004	63,667
1 July 2004 – 31 May 2005	44,766
1 June 2005 – 19 June 2005	28,352

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2002

29. RELATED PARTY TRANSACTIONS/DISCLOSURE *(Continued)*

A rent free period (the "Rent Free Period") in total of 6 months by stages in an aggregate amount of HK\$447,660 had been granted by Profitex to Worldmark pursuant to a supplemental agreement to the Sub-tenancy Agreement dated 17 January 2003. The first 3 months of the Rent Free Period shall be granted and ratified for the period from 1 September 2002 to 30 November 2002 and the remaining 3 months of Rent Free Period shall be granted for the period from 1 June 2003 to 31 August 2003.

The respective substantial shareholders of Shanghai Land and the Company are New Nongkai Global Investments Limited (formerly known as Global Town Limited) and Angel Field, which are both 100% beneficially owned by Mr. Chau Ching Ngai, the chairman of Shanghai Land and the spouse of Ms. Mo Yuk Ping, chairman of the Company.

The rent paid for the year amounted to approximately HK\$142,000. The rent charged to the income statement for the year amounted to approximately HK\$256,000 after taking into account of the Rent Free Period. Worldmark, Profitex and the landlord had also entered into a guarantee and indemnity ("Guarantee and Indemnity") whereby, inter alia, Worldmark and Profitex agreed jointly and severally to observe and perform all the terms, covenants and conditions of the Tenancy Agreement entered into between the landlord and Profitex, and to guarantee the performance and observance of the Guarantee and Indemnity.

- (iv) Worldmark and Profitex has also entered into a management agreement for a term of three years commencing on 1 August 2002. Pursuant to the agreement, Profitex has agreed to provide management service to Worldmark for a fee. The management fee paid for the year amounted to HK\$166,000.
- (v) During the year ended 31 December 2001, the Group paid an agency fee of approximately HK\$30,000 to Sunico (H.K.) Limited ("Sunico") in return for agency and letter of credit handling services. The fees were calculated at 1% of the value of transactions handled by Sunico. Mr. Tsoi Hon Chung, a then director of the Company, has beneficial interest in Sunico. The Group had no such transaction during the year ended 31 December 2002.
- (vi) At 31 December 2001, certain then directors of the Company had given personal guarantees to banks to secure general banking facilities granted to the Group. The guarantees were released during the year.
- (vii) Details of balances with related parties are set out in note 19.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2002

30. POST BALANCE SHEET EVENT

Pursuant to a subscription agreement dated 6 March 2003, Angel Field subscribed for 125,000,000 new shares of HK\$0.10 each (the "Subscription Shares") in the Company at a subscription price of HK\$0.40 per share. The allotment and issue of the Subscription Shares were approved by the independent shareholders of the Company by way of an ordinary resolution passed on 2 April 2003. The Subscription Shares would rank pari passu in all respects with the existing issued shares of the Company. The Subscription Shares represented approximately 43.40% of the existing issued share capital of the Company and approximately 30.27% of the Company's issued share capital as enlarged by the issue of the Subscription Shares.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2002

31. PARTICULARS OF PRINCIPAL SUBSIDIARIES

The following table lists the subsidiaries of the Group as at 31st December 2002 which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

Name of subsidiary	Place of incorporation/ establishment and operations	Issued and fully paid up share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Company		Principal activities
			Directly	Indirectly	
			%	%	
Chaoyang Hua Long Textiles and Dyeing Limited *	PRC	US\$6,000,000 registered capital	–	100	Fabric processing and manufacturing
Chinawell Holdings Limited	British Virgin Islands	US\$1 ordinary share	100	–	Investment holding
First Landmark Limited	British Virgin Islands	US\$1 ordinary share	100	–	Investment holding
Gold (Hong Kong) Limited	Hong Kong/ the PRC	HK\$2 ordinary shares	–	100	Trading
Hua Loong Textiles Limited	Hong Kong	HK\$10,000 ordinary shares	–	100	Investment holding
Merchants (Hong Kong) Limited	Hong Kong	HK\$2 ordinary shares	–	100	Trading
Park Well International Group Limited	British Virgin Islands	US\$6 ordinary shares	100	–	Investment holding

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2002

31. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation/ establishment and operations	Issued and fully paid up share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Company		Principal activities
			Directly	Indirectly	
			%	%	
V-Win Limited	Hong Kong	HK\$2 ordinary shares	100	–	Provision of secretarial and nominee services
Worldmark (Far East) Limited	Hong Kong	HK\$2 ordinary shares	–	100	Provision of management services
Ying Wing (HK) Limited	Hong Kong	HK\$10 ordinary shares	–	100	Trading of fabric

* The company is a wholly-owned foreign enterprise established in the PRC.

None of the subsidiaries had any debt securities outstanding at the end of the year, or at any time during the year.