

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2002

1. GENERAL

The Company is a public limited company incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The Company is an investment holding company. The activities of its principal subsidiaries are set out in note 14.

2. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE

In the current year, the Group has adopted, for the first time, a number of new and revised Statements of Standard Accounting Practice (“SSAP(s)”) issued by the Hong Kong Society of Accountants. The adoption of these new and revised SSAPs has resulted in a change in the format of presentation of the cash flow statement and the inclusion of the statement of changes in equity but has had no material effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment has been required. Further details of these new and revised 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 period, 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 years.

Cash flow statements

Under SSAP 15 (Revised), cash flows are classified under three headings – operating, investing and financing, rather than the previous five headings. Interest income, interest expenses and dividends paid and received, which were previously presented under a separate heading, are classified as investing, operating and financing cash flows as appropriate. Cash flows arising from taxes on income are classified as operating activities, unless they can be separately identified with investing or financing activities. Cash flows of overseas subsidiaries have been re-translated at the rates prevailing at the dates of the cash flows rather than the rate of exchange ruling on the balance sheet date.

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 *(Continued)*

FOR THE YEAR ENDED 31ST DECEMBER, 2002

3. SIGNIFICANT ACCOUNTING POLICIES

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

Basis of consolidation

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

The results of subsidiaries, associate and jointly controlled entity 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.

All significant inter-company transactions and balances within the Group are eliminated on consolidation.

Negative goodwill

Negative goodwill represents the excess of the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition over the cost of acquisition.

Negative goodwill is presented as deduction from assets and will be released to income based on an analysis of the circumstances from which the balance resulted.

To the extent that the negative goodwill is attributable to losses or expenses anticipated at the date of acquisition, it is released to income in the period in which those losses or expenses arise. The remaining negative goodwill is recognised as income on a straight-line basis over the remaining average useful life of the identifiable acquired depreciable assets. To the extent that such negative goodwill exceeds the aggregate fair value of the acquired identifiable non-monetary assets, it is recognised in income immediately.

Investments in subsidiaries

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

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of an associate at the date of acquisition.

Goodwill is capitalised and amortised on a straight-line basis over its useful economic life. Goodwill arising on the acquisition of an associate is included within the carrying amount of the associate.

Interests in associates

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the year. In the consolidated balance sheet, interests in associates are stated at the Group's share of the net assets of the associates plus the goodwill paid on acquisition, less any identified impairment loss.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

FOR THE YEAR ENDED 31ST DECEMBER, 2002

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Joint ventures

Joint venture arrangements which involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities.

The Group's interests in jointly controlled entities are included in the consolidated balance sheet at the Group's share of the net assets of the jointly controlled entities less any identified impairment loss. The Group's share of post-acquisition results of the jointly controlled entities is included in the consolidated income statement.

Investments in securities

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

At subsequent reporting dates, debt securities that the Group has the expressed intention and ability to hold to maturity (held-to-maturity debt securities) are measured at amortised cost, less any impairment loss recognised to reflect irrecoverable amounts. The annual amortisation of any discount or premium on the acquisition of a held-to-maturity debt security is aggregated with other investment income receivable over the term of the instrument so that the revenue recognised in each period represents a constant yield on the investment.

Investments other than held-to-maturity debt securities are classified as investment securities or other investments.

Investment securities, which are securities held for an identified long term strategic purpose, are measured at subsequent reporting dates at cost, as reduced by any impairment loss that is other than temporary.

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

Trademarks

Trademarks are stated at cost less amortisation and accumulated impairment losses. Amortisation is calculated to write off the cost of trademarks over a period of ten years, using the straight line method.

Revenue recognition

Sales of goods are recognised when goods are delivered and title has passed while service revenue is recognised when services are rendered.

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

Rental income, including rental invoiced in advance from properties let under operating leases, is recognised on a straight line basis over the period of the relevant leases.

Dividend income from investments is recognised when the shareholder's right to receive payment has been established.

Sales of investments in securities are recognised on a trade date basis.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

FOR THE YEAR ENDED 31ST DECEMBER, 2002

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)***Investment properties**

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

Investment properties are stated at their open market value based on independent professional valuations at each balance sheet date. Any surplus or deficit arising on the revaluation of investment properties is credited or charged to the investment property revaluation reserve unless the balance on this reserve is insufficient to cover a deficit, in which case the excess of the deficit over the balance on the investment property revaluation reserve is charged to the income statement.

On disposal of investment properties, the balance on the investment property revaluation reserve attributable to that property disposed of is credited in the income statement.

No depreciation is provided on investment properties except where the unexpired term of the relevant lease is 20 years or less.

Property, plant and equipment

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

Depreciation and amortisation are provided to write off the cost or valuation 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 term of the lease
Buildings	2% – 18%
Leasehold improvement	Over the period of the lease
Furniture and fixtures	20%
Motor vehicles	20%
Plant and machinery	6% – 23%

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.

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 those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is 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.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

FOR THE YEAR ENDED 31ST DECEMBER, 2002

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

Taxation

The charge for taxation is based on the results for the year as adjusted for items that 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 an asset will crystallise in the foreseeable future.

Foreign currencies

Transactions in currencies other than Hong Kong dollars are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in such currencies are retranslated at the rates prevailing on the balance sheet date. Profits and losses arising on exchange are included in net profit or loss for the period.

On consolidation, the assets and liabilities of the Group's overseas operations 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.

Operating leases

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

Retirement benefits costs

Payments to state-managed retirement benefits schemes/Mandatory Provident Fund Scheme are charged as an expense as they fall due.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

FOR THE YEAR ENDED 31ST DECEMBER, 2002

4. TURNOVER

Turnover represents the aggregate of the net amounts received and receivable from third parties and is summarised as follows:

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Sales of goods	346,207	282,338
Interest income from investments	6,013	16,392
Sale proceeds from disposal of other investments	1,627	10,075
Rental income and property management	3,276	3,535
	<hr/> 357,123 <hr/>	<hr/> 312,340 <hr/>

5. OTHER OPERATING EXPENSES

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Loss on disposal of property, plant and equipment	13,594	147
Allowance for short-term loans receivable	5,000	–
Deficit arising on revaluation of investment properties	4,216	3,000
Impairment loss on investment securities	1,431	820
Impairment loss on trademark	374	–
Unrealised holding loss on other investments	–	1,030
	<hr/> 24,615 <hr/>	<hr/> 4,997 <hr/>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31ST DECEMBER, 2002

6. LOSS FROM OPERATIONS

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Loss from operations has been arrived at after charging:		
Staff costs		
– Directors' emoluments (<i>note 7</i>)	1,917	220
– Salaries and allowances	30,720	34,756
– Retirement benefits scheme contributions	6,388	8,854
	39,025	43,830
Amortisation of trademarks (included in administrative expenses)	374	373
Auditors' remuneration		
– current year	650	600
– underprovision in a prior year	244	180
Depreciation and amortisation of property, plant and equipment	29,031	25,122
Management fee paid to a subsidiary of a former controlling shareholder	7,500	12,000
and after crediting:		
Property rental income, net of outgoings of HK\$138,000 (2001: HK\$258,000)	4,617	2,811
Interest income, other than from investments	751	2,104
Release of negative goodwill to other operating income	54	–

7. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Directors' fees:		
Executive	1,073	120
Independent non-executive	73	100
	1,146	220
Other emoluments of executive directors:		
Salaries and other benefits	745	–
Retirement benefits schemes contributions	26	–
	771	–
	1,917	220

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31ST DECEMBER, 2002

7. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)

None of the directors has waived any emoluments during the year.

The number of directors whose remuneration falls within the band set out below is as follows:

	No. of directors	
	2002	2001
Nil to HK\$1,000,000	17	11

The five highest paid individuals in the Group included two directors (2001: nil director) of the Company, details of whose remuneration are set out in note 6 above. The remuneration of the remaining three highest paid individuals (2001: five) who are employees of the Group is as follows:

	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Salaries and allowances	427	359
Retirement benefits scheme contributions	6	14
Bonus	–	19
	433	392

8. FINANCE COSTS

	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest on bank borrowings wholly repayable within five years	13,139	14,841
<i>Less:</i> Interest capitalised in construction in progress	–	(503)
	13,139	14,338

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31ST DECEMBER, 2002

9. TAXATION

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
The charge (credit) comprises:		
Hong Kong Profits Tax calculated at 16% of the estimated assessable profit for the year	6	8
Overprovision in prior years	(2)	–
	4	8
PRC enterprise income tax, other than Hong Kong Profits Tax	108	225
Overprovision in prior year	(222)	(1,083)
	(114)	(858)
Share of PRC enterprise income tax of a jointly controlled entity	1,212	1,115
	1,102	265

PRC enterprise income tax is calculated in accordance with the relevant laws and regulations in the PRC.

Details of unrecognised deferred tax assets are set out in note 27.

10. LOSS PER SHARE

The calculation of the basic and diluted loss per share is based on the loss for the year of approximately HK\$36,380,000 (2001: approximately HK\$26,070,000) and on the 1,214,115,987 shares in issue during the year.

The computation of diluted loss per share for the year ended 31st December, 2002 and 2001 has not assumed the exercise of share option because the exercise prices of the outstanding share options were higher than the market prices of the Company's shares during the year.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31ST DECEMBER, 2002

11. INVESTMENT PROPERTIES

HK\$'000

THE GROUP

VALUATION

At 1st January, 2002	62,716
Transfer to property, plant and equipment (<i>note 12</i>)	(8,500)
Deficit arising on revaluation	(4,216)
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At 31st December, 2002	50,000
	<hr/>

The investment properties of the Group were revalued at 31st December, 2002 on an open market value basis by LCH (Asia Pacific) Surveyors Limited, an independent firm of professional property valuers. The deficit arising on the revaluation has been charged to the income statement.

The Group's investment properties are leased out under operating leases.

The carrying value of the investment properties comprises:

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Properties held under medium-term leases in Hong Kong	50,000	54,000
Properties held under medium-term leases in the PRC	–	8,716
	<hr/>	<hr/>
	50,000	62,716
	<hr/>	<hr/>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31ST DECEMBER, 2002

12. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Leasehold improvement	Furniture and fixtures	Motor vehicles	Plant and machinery	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
THE GROUP						
AT COST OR VALUATION						
At 1st January, 2002	152,691	–	88	3,317	390,634	546,730
Additions	1,559	609	576	742	6,354	9,840
Transfer from investment properties (<i>note 11</i>)	8,500	–	–	–	–	8,500
Disposals	(1,053)	–	(88)	(3,317)	(26,023)	(30,481)
At 31st December, 2002	<u>161,697</u>	<u>609</u>	<u>576</u>	<u>742</u>	<u>370,965</u>	<u>534,589</u>
Comprising:						
At cost	153,197	609	576	742	370,965	526,089
At valuation	8,500	–	–	–	–	8,500
	<u>161,697</u>	<u>609</u>	<u>576</u>	<u>742</u>	<u>370,965</u>	<u>534,589</u>
DEPRECIATION, AMORTISATION AND IMPAIRMENT						
At 1st January, 2002	38,539	–	85	2,505	196,452	237,581
Provided for the year	6,990	50	43	184	21,764	29,031
Impairment loss recognised in income statement	–	–	–	–	25,042	25,042
Eliminated on disposals	(113)	–	(85)	(2,652)	(11,235)	(14,085)
At 31st December, 2002	<u>45,416</u>	<u>50</u>	<u>43</u>	<u>37</u>	<u>232,023</u>	<u>277,569</u>
NET BOOK VALUES						
At 31st December, 2002	<u>116,281</u>	<u>559</u>	<u>533</u>	<u>705</u>	<u>138,942</u>	<u>257,020</u>
At 31st December, 2001	<u>114,152</u>	<u>–</u>	<u>3</u>	<u>812</u>	<u>194,182</u>	<u>309,149</u>
THE COMPANY						
COST						
At 1st January, 2002	–	–	88	3,317	–	3,405
Disposals	–	–	(88)	(3,317)	–	(3,405)
At 31st December, 2002	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
DEPRECIATION						
At 1st January, 2002	–	–	85	2,505	–	2,590
Provided for the year	–	–	3	147	–	150
Eliminated on disposals	–	–	(88)	(2,652)	–	(2,740)
At 31st December, 2002	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
NET BOOK VALUES						
At 31st December, 2002	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
At 31st December, 2001	<u>–</u>	<u>–</u>	<u>3</u>	<u>812</u>	<u>–</u>	<u>815</u>

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

FOR THE YEAR ENDED 31ST DECEMBER, 2002

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

During the year, certain of the Group's investment properties were transferred to land and buildings with reference to their valuation estimated by the Company's directors at the date of transfer. No further valuation has been carried out on these properties.

During the year, the directors of the Company have reviewed the carrying value of the Group's plant and machinery with reference to the estimated selling price of these assets. An impairment loss of HK\$25,042,000 has been recognised and charged to the consolidated income statement.

The Group's land and buildings, which are situated in the PRC are held under land use rights for a term of 30 years commencing on 28th December, 1993.

13. NEGATIVE GOODWILL

	THE GROUP <i>HK\$'000</i>
GROSS AMOUNT	
Arising on acquisition of subsidiaries and balance at 31st December, 2002 <i>(note 26)</i>	4,329
RELEASE TO INCOME	
Release in the period and balance at 31st December, 2002	(54)
CARRYING AMOUNT	
At 31st December, 2002	<u>4,275</u>

The negative goodwill is released to income on a straight-line basis over the period of 10 years, the estimated useful life of the major assets acquired.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31ST DECEMBER, 2002

14. INTERESTS IN SUBSIDIARIES/AMOUNTS DUE TO SUBSIDIARIES

	THE COMPANY	
	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Unlisted shares, at cost	98,906	38,906
<i>Less:</i> Impairment losses recognised	(12,819)	(19)
	86,087	38,887
Amounts due from subsidiaries	531,580	322,601
<i>Less:</i> Impairment losses recognised	(189,822)	(166,622)
	341,758	155,979
	427,845	194,866
Amounts due to subsidiaries	(634)	(4,027)

The amounts due from and to subsidiaries are unsecured, interest-free and have no fixed repayment terms. In the opinion of directors, the amounts will not be repayable within one year from the balance sheet date and accordingly, the amounts are shown as non-current.

During the year, the directors of the Company considered that in the light of the recurring operating losses of certain subsidiaries and unfavourable market conditions, the amounts recoverable from its subsidiaries have been reduced to the estimated net realisable value of their identifiable net assets. Accordingly, aggregate impairment losses of approximately HK\$36,000,000 in respect of the Company's interests in subsidiaries and amounts due from subsidiaries have been recognised and charged to the income statement for the year.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31ST DECEMBER, 2002

14. INTERESTS IN SUBSIDIARIES/AMOUNTS DUE TO SUBSIDIARIES (Continued)

Particulars of the Company's principal subsidiaries, at 31st December, 2002 are as follows:

Name of subsidiary	Place of incorporation/ registration	Nominal value of issued and fully paid share capital/ registered capital	Attributable proportion of nominal value of issued capital held by the Company		Principal activity
			Directly	Indirectly	
Citi Merit Limited	British Virgin Islands ("BVI")	US\$100	–	100%	Investment holding
Eastern Prosper Developments Ltd.	BVI	US\$1	100%	–	Securities investment
Equal Link Investments Limited	Hong Kong	HK\$2	–	100%	Investment holding
Grandace Investments Ltd.	BVI	US\$3	100%	–	Investment holding
杭州藍孔雀化學纖維(股份)有限公司 (Hangzhou B.P. Chemical Fibre Co., Ltd.) ("Hangzhou B.P.") *	PRC	US\$27,272,727	–	55%	Manufacture and trading of chemical fibres
Lolliman Finance Limited	Hong Kong	HK\$1,000,000	100%	–	Financial services
Lolliman Property Nominees Limited	Hong Kong	HK\$2	100%	–	Property services
Marvellous Development Limited	Hong Kong	HK\$100	100%	–	Property investment
Success Harbour International Limited	BVI	US\$100	–	80%	Investment holding
Sunstar Management Limited	Hong Kong	HK\$2	100%	–	Provision of management services
Time Profit Investments Limited	Hong Kong	HK\$100	100%	–	Property investment
Treasure Well Associates Limited	BVI	US\$1	100%	–	Investment holding

* This subsidiary is a sino-foreign equity joint venture established for a term of 30 years commencing 28th December, 1993.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31ST DECEMBER, 2002

14. INTERESTS IN SUBSIDIARIES/AMOUNTS DUE TO SUBSIDIARIES (Continued)

The above table only lists those subsidiaries of the Company 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.

All the above subsidiaries, except Eastern Prosper Developments Ltd. which operates principally in Hong Kong, operate in their respective places of incorporation/registration.

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

15. INTEREST IN AN ASSOCIATE

	THE GROUP	
	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Unlisted		
Share of associate's net assets	308,948	–
Goodwill arising on acquisition (<i>Note</i>)	10,985	–
	<hr/>	<hr/>
	319,933	–
	<hr/>	<hr/>

Note: Goodwill arising on acquisition

	<i>HK\$'000</i>
THE GROUP	
COST	
Arising on acquisition and balance at 31st December, 2002	11,564
	<hr/>
AMORTISATION	
Arising on acquisition	434
Provided for the period	145
	<hr/>
At 31st December, 2002	579
	<hr/>
NET BOOK VALUE	
At 31st December, 2002	10,985
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The Group's investment represents a 46.29% indirect equity interest in Xi'an Gaoxin Hospital Co., Ltd. ("Gaoxin Hospital") which is a sino-foreign equity joint venture established in the PRC established on 29th September, 2002 for a term of 20 years. Gaoxin Hospital is principally engaged in the provision of hospital services including medical consultation, health care and related consultation services in the PRC.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31ST DECEMBER, 2002

15. INTEREST IN AN ASSOCIATE (Continued)

The followings details have been extracted from the unaudited management accounts of Gaoxin Hospital.

Income statement

For the period from 13th November, 2002 (date of acquisition) to 31st December, 2002

	<i>HK\$'000</i>
Turnover	20,388
Loss before taxation	(629)
Taxation	–
Loss for the period	(629)
Group's share of loss for the year since acquisition	(291)

Net assets

At 31st December, 2002

	<i>HK\$'000</i>
Non-current assets	601,094
Current assets	256,230
Current liabilities	(146,961)
Non-current liabilities	(42,944)
Net assets	667,419
Net assets attributable to the Group	308,948

16. INTEREST IN A JOINTLY CONTROLLED ENTITY

	THE GROUP	
	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Share of net assets of a jointly controlled entity	47,267	48,061

The Group's investment represents a 30% indirect equity interest in 上海虹橋友誼商城有限公司 Shanghai Hong Qiao Friendship Shopping Center Co., Ltd. ("Shanghai Hong Qiao") which is established in the PRC for a term of 20 years commencing on 30th March, 1993. Shanghai Hong Qiao is engaged in the business of retail sales of high end consumer goods and is currently operating two shopping centres in Shanghai and Suzhou, the PRC.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

FOR THE YEAR ENDED 31ST DECEMBER, 2002

17. TRADEMARKS*HK\$'000***THE GROUP****COST**

At 1st January, 2002 and 31st December, 2002

3,738

AMORTISATION

At 1st January, 2002

2,990

Provided for the year

374

Impairment loss recognised for the year

374

At 31st December, 2002

3,738

NET BOOK VALUE**At 31st December, 2002****–**

At 31st December, 2001

748

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31ST DECEMBER, 2002

18. INVESTMENTS IN SECURITIES**THE GROUP**

	Held-to-maturity security		Investment securities		Other investments		Total	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Equity securities								
Listed	-	-	-	-	-	1,735	-	1,735
Unlisted	-	-	-	1,431	-	-	-	1,431
	-	-	-	1,431	-	1,735	-	3,166
Debt securities								
- Unlisted	568	1,036	-	-	-	-	568	1,036
Total								
- Listed in Hong Kong	-	-	-	-	-	1,735	-	1,735
- Unlisted	568	1,036	-	1,431	-	-	568	2,467
	568	1,036	-	1,431	-	1,735	568	4,202
Market value of listed securities	-	-	-	-	-	1,735	-	1,735
Carrying amount analysed for reporting purposes as:								
Current	-	-	-	-	-	1,735	-	1,735
Non-current	568	1,036	-	1,431	-	-	568	2,467
	568	1,036	-	1,431	-	1,735	568	4,202

The Group's unlisted investment securities represented a 33 $\frac{1}{3}$ % interest in the capital of 南杭漿粕絲綢廠 (Nanhang Pulp Filaments Factory), which is a factory engaged in the manufacture of chemical fibre in the PRC. In the opinion of the directors, the Group was not in a position to exercise significant influence over the financial and operating policies of the factory and, accordingly, this investment had not been accounted for as an associate.

During the year, the directors of the Company reviewed the carrying amount of investment securities in light of current economic conditions. An impairment loss on the full amount carried forward of HK\$1,431,000 has been recognised and charged to the consolidated income statement for the year.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31ST DECEMBER, 2002

19. INVENTORIES

	THE GROUP	
	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Raw materials	27,093	27,920
Work in progress	7,936	8,350
Finished goods	12,958	21,975
	<hr/> 47,987 <hr/>	<hr/> 58,245 <hr/>

Included above are finished goods of approximately HK\$6.4 million (2001: HK\$1.6 million) which were carried at net realisable value.

20. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

The Group allows an average credit period of 60 days to its trade customers. The following is an aged analysis of trade receivables at the balance sheet date:

	THE GROUP	
	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade receivables		
0 – 60 days	14,072	11,983
61 – 90 days	1,716	166
Over 90 days	138	632
	<hr/> 15,926 <hr/>	<hr/> 12,781 <hr/>
Other receivables and prepayments	13,200	4,414
	<hr/> 29,126 <hr/>	<hr/> 17,195 <hr/>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31ST DECEMBER, 2002

21. TRADE AND OTHER PAYABLES

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

	THE GROUP	
	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade payables		
0 – 60 days	16,716	13,072
61 – 90 days	177	2
Over 90 days	344	439
	<hr/>	<hr/>
	17,237	13,513
Other payables	50,907	52,217
Value added tax payables	306	1,282
	<hr/>	<hr/>
	68,450	67,012
	<hr/>	<hr/>

22. BANK BORROWINGS

	THE GROUP	
	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Bank loans		
	187,495	194,769
	<hr/>	<hr/>
Secured	170,673	166,934
Unsecured	16,822	27,835
	<hr/>	<hr/>
	187,495	194,769
	<hr/>	<hr/>

	THE GROUP	
	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
The maturity of the bank loans is as follows:		
On demand or within one year	187,495	183,630
More than one year, but not exceeding two years	–	11,139
	<hr/>	<hr/>
	187,495	194,769
<i>Less:</i> Amount due within one year shown under current liabilities	(187,495)	(183,630)
	<hr/>	<hr/>
	–	11,139
	<hr/>	<hr/>

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

FOR THE YEAR ENDED 31ST DECEMBER, 2002

23. SHARE CAPITAL

	2002 & 2001
	<i>HK\$'000</i>
<i>Authorised:</i>	
1,800,000,000 ordinary shares of HK\$0.50 each	900,000
<i>Issued and fully paid:</i>	
1,214,115,987 ordinary shares of HK\$0.50 each	607,058

There were no movements in the share capital of the Company during the year.

24. SHARE OPTION SCHEME

The Company's previous and existing share option schemes were adopted on 5th December, 1990 (the "1990 Scheme") and on 19th June, 2001 (the "2001 Scheme"), respectively, for the primary purpose of providing incentives to directors and eligible employees.

Pursuant to the 1990 Scheme, which was expired on 4th December, 2000, the Company may grant options to the directors and the employees of the Company or its subsidiaries to subscribe for the shares in the Company for a nil consideration.

Pursuant to the 2001 Scheme, which will be expired on 18th June, 2011, the Company may grant options to the directors and the employees of the Company or its subsidiaries to subscribe for the shares in the Company for a consideration of HK\$1 for each lot of share options granted.

Options granted should be accepted within 21 days from the offer date. Options granted are exercisable during the period commencing on the date of grant and expiring on the date ten years after the date of grant. The maximum number of shares in respect of which options may be granted shall not exceed 10% of the issued share capital of the Company from time to time excluding any shares issued upon the exercise of options granted pursuant to the 2001 Scheme.

The exercise price per share is determined by the directors of the Company, and shall 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 immediate preceding the offer date.

The total number of shares in respect of which may be granted to an eligible employee under the 2001 Scheme is not permit to exceed 25% of the aggregate number of shares for the time being issued and issuable under the 2001 Scheme.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31ST DECEMBER, 2002

24. SHARE OPTION SCHEME (Continued)

The following table discloses movements in the Company's share options during the year:

Year ended 31st December, 2002

	Date of grant	Exercisable period	Exercise price per share HK\$	Number of shares subject to options (Note 1)		
				Outstanding at 1.1.2002	Cancelled during the year	Outstanding at 31.12.2002
Category 1: Former directors						
Wang Jun	3.9.1997	3.9.1997 – 2.9.2007	1.27	10,000,000	(10,000,000)	–
	5.6.1998	5.6.1998 – 4.6.2008	0.50	10,000,000	(10,000,000)	–
	30.11.2000	30.11.2000 – 29.11.2010	0.50	7,000,000	(7,000,000)	–
He Ping	3.9.1997	3.9.1997 – 2.9.2007	1.27	10,000,000	(10,000,000)	–
	5.6.1998	5.6.1998 – 4.6.2008	0.50	10,000,000	(10,000,000)	–
	30.11.2000	30.11.2000 – 29.11.2010	0.50	7,000,000	(7,000,000)	–
Li Shi Liang	30.11.2000	30.11.2000 – 29.11.2010	0.50	8,400,000	(8,400,000)	–
Xie Da Tong	3.9.1997	3.9.1997 – 2.9.2007	1.27	8,000,000	(8,000,000)	–
	5.6.1998	5.6.1998 – 4.6.2008	0.50	8,000,000	(8,000,000)	–
	30.11.2000	30.11.2000 – 29.11.2010	0.50	5,500,000	(5,500,000)	–
Total former directors			83,900,000	(83,900,000)	–	
Category 2: Employees						
	3.9.1997	3.9.1997 – 2.9.2007	1.27	19,400,000	(19,400,000)	–
	5.6.1998	5.6.1998 – 4.6.2008	0.50	13,000,000	(13,000,000)	–
	30.11.2000	30.11.2000 – 29.11.2010	0.50	3,400,000	(3,400,000)	–
				35,800,000	(35,800,000)	–
Total all categories				119,700,000	(119,700,000)	–

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31ST DECEMBER, 2002

24. SHARE OPTION SCHEME (Continued)

Year ended 31st December, 2001

	Date of grant	Exercisable period	Exercise price per share HK\$	Number of shares subject to options (Note 1)			
				Outstanding at 1.1.2001	Lapsed during the year	Reclassification	Outstanding at 31.12.2001
Category 1: Directors							
Wang Jun	3.9.1997	3.9.1997 – 2.9.2007	1.27	10,000,000	–	–	10,000,000
	5.6.1998	5.6.1998 – 4.6.2008	0.50	10,000,000	–	–	10,000,000
	30.11.2000	30.11.2000 – 29.11.2010	0.50	7,000,000	–	–	7,000,000
He Ping	3.9.1997	3.9.1997 – 2.9.2007	1.27	10,000,000	–	–	10,000,000
	5.6.1998	5.6.1998 – 4.6.2008	0.50	10,000,000	–	–	10,000,000
	30.11.2000	30.11.2000 – 29.11.2010	0.50	7,000,000	–	–	7,000,000
Li Shi Liang	30.11.2000	30.11.2000 – 29.11.2010	0.50	8,400,000	–	–	8,400,000
Xie Da Tong	3.9.1997	3.9.1997 – 2.9.2007	1.27	8,000,000	–	–	8,000,000
	5.6.1998	5.6.1998 – 4.6.2008	0.50	8,000,000	–	–	8,000,000
	30.11.2000	30.11.2000 – 29.11.2010	0.50	5,500,000	–	–	5,500,000
Ji Jun (Note 2)	3.9.1997	3.9.1997 – 2.9.2007	1.27	5,000,000	–	(5,000,000)	–
	5.6.1998	5.6.1998 – 4.6.2008	0.50	5,000,000	–	(5,000,000)	–
	30.11.2000	30.11.2000 – 29.11.2010	0.50	3,400,000	–	(3,400,000)	–
Total directors			97,300,000	–	(13,400,000)	83,900,000	
Category 2: Employees	3.9.1997	3.9.1997 – 2.9.2007	1.27	15,400,000	(1,000,000)	5,000,000	19,400,000
	5.6.1998	5.6.1998 – 4.6.2008	0.50	8,000,000	–	5,000,000	13,000,000
	30.11.2000	30.11.2000 – 29.11.2010	0.50	–	–	3,400,000	3,400,000
			23,400,000	(1,000,000)	13,400,000	35,800,000	
Total all categories			120,700,000	(1,000,000)	–	119,700,000	

No share options were granted or exercised during the year.

Notes:

- All share options were granted under the 1990 Scheme.
- Mr. Ji Jun resigned as director of the Company on 31st May, 2001 but remains as a director of certain subsidiaries of the Company.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31ST DECEMBER, 2002

25. RESERVES

	Share premium HK\$'000	Translation reserve HK\$'000	Capital reserve HK\$'000	Statutory surplus reserve HK\$'000	Enterprise expansion fund HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
THE GROUP							
At 1st January, 2001	2,252	6,552	–	2,559	663	(31,148)	(19,122)
Loss for the year	–	–	–	–	–	(26,070)	(26,070)
Transfers	–	–	–	268	–	(268)	–
At 31st December, 2001	2,252	6,552	–	2,827	663	(57,486)	(45,192)
Loss for the year	–	–	–	–	–	(36,380)	(36,380)
At 31st December, 2002	2,252	6,552	–	2,827	663	(93,866)	(81,572)
THE COMPANY							
At 1st January, 2001	2,252	–	3,547	–	–	(25,086)	(19,287)
Loss for the year	–	–	–	–	–	(24,610)	(24,610)
At 31st December, 2001	2,252	–	3,547	–	–	(49,696)	(43,897)
Loss for the year	–	–	–	–	–	(38,000)	(38,000)
At 31st December, 2002	2,252	–	3,547	–	–	(87,696)	(81,897)

The accumulated losses of the Group include approximately HK\$2,660,000 (2001: HK\$1,866,000) attributable to its jointly controlled entity and HK\$291,000 attributable to its associate.

As stipulated by the relevant laws and regulations for foreign investment enterprises in the PRC, the PRC subsidiary of the Company is required to maintain three statutory reserves, being a statutory surplus reserve fund, enterprise expansion fund and a staff welfare and incentive bonus fund which are non-distributable. Appropriations to such reserves are made out of net profit after taxation of the statutory financial statements of the PRC subsidiary and the amount and allocation basis are decided by its board of directors annually. The statutory surplus reserve fund can be used to make up prior year losses of the PRC subsidiary, if any, and can be applied in conversion into capital by means of capitalisation issue. The enterprises expansion fund is used for expanding the capital base of the PRC subsidiary by means of capitalisation issue.

The amount transferred to the staff welfare and incentive bonus fund in the statutory financial statements of the PRC subsidiary has been adjusted in the consolidated financial statements as an operating expense as in the opinion of the directors, this fund will be used to pay incentive bonus and other benefits to the PRC subsidiary's employees.

Capital reserve represents the amount of initial payment from the shareholders to subscribe new shares at HK\$1 each share which were subsequently forfeited as a result of non-payment of the remaining committed contribution.

The Company did not have any distributable profit as at the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31ST DECEMBER, 2002

26. PURCHASE OF SUBSIDIARIES

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Net assets acquired:		
Interest in an associate	320,369	–
Other payable	(1)	–
Amount due to minority shareholder	(62,915)	–
Minority interest	(1,158)	–
	<hr/>	<hr/>
Net assets	256,295	–
Negative goodwill arising on acquisition	(4,329)	–
	<hr/>	<hr/>
	251,966	–
	<hr/>	<hr/>
Satisfied by:		
Cash consideration paid	251,966	–
	<hr/>	<hr/>

No significant turnover and results were contributed by the subsidiaries acquired during the year for the period between the date of acquisition and the balance sheet date.

During the period since acquisition, no significant operating, investing and financing cash flows were contributed by the subsidiaries acquired during the year.

27. UNRECOGNISED DEFERRED TAXATION

At the balance sheet date, the Group and the Company had an unrecognised net deferred tax asset as follows:

	THE GROUP		THE COMPANY	
	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Taxation effect of timing differences arising as a result of:				
Tax losses available to set off against future assessable profits	13,674	12,005	12,906	11,460
Difference between depreciation allowances claimed for tax purposes and depreciation charged in the financial statements	–	(103)	–	(103)
	<hr/>	<hr/>	<hr/>	<hr/>
Net deferred tax asset	13,674	11,902	12,906	11,357
	<hr/>	<hr/>	<hr/>	<hr/>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31ST DECEMBER, 2002

27. UNRECOGNISED DEFERRED TAXATION (Continued)

The amount of unprovided deferred tax credit for the year are as follows:

	THE GROUP		THE COMPANY	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Tax effect of timing differences arising as a result of:				
Tax losses arising	1,669	722	1,446	923
Difference between depreciation allowances claimed for tax purposes and depreciation charged in the financial statements	103	97	103	97
	<u>1,772</u>	<u>819</u>	<u>1,549</u>	<u>1,020</u>

The deferred tax asset has not been recognised in the financial statements as it is not certain that the benefit will be realised in the foreseeable future.

Deferred taxation has not been provided on the revaluation deficit of investment properties as profits arising on the disposal of these assets would not be subject to taxation. Accordingly, the revaluation does not constitute a timing difference for tax purposes.

28. OPERATING LEASE ARRANGEMENTS

The Group as lessee:

	2002 HK\$'000	2001 HK\$'000
Operating lease rentals in respect of land and buildings	<u>1,901</u>	<u>2,471</u>

At the balance sheet date, the Group had outstanding commitments under non-cancellable operating leases, which fall due as follows:

	2002 HK\$'000	2001 HK\$'000
Within one year	2,247	2,471
In the second to fifth year inclusive	7,272	9,884
Over five years	27,817	42,007
	<u>37,336</u>	<u>54,362</u>

Operating lease payments represent rentals payable by the Group for certain of its office properties and factory premises. Leases are negotiated for term ranging from two to thirty years with fixed rentals.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31ST DECEMBER, 2002

28. OPERATING LEASE ARRANGEMENTS (Continued)

The Group as lessor:

Property rental income earned during the year was approximately HK\$4.7 million (2001: HK\$3.1 million). The property held has committed tenants for periods ranging from 1 to 3 years.

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

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Within one year	4,989	3,030
In the second to fifth year inclusive	785	2,743
	<hr/> 5,774 <hr/>	<hr/> 5,773 <hr/>

29. PLEDGE OF ASSETS

At the balance sheet date, the credit facilities granted by banks for a non-wholly owned subsidiary were secured by the following:

- (a) pledge of bank deposits of HK\$21,048,000 (2001: HK\$11,700,000); and
- (b) pledge of certain of the Group's land and buildings with an aggregate net book value of approximately HK\$91,271,000 (2001: HK\$67,455,000).

30. RETIREMENT BENEFITS SCHEME

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong. The assets of the schemes are held separately from those of the Group, in funds under the control of trustees. The Group contributes 5% of relevant payroll costs to the scheme, which contribution is matched by employees.

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

The total cost charged to the income statement of approximately HK\$6 million (2001: HK\$9 million) represents contributions payable to the schemes by the Group at rates specified in the rules of the schemes.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31ST DECEMBER, 2002

31. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES

- (A) During the year, the Group had significant transactions with related parties which are also deemed to be connected persons as defined by the Rules Governing the Listing of Securities on the Stock Exchange. The significant transactions with the connected persons during the year, and significant balances with them at the balance sheet date, are as follows:

Connected persons	Nature of transactions/balances	THE GROUP	
		2002 HK\$'000	2001 HK\$'000
Transactions:			
(a) Subsidiary of CMIC (note i)	Management fee paid by the Group (note iii)	7,500	12,000
(b) HCF Group and its affiliates (note ii)	Sales of chemical fibres (note iv)	7,207	8,194
	Purchase of raw materials (note iv)	–	585
	Interest expenses (note v)	2,029	2,140
Balances:			
(c) Current:			
HCF Group and its affiliates	Payable by the Group (note vi)	283	64,046
(d) Non-current:			
HCF Group and its affiliates	Payable by the Group (note vii)	61,882	–
Elegant Base Development Limited (note viii)	Payable by the Group (note ix)	62,915	–
		124,797	–

Notes:

- (i) Continental Mariner Investment Company Limited (“CMIC”) is a former substantial shareholder of the Company.
- (ii) Hangzhou Chemical Fibre Group Company (“HCF Group”) is a 45% shareholder of Hangzhou B.P., one of the Company’s non-wholly owned subsidiaries.
- (iii) The management fee was charged in accordance with the management agreements with CMIC Management Services Limited (“CMIC Management”) for the provision of general corporate management and consultancy services to the Company for the period up to 30th September, 2002. CMIC Management is a wholly-owned subsidiary of CMIC, whose shares are listed on the Stock Exchange. The management fee charged was determined on the basis of expenses incurred by CMIC Management in connection with the said management agreements.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

FOR THE YEAR ENDED 31ST DECEMBER, 2002

31. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES *(Continued)*

- (iv) These transactions were carried out at market prices and were subject to a waiver granted by the Stock Exchange from making disclosure on each occasion when they arose as disclosed in the Company's announcement dated 5th August, 1999.
- (v) The interest was charged at the prevailing market rate on the outstanding advances from HCF Group.
- (vi) The balance is unsecured, interest-free and has no fixed repayment terms.
- (vii) The balance is unsecured and has no fixed repayment terms. Other than an amount of approximately HK\$34.8 million (2001: HK\$36.7 million) which carries interest at the prevailing market rates, the balance is interest-free. The amount will not be repayable within one year from the balance sheet date and accordingly, the amount is shown as non-current.
- (viii) Elegant Base Development Limited is a 20% shareholder of Success Harbour International Limited, one of the Company's non-wholly owned subsidiary.
- (ix) The balance is unsecured, interest-free and has no fixed repayment terms. The amount will not be repayable within one year from the balance sheet date and accordingly, the amount is shown as non-current.

(B) At 31st December, 2002, the Company had given a guarantee amounting to approximately HK\$6.1 million (2001: HK\$12.3 million) to a bank in respect of credit facilities granted to Hangzhou B.P.. In addition, at 31st December, 2001, the Group had also advanced approximately HK\$33 million to Hangzhou B.P. for financing its operations. These advances are unsecured, interest-free and have no fixed repayment terms.

HCF Group, the minority shareholder of Hangzhou B.P., has also provided guarantees in favour of, and advances to, Hangzhou B.P. in amounts not less than its proportionate interest in Hangzhou B.P..

32. SEGMENT INFORMATION

The Group is principally engaged in the manufacture and trading of chemical fibres in the PRC. All the identifiable assets of the Group are principally located in the PRC. Accordingly, no segmental analysis is presented.

33. POST BALANCE SHEET EVENT

On 13th January, 2003, the Company entered into an agreement ("Agreement") to dispose of the entire issued share capital in Grandace Investments Ltd. ("Grandace"), a wholly-owned subsidiary of the Company, and an unsecured, interest-free shareholder's loan of approximately HK\$74,621,000 due from Grandace to the Company for an aggregate consideration of HK\$50,000,000 (subject to adjustments), to be satisfied by 3 installments in cash on or before completion of the Agreement.

Grandace and its 55% owned subsidiary (collectively "Grandace Group") are engaged in the manufacturing and trading of chemical fibres in the PRC.

Up to the date of the approval of these financial statements, the aforesaid transaction is not yet completed.