

Notes to the Financial Statements

For the year ended 31 December 2002

1. PRINCIPAL ACCOUNTING POLICIES

Statement of compliance

The financial statements have been prepared in accordance with Statements of Standard Accounting Practice (the "SSAP") and Interpretations issued by the Hong Kong Society of Accountants (the "HKSA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the principal accounting policies adopted by the Group is set out below.

The financial statements are prepared on a basis consistent with the accounting policies and method adopted in the previous year except for the following SSAP issued or revised by HKSA which are effective for accounting periods commencing on or after 1 January 2002:

SSAP 1 (revised)	: Presentation of financial statements
SSAP 11 (revised)	: Foreign currency translation
SSAP 15 (revised)	: Cash flow statements
SSAP 33	: Discontinuing operations
SSAP 34	: Employee benefits

The effect of adopting these new or revised standards is set out in the accounting policies below:

Basis of preparation

The measurement basis used in the preparation of the financial statements is historical cost modified by restating certain investment in securities to fair value as explained in accounting policies as set out below.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and all its subsidiaries made up to 31 December each year. The results of the subsidiaries acquired or disposed of during the year are included in the consolidated income statement from or to the date of their acquisition or disposal, as appropriate. All significant inter-company balances and transactions are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

Goodwill

Goodwill arising on consolidation represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary at the date of acquisition.

Goodwill is amortised using straight-line method over its estimated useful life not exceeding twenty years.

Notes to the Financial Statements

For the year ended 31 December 2002

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

Subsidiaries

A subsidiary is an enterprise, in which the Company, directly or indirectly, has the power to govern the financial and operating policies so as to obtain benefits from its activities. Investments in subsidiaries are stated at cost less impairment loss. The carrying amount of the investment is reduced to its recoverable amount on an individual basis.

Associates

An associate is an enterprise, in which the Group has significant influence and which is neither a subsidiary nor a joint venture of the Group.

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the period up to the date the associates became subsidiaries of the Group. Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in the income statement.

Property, plant and equipment

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

The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Major costs incurred in restoring assets to their normal working conditions are charged to the income statement. Improvements are capitalised and depreciated over their expected useful lives.

The gain or loss arising from the retirement or disposal of property, plant and equipment is determined as the difference between the estimated net sales proceeds and the carrying amount of the assets and is recognised as income or expense in the income statement.

Depreciation is provided to write off the cost less accumulated impairment losses of property, plant and equipment, over their estimated useful lives from the date on which they become fully operational and after taking into account of their estimated residual values, using the straight-line method, at the following rates per annum:

Furniture and office equipment	20%
Leasehold improvement	10%
Plant and machinery	10%
Motor vehicles	20%

Notes to the Financial Statements

For the year ended 31 December 2002

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

Property, plant and equipment (Continued)

No depreciation is provided in respect of construction in progress until it is completed and put into commercial operation.

Assets held under finance lease are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the terms of the leases.

Impairment loss

At each balance sheet date, the Group reviews internal and external sources of information to determine whether the carrying amounts of its tangible and intangible assets have suffered an impairment loss or impairment loss previously recognised no longer exists or may be reduced. If any such indication exists, the recoverable amount of the asset is estimated, based on the higher of its net selling price and value in use. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the smallest group of assets that generates cash flows independently (i.e. a cash-generating unit).

If the recoverable amount of an asset or a cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

A reversal of impairment losses is limited to the carrying amount of the asset or cash-generating unit that would have been determined had no impairment loss been recognised in prior years. Reversal of impairment losses is recognised as income immediately.

Investment in securities

Investment in trust fund are stated in the balance sheet at their fair value. Changes in fair values are recognised in the income statement as they arise.

The profit or loss on disposal of trust fund is accounted for in the period in which the disposal occurs as the difference between net sales proceeds and the carrying amount of the investments.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchase and, where applicable, costs of conversion and other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the weighted average costing method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Notes to the Financial Statements

For the year ended 31 December 2002

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

Cash equivalents

For the purpose of cash flow statement, cash equivalents represent short-term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of change in value, net of bank overdrafts.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets of the Company at the lower of the fair value of the leased asset and the present value of minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the income statement over the term of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

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

Taxation

The charge for taxation is based on the results for the year as adjusted 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 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 asset will crystallise in the foreseeable future. A deferred tax asset is not recognised unless its realisation is assured beyond reasonable doubt.

Foreign currencies

Transactions in foreign currencies are translated at the rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated at the rates of exchange ruling at that date. Translation differences are dealt with in the income statement.

The balance sheet of subsidiaries, jointly controlled entities and associated companies expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the income statement is translated at an average rate. Exchange differences are dealt with as a movement in reserves.

Notes to the Financial Statements

For the year ended 31 December 2002

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

Related parties

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

Retirement benefit costs

Payments to defined contribution retirement benefit plans and the Mandatory Provident Fund are charged as expenses as they fall due.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue and costs, if applicable, can be measured reliably.

Sale of goods is recognised when the goods are delivered and title has passed.

2. TURNOVER AND REVENUE

The principal activities of the Group are the manufacture and sales of headwear products.

Turnover and revenue represent sale of goods at invoiced value to customers net of returns and discounts.

3. OTHER INCOME

	The Group	
	2002	2001
	HK\$'000	HK\$'000
Discount received	393	807
Exchange gain	1,032	1,139
Gain on disposal of property, plant and equipment	-	1,227
Interest income	1,112	1,563
Sundry income	3,827	264
	6,364	5,000

Notes to the Financial Statements

For the year ended 31 December 2002

4. BUSINESS AND GEOGRAPHICAL SEGMENTS

(a) Business segments

No segmental analysis by business is presented as all the turnover and contribution to operating results are derived from the single business segment of manufacture and sales of headwear products.

(b) Geographical segments

	Turnover		Contribution to operating results	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
United States	360,227	270,953	135,878	100,284
Europe	31,530	11,696	11,893	4,329
Others	2,365	5,916	892	2,189
	<u>394,122</u>	<u>288,565</u>	<u>148,663</u>	<u>106,802</u>
Unallocated corporate revenues (expenses)				
Other income			6,364	5,000
Distribution costs			(4,156)	(6,488)
Administration expenses			(82,053)	(36,952)
Profit from operations			<u>68,818</u>	<u>68,362</u>

Notes to the Financial Statements

For the year ended 31 December 2002

5. PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION

	The Group	
	2002	2001
	HK\$'000	HK\$'000
This is stated after charging:		
(a) Finance costs		
Interest on bank loans, overdrafts and other borrowings wholly repayable within five years	107	8
Finance charges on obligations under finance leases	229	27
	<u>336</u>	<u>35</u>
(b) Other items		
Staff costs (including directors' emoluments and retirement benefit costs)	54,851	30,576
Cost of inventories	245,459	179,108
Amortisation of goodwill (included in administration expenses)	1,087	629
Auditors' remuneration	764	500
Depreciation:		
Owned assets	14,530	11,219
Assets held under finance leases	147	-
Operating lease in respect of office premises, factories and warehouses	8,063	1,910

6. DIRECTORS' EMOLUMENTS

	The Group	
	2002	2001
	HK\$'000	HK\$'000
Fees:		
Executive directors	-	-
Independent non-executive directors	-	-
Other emoluments of directors:		
Salaries, housing benefits, other allowances and benefits in kind	3,708	3,818
Discretionary bonuses	-	3,000
Contributions to retirement scheme	123	128
	<u>3,831</u>	<u>6,946</u>

Notes to the Financial Statements

For the year ended 31 December 2002

6. DIRECTORS' EMOLUMENTS (Continued)

The number of directors whose emoluments fell within the following bands are as follows:

	2002	2001
	No. of directors	No. of directors
Nil – HK\$1,000,000	4	4
HK\$1,000,001 – HK\$1,500,000	1	2
HK\$1,500,001 – HK\$2,000,000	1	–
	<u> </u>	<u> </u>

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

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

7. FIVE HIGHEST PAID EMPLOYEES

The five highest paid individuals included three (2001: three) directors, details of whose remuneration are set out in note 6. The details of the emoluments and designated bands of the remaining two (2001: two) highest paid individuals are set out below:

	The Group	
	2002	2001
	HK\$'000	HK\$'000
Salaries and allowances	2,876	771
Contribution to retirement scheme	12	30
	<u> </u>	<u> </u>
	2,888	801
	<u> </u>	<u> </u>

The number of non-director, highest paid employees fell within the following bands are as follows:

	2002	2001
	No. of Employees	No. of Employees
Nil – HK\$1,000,000	1	2
HK\$2,000,001 – HK\$2,500,000	1	–
	<u> </u>	<u> </u>

Notes to the Financial Statements

For the year ended 31 December 2002

8. TAXATION

	The Group	
	2002	2001
	HK\$'000	HK\$'000
The charge (credit) comprises:		
Hong Kong Profits Tax <i>(note (i))</i>	4,693	5,413
PRC Income Tax <i>(note (ii))</i>	(1,367)	32
Overseas tax <i>(note (iii))</i>	3,157	–
Deferred taxation <i>(note 23)</i>	997	478
	7,480	5,923
Share of associates' taxation	1,698	912
	9,178	6,835

Notes:

- (i) Hong Kong Profits Tax has been provided at the rate of 16% (2001: 16%) on the estimated assessable profits arising in Hong Kong for the year.
- (ii) PRC foreign enterprise income tax has been provided at the preferential income tax of 15% in the Shenzhen Special Economic Zone on the estimated assessable profits of the Company's subsidiary operating in the Shenzhen, PRC.
- (iii) Provisions for the taxation of profits of subsidiaries operating overseas have been calculated on the estimated assessable profit for the year at the rates applicable in the respective jurisdictions and based on prevailing legislation, interpretations and practices in respect thereof.

9. NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders dealt with in the financial statements of the Company for the year was approximately HK\$20,851,000 including approximately HK\$19,488,000 dividends from subsidiaries (2001: HK\$15,645,000 including HK\$15,600,000 dividends from subsidiaries).

The Group's share of profits accumulated by the associated companies amounted to approximately HK\$3,222,000 (2001: accumulated loss HK\$302,000).

Notes to the Financial Statements

For the year ended 31 December 2002

10. DIVIDENDS

	2002 HK\$'000	2001 HK\$'000
Interim dividend in respect of 2002 of HK2 cents (2001: HK2 cents) per share	5,608	4,800
Final proposed dividend of HK6 cents (2001: HK5 cents) per share (note)	16,878	13,880
	22,486	18,680

Note: A final dividend in respect of 2002 of HK6 cents (2001: HK5 cents) per share amounting to approximately HK\$16,878,000 (2001: HK\$13,880,000) has been proposed by the directors after the balance sheet date. The proposed final dividend is not accounted for until it has been approved at the annual general meeting.

11. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share are based on the net profit from ordinary activities attributable to shareholders for the year of approximately HK\$64,032,000 (2001: HK\$62,527,000).

The basic earnings per share is based on the weighted average number of 270,592,289 shares (2001: 240,061,486 shares) in issue during the year. The diluted earnings per share is based on 273,995,969 (2001: Nil) ordinary shares which is the weighted average number of ordinary shares in issue during the year plus the weighted average of 3,403,680 (2001: Nil) ordinary shares deemed to be issued at no consideration if all outstanding share options had been exercised.

12. RETIREMENT SCHEMES

The Group has two defined contribution retirement schemes (the "Retirement Schemes") for its Hong Kong based employees maintained and operated by two independent fund managers and joined the Mandatory Provident Fund Scheme ("MPF Scheme") established under the Mandatory Provident Fund Ordinances in December 2000. The assets of the Retirement Schemes and the MPF Scheme are held separately from those of the Group in funds under the control of independent trustees.

Under the rules of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rates specified in the rules. The only obligation of the Group with respect of MPF Scheme is to make the required contributions under the scheme. No forfeited contribution is available to reduce the contribution payable in the future years.

Notes to the Financial Statements

For the year ended 31 December 2002

12. RETIREMENT SCHEMES (Continued)

The US subsidiary, Drew Pearson Marketing, Inc. ("DPM"), has a defined contribution plan ("Plan") covering substantially all the US employees. The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 of the US. The Plan custodian is an insurance company and the Plan trustees are two members of management. The eligible US employees may elect to allocate a certain percentage of their compensation to the Plan. DPM has the option to contribute funds to the Plan. Upon termination of service, a US employee may elect to receive or defer a lump-sum amount equal to the value of his account.

The employees of the Group in the PRC are members of state-managed retirement benefits scheme operated by the relevant government. The Group is required to contribute certain percentage of payroll costs to the scheme to fund the benefits. The only obligation of the Group with respect to the scheme is to make the specified contributions.

The retirement benefits scheme contribution in respect of the Retirement Schemes and the MPF Scheme charged to the income statement represent contributions payable to the funds by the Group at rates specified in the rules of the schemes.

As at 31 December 2002, the Group has no significant obligations for long service payments to its employees pursuant to the requirements under the Employment Ordinance, Chapter 57 of the Laws of Hong Kong.

Details of retirement schemes contributions for the Group's employees, net of forfeited contributions, which have been dealt with in the income statement of the Group are as follows:

	2002	2001
	HK\$'000	HK\$'000
Gross retirement schemes contributions	802	556
Less: Forfeited contributions for the year	(124)	–
Net retirement schemes contributions	678	556

At the balance sheet date, the Group had no significant forfeited contributions available to reduce the contributions payable by the Group in the future years.

Notes to the Financial Statements

For the year ended 31 December 2002

13. PROPERTY, PLANT AND EQUIPMENT

The Group	Furniture and equipment <i>HK\$'000</i>	Leasehold improvement <i>HK\$'000</i>	Plant and machinery <i>HK\$'000</i>	Construction in progress <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost						
At beginning of year	16,136	20,721	61,974	13,384	1,131	113,346
Additions	1,249	933	24,960	1,542	676	29,360
Acquisition of subsidiaries (note 29)	2,218	619	8,105	-	-	10,942
Transfer	-	-	13,384	(13,384)	-	-
Disposals	(8)	-	-	-	-	(8)
At balance sheet date	19,595	22,273	108,423	1,542	1,807	153,640
Accumulated depreciation						
At beginning of year	6,854	3,688	17,885	-	661	29,088
Charge for the year	3,429	2,201	8,907	-	140	14,677
Acquisition of subsidiaries (note 29)	1,621	481	3,860	-	-	5,962
Eliminated on disposals	(3)	-	-	-	-	(3)
At balance sheet date	11,901	6,370	30,652	-	801	49,724
Net book value						
At balance sheet date	7,694	15,903	77,771	1,542	1,006	103,916
At beginning of year	9,282	17,033	44,089	13,384	470	84,258

The net book value of the Group's property, plant and equipment includes an amount of approximately HK\$673,000 (2001: Nil) in respect of assets held under finance leases.

Notes to the Financial Statements

For the year ended 31 December 2002

14. INTEREST IN SUBSIDIARIES

	The Company	
	2002	2001
	HK\$'000	HK\$'000
Unlisted shares, at cost	99,631	99,631
Due from subsidiaries (<i>note (i)</i>)	95,418	55,723
	<u>195,049</u>	<u>155,354</u>

Notes:

- (i) The amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayments.
- (ii) In April 2002, the Group acquired 42.86% and 33.33% equity interest in Drew Pearson Marketing, Inc. and Drew Pearson International, Inc. respectively from the vendors pursuant to an agreement dated 12 March 2002 at a total consideration of approximately HK\$25,625,000, comprising consideration shares of HK\$22,946,000 and cash consideration of HK\$2,679,000. As at 31 December 2002, total cash consideration of HK\$1,899,000 was paid.

The acquired subsidiaries contributed combined profit after tax of approximately HK\$4,523,000 to the Group for the period since acquisition. The net asset value of the acquired subsidiaries as at 31 December 2002 was approximately HK\$49,972,000.

- (iii) Particulars of the principal subsidiaries are set out in note 35 to the financial statements.

15. INTEREST IN ASSOCIATES

	The Group	
	2002	2001
	HK\$'000	HK\$'000
Share of net assets other than goodwill	-	14,793
Goodwill	-	4,849
	<u>-</u>	<u>19,642</u>

Notes to the Financial Statements

For the year ended 31 December 2002

16. GOODWILL

	<i>HK\$'000</i>
Acquisition of subsidiaries during the year	10,199
Amortisation	(891)
	<u>9,308</u>
Closing carrying value	<u>9,308</u>
At 31 December 2002	
Cost	10,199
Accumulated amortisation	(891)
	<u>9,308</u>
Closing carrying value	<u>9,308</u>

Goodwill arising from acquisition of Drew Pearson Marketing, Inc. and Drew Pearson International, Inc. is amortised over 8 years on a straight-line basis.

17. OTHER NON-CURRENT FINANCIAL ASSETS

	The Group	
	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
At fair value		
Investment in trust fund, unlisted	<u>7,750</u>	<u>–</u>

18. INVENTORIES

	The Group	
	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Raw materials	22,380	23,699
Work-in-progress	6,142	690
Finished goods	25,145	1,904
	<u>53,667</u>	<u>26,293</u>

Notes to the Financial Statements

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19. TRADE AND OTHER RECEIVABLES

	The Group	
	2002	2001
	HK\$'000	HK\$'000
Trade receivables		
From associates	–	15,350
From third parties	72,399	42,498
	72,399	57,848
Other receivables		
Deposits, prepayments and other debtors	2,885	1,888
	75,284	59,736

The Group maintains a credit policy with its customers with due dates of payments terms mostly falling within the range from 60 days to 90 days depends on trading relationship. Credit evaluations of customers are performed from time to time to minimize any credit risk associated with receivables. In addition, upfront cash payments from new customers are sometimes required. The ageing analysis of the trade receivables as at the balance sheet date is as follows:

	The Group	
	2002	2001
	HK\$'000	HK\$'000
0 – 30 days	27,379	30,332
31 – 60 days	32,919	10,639
61 – 90 days	6,221	4,570
Over 90 days	5,880	12,307
	72,399	57,848

20. TRADE AND OTHER PAYABLES

	The Group	
	2002	2001
	HK\$'000	HK\$'000
Trade payables		
	21,284	32,310
Other payables		
Accrued charges and other creditors	28,185	20,820
	49,469	53,130

Notes to the Financial Statements

For the year ended 31 December 2002

20. TRADE AND OTHER PAYABLES (Continued)

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

	The Group	
	2002	2001
	HK\$'000	HK\$'000
0 – 30 days	10,103	12,586
31 – 60 days	8,176	12,037
61 – 90 days	2,757	5,558
Over 90 days	248	2,129
	21,284	32,310

21. INTEREST-BEARING BORROWINGS

Obligations under finance leases:

	Minimum		Present value	
	lease payments		of minimum	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Amount payable:				
Within one year	368	–	341	–
In the second to fifth years inclusive	310	–	299	–
	678	–	640	–
Future finance charges	(38)	–	–	–
Present value of lease obligations	640	–	640	–

Note: All assets of a subsidiary in the U.S.A. are pledged as security for general banking facilities of approximately HK\$62,400,000. As at 31 December 2002, the loan facilities were not utilised. The gross assets of the subsidiary as at 31 December 2002 were approximately HK\$95,682,000.

22. POST-EMPLOYMENT BENEFITS

Post-employment benefits represent the provision for the long services payment to the employees.

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23. DEFERRED TAXATION

The movement for the year in the Group's net deferred tax position was as follows:

	The Group	
	2002	2001
	HK\$'000	HK\$'000
At 1 January	4,913	4,435
Acquisition of subsidiaries (note 29)	(2,972)	–
Charge for the year (note 8)	997	478
	<u>2,938</u>	<u>4,913</u>
At 31 December	<u>2,938</u>	<u>4,913</u>

At the balance sheet date, the major components of the deferred taxation asset and liability provided were as follows:

	The Group	
	2002	2001
	HK\$'000	HK\$'000
Excess of tax allowances over depreciation	6,080	4,913
Other timing difference	(3,142)	–
	<u>2,938</u>	<u>4,913</u>

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

24. SHARE CAPITAL

	Number of shares of HK\$0.10 each	HK\$'000
Authorised:		
At 31 December 2002 and 2001	<u>1,000,000,000</u>	<u>100,000</u>
Issued and fully paid:		
At 1 January 2001	240,000,000	24,000
Issue of shares for acquisition of interest in associates (a)	<u>4,488,461</u>	<u>449</u>
At 31 December 2001	244,488,461	24,449
Issue of shares by placing (b)	20,000,000	2,000
Issue of shares for acquisition of subsidiaries (c)	13,112,070	1,311
Issue of shares pursuant to share option scheme (d)	<u>3,698,000</u>	<u>369</u>
At 31 December 2002	<u>281,298,531</u>	<u>28,129</u>

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24. SHARE CAPITAL (Continued)

The following is a summary of the movements in the issued share capital of the Company during the two years ended 31 December 2002:

- (a) In December 2001, 4,488,461 shares of HK\$0.10 each were issued at HK\$1.4425 per share as consideration for acquisition of additional interest in associates.
- (b) In March 2002, 20,000,000 shares of HK\$0.10 each were issued at a price of HK\$1.75 per share for cash pursuant to the agreements dated 12 March 2002 for the placing and subscription of shares in the Company entered into between the Company, Successful Years International Co., Ltd., a major shareholder of the Company, and an independent investor. The excess over the par value of the shares issued was credited to the share premium accounts.
- (c) In March 2002, 13,112,070 shares of HK\$0.10 each were issued at HK\$1.75 per share as part of the consideration for acquisition of two subsidiaries, namely Drew Pearson Marketing, Inc. and Drew Pearson International, Inc..
- (d) Share options exercised during 2002 results in 3,698,000 shares being issued at HK\$1.228 each, yielding the following proceeds after transaction costs of approximately HK\$4,540,000.

These newly issued shares rank *pari passu* with the existing shares.

25. SHARE OPTIONS

Pursuant to the share option scheme of the Company adopted on 16 November 2000 (the "Old Share Option Scheme"), the Board of Directors has approved on 11 June 2001 to grant options to certain full time employees and to a Director to subscribe for respectively 8,649,000 and 2,000,000 shares of the Company, of which none of them had been exercised or cancelled as at 1 January 2002. The subscription price per share is HK\$1.228, which was approximately 80% of the average closing prices of the shares of the five trading days preceding the date of offer of the option. The option period is eight years from 11 June 2001 and exercisable from 11 June 2002. There are additional restrictions imposed on the varying proportion of options exercisable in the initial years during the option period.

During the period under review, appropriate portion of the granted share options under the Old Share Option Scheme were exercised by the full time employees and the Director to subscribe for a total number of respectively 3,098,000 and 600,000 shares of the Company. As at 31 December 2002, there were 5,551,000 and 1,400,000 share options under the Old Share Option Scheme outstanding for the full time employees and the Director respectively.

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25. SHARE OPTIONS (Continued)

On 23 May 2002, the Old Share Option Scheme was terminated and a new share option scheme ("New Share Option Scheme") was adopted to comply with the new amendments of Chapter 17 of the Rules ("Listing Rules") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") effected on 1 September 2001 regarding share option schemes of a listed company. As a result, the Company may no longer grant more options under the Old Share Option Scheme. However, all options granted prior to the termination of the Old Share Option Scheme will remain in full force and effect.

Under the new Share Option Scheme, the Directors may grant share options to selected participants within ten years from 23 May 2002. The subscription price shall be the higher of (i) the nominal value of the share; (ii) the closing share price as stated in the daily quotation sheets issued by the Stock Exchange; and (iii) the average closing share price as stated in the daily quotation sheets issued by the Stock Exchange for the five business days immediately preceding the offer date. The maximum number of securities available for issue under the New Share Option Scheme is 10% of the issued share capital of the Company as at the date of approval of the New Share Option Scheme. Unless approved by shareholders in general meeting, no grantees shall be granted share options if the total number of shares issued and to be issued upon exercise of the share options granted to such grantees in any twelve months' period up to the date of last grant would exceed 1% of the issued share capital of the Company from time to time. An option may be exercised in accordance with the terms of the New Share Option Scheme at a varying proportion at any time during a period notified by the Board of Directors to each grantee in the form of an option certificate. A non-refundable remittance of HK\$1 by way of consideration of grant of an offer is required to be paid by each grantee upon acceptance of the share options. Further details of the New Share Option Scheme have been disclosed in the circular of the Company dated 29 April 2002.

Pursuant to the New Share Option Scheme, the Board of Directors has approved on 3 July 2002 to grant options to certain (i) customers and suppliers, and (ii) continuous contract employees of the Group to subscribe for respectively 3,950,000 and 12,035,000 shares of the Company, which represents respectively 1.40% and 4.27% of the existing issued share capital of the Company at the date of this report if the share options are exercised in full. The subscription price per share is HK\$2.7, which is the higher of the closing price of the shares at the day of offer of the option and the average closing prices of the shares of the five trading days preceding the date of offer of the option. The option period is eight years from 3 July 2002 and exercisable from 3 July 2003.

As at 31 December 2002, there were 6,951,000 options outstanding under the Old Share Option Scheme and 15,985,000 options has been granted and outstanding under the New Share Option Scheme.

Notes to the Financial Statements

For the year ended 31 December 2002

26. RESERVES

	Share premium <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Accumulated profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
The Group				
At 1 January 2001	23,200	25,878	78,096	127,174
Issue of shares	6,025	–	–	6,025
Profits for the year	–	–	62,527	62,527
2000 final dividend paid	–	–	(10,800)	(10,800)
2001 interim dividend paid (<i>note 10</i>)	–	–	(4,800)	(4,800)
	<u>29,225</u>	<u>25,878</u>	<u>125,023</u>	<u>180,126</u>
At 31 December 2001	<u>29,225</u>	<u>25,878</u>	<u>125,023</u>	<u>180,126</u>
Representing:				
2001 proposed final dividend (<i>note 10</i>)	–	–	13,880	13,880
Reserves	<u>29,225</u>	<u>25,878</u>	<u>111,143</u>	<u>166,246</u>
	<u>29,225</u>	<u>25,878</u>	<u>125,023</u>	<u>180,126</u>
At 1 January 2002	29,225	25,878	125,023	180,126
Issue of shares	54,635	–	–	54,635
Issue of shares on exercise of share option	4,171	–	–	4,171
Share issue expenses	(312)	–	–	(312)
Profits for the year	–	–	64,032	64,032
2001 final dividend paid (<i>note 10</i>)	–	–	(13,880)	(13,880)
2002 interim dividend paid (<i>note 10</i>)	–	–	(5,608)	(5,608)
	<u>87,719</u>	<u>25,878</u>	<u>169,567</u>	<u>283,164</u>
At 31 December 2002	<u>87,719</u>	<u>25,878</u>	<u>169,567</u>	<u>283,164</u>
Representing:				
2002 proposed final dividend (<i>note 10</i>)	–	–	16,878	16,878
Reserves	<u>87,719</u>	<u>25,878</u>	<u>152,689</u>	<u>266,286</u>
	<u>87,719</u>	<u>25,878</u>	<u>169,567</u>	<u>283,164</u>

Notes to the Financial Statements

For the year ended 31 December 2002

26. RESERVES (Continued)

	Share premium <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Accumulated profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
The Company				
At 1 January 2001	23,200	99,431	37	122,668
Issue of shares	6,025	–	–	6,025
Profits for the year	–	–	15,645	15,645
2000 final dividend paid	–	–	(10,800)	(10,800)
2001 interim dividend paid <i>(note 10)</i>	–	–	(4,800)	(4,800)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2001	29,225	99,431	82	128,738
Issue of shares	54,323	–	–	54,323
Issue of shares on exercise of share options	4,171	–	–	4,171
Profits for the year	–	–	20,851	20,851
2001 final dividend paid <i>(note 10)</i>	–	–	(13,880)	(13,880)
2002 interim dividend paid <i>(note 10)</i>	–	–	(5,608)	(5,608)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2002	<u>87,719</u>	<u>99,431</u>	<u>1,445</u>	<u>188,595</u>

The contributed surplus of the Group represents the difference between the nominal value of the share capital of the subsidiaries acquired pursuant to the Group reorganisation over the nominal value of the share capital of the Company issued in exchange therefor.

The contributed surplus of the Company represents the difference between the then combined net assets value of the subsidiaries acquired pursuant to the same reorganisation over the nominal value of the share capital of the Company issued in exchange therefor.

Under the Companies Act 1981 of Bermuda, contributed surplus is also available for distribution to shareholders. However, a company cannot declare or pay a dividend, or make a distribution out of contributed surplus, if:

- (a) the company is, or would after the payment be, unable to pay its liabilities as they become due; or
- (b) the realisable value of the company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

The Company's reserves available for distribution represent share premium, the contributed surplus and accumulated profits. At the balance sheet date, the Company had approximately HK\$188,595,000 reserves available for distribution to shareholders.

Notes to the Financial Statements

For the year ended 31 December 2002

27. CASH GENERATED FROM OPERATION

	The Group	
	2002 HK\$'000	2001 HK\$'000
Profit from ordinary activities before taxation	73,704	69,362
Interest income	(1,112)	(1,563)
Interest expenses	336	35
Amortisation of goodwill	1,087	629
Gain/(Loss) on disposal of property, plant and equipment	5	(1,226)
Depreciation	14,677	11,219
Provision for post-employment benefits	1,705	–
Unrealised profits relating to an associate	(1,000)	1,391
Share of results of associates	(5,222)	(1,035)
Changes in working capital:		
Inventories	(4,167)	(4,202)
Trade and other receivables	50,398	(20,187)
Trade and other payables	(54,889)	(6,201)
	<hr/>	<hr/>
Cash generated from operation	75,522	48,222

28. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Share capital and share premium HK\$	Obligations under finance leases HK\$	Minority interests HK\$
At 1 January 2001	47,200	223	–
Issue of shares	6,474	–	–
Repayment of obligations under finance leases	–	(223)	–
	<hr/>	<hr/>	<hr/>
At 31 December 2001	53,674	–	–
Proceeds from placing of shares	35,000	–	–
Proceed from share option exercised	4,540	–	–
Acquisition of subsidiaries	22,946	368	4,945
Share issue expenses	(312)	–	–
Inception of finance leases	–	434	–
Repayment of obligations under finance leases	–	(162)	–
Minority interests' share of profits	–	–	494
Repayment from minority interest	–	–	664
	<hr/>	<hr/>	<hr/>
At 31 December 2002	115,848	640	6,103

Notes to the Financial Statements

For the year ended 31 December 2002

29. ACQUISITION OF SUBSIDIARIES

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Net assets acquired:		
Property, plant and equipment (<i>note 13</i>)	4,980	–
Inventories	23,208	–
Trade and other receivable	65,946	–
Bank balances and cash	3,884	–
Obligations under finance leases	(368)	–
Trade and other payable	(50,449)	–
Provision for taxation	(5,831)	–
Deferred taxation (<i>note 23</i>)	2,972	–
	<u>44,342</u>	–
<i>Less:</i> Minority interest	<u>(4,945)</u>	–
	39,397	–
Goodwill on acquisition (<i>note 16</i>)	<u>10,199</u>	–
	<u><u>49,596</u></u>	–
Satisfied by:		
Cash consideration	2,679	–
Issuance of shares	22,946	–
Interest in associates	<u>23,971</u>	–
	<u><u>49,596</u></u>	–
Net cash inflow arising on acquisition:		
Total cash consideration	(2,679)	–
Consideration payable included in other payable and accrued charges	<u>780</u>	–
	(1,899)	–
Cash consideration paid	(1,899)	–
Bank balance and cash acquired	<u>3,884</u>	–
	<u><u>1,985</u></u>	–

30. MAJOR NON-CASH TRANSACTIONS

During the year, the Group increase its equity interest in two associates to become its subsidiaries, part of the consideration was satisfied by the issue and allotment of ordinary shares of the Company (*note 24(c)*).

Notes to the Financial Statements

For the year ended 31 December 2002

31. OPERATING LEASES COMMITMENTS

At the balance sheet date, the Group had total future minimum lease payments under non-cancellable operating leases which are payable as follows:

	2002 HK\$'000	2001 <i>HK\$'000</i>
Within one year	5,312	2,294
In the second to fifth years inclusive	3,054	1,728
Over five years	29,556	29,988
	37,922	34,010

32. CAPITAL COMMITMENTS

At 31 December 2002, the Group had capital expenditure commitments in respect of purchase of property, plant and equipment as follows:

	The Group	
	2002 HK\$'000	2001 <i>HK\$'000</i>
Contracted but not provided for	184	2,500
Authorised but not contracted for	30,000	-

33. CONTINGENT LIABILITIES

At 31 December 2002, the Company had executed certain unlimited guarantees and corporate guarantees amounting to approximately HK\$46,000,000 (2001: HK\$31,000,000) to secure the general banking facilities granted to its subsidiaries. No facilities utilised by the subsidiaries as at 31 December 2002.

34. RELATED PARTY TRANSACTIONS

The Group had certain transactions with related parties and are as follows:

	The Group	
	2002 HK\$'000	2001 <i>HK\$'000</i>
Rental paid in respect of land and building to a director	175	300
Rental paid in respect of land and building to a company controlled by a director	1,320	1,320
Sale of goods to associates	26,824	103,891

Notes to the Financial Statements

For the year ended 31 December 2002

35. PRINCIPAL SUBSIDIARIES

Other than Rhys Trading Ltd., which is held directly by the Company, all subsidiaries are held by the Company indirectly.

Particulars of the Company's principal subsidiaries are as follows:

Name of company	Place of incorporation/ registration	Principal place of operation	Nominal value of issued ordinary share capital/ registered capital	Interest held	Principal activities
Rhys Trading Ltd.	The British Virgin Islands	Hong Kong	US\$10,000	100%	Investment holding
Mainland Sewing Headwear Manufacturing Limited	Hong Kong	Hong Kong	HK\$10,000	100%	Manufacture and sale of headwear
Mainland Sewing Mills (Shenzhen) Co., Ltd.	The People's Republic of China	The People's Republic of China	HK\$26,000,000	100%	Manufacture and sale of headwear
Summerville Trading Ltd.	The British Virgin Islands	Hong Kong	US\$10,000	100%	Manufacture and sale of headwear
Big One Holdings Ltd.	The British Virgin Islands	Hong Kong	US\$10,000	100%	Investment holding
Great Champion International Co., Ltd.	The British Virgin Islands	Hong Kong	US\$10,000	100%	Investment holding
Manga Investment Ltd.	Mauritius	Hong Kong	US\$1	100%	Investment holding
Top Super Investment Ltd.	The British Virgin Islands	Hong Kong	US\$10,000	100%	Investment holding
United Crown International Macao Commercial Offshore Ltd.	Macau	Macau	MOP\$100,000	100%	Manufacture and sale of headwear
Drew Pearson Marketing, Inc.	United States of America	United States of America	US\$875	85.72%	Trading of licensed headwear
Drew Pearson International, Inc.	United States of America	United States of America	US\$833	80%	Trading of licensed headwear