

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2003

1. GENERAL

The Company is an exempted company with limited liability incorporated in Bermuda. Its shares are listed on The Stock Exchange of Hong Kong Limited.

The Company is an investment holding company. Its principal subsidiaries are engaged in the design, manufacture, distribution, wholesale and retail of ladies' intimate apparel, principally brassieres.

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") issued by the Hong Kong Society of Accountants ("HKSA"). Adoption of the accounting standards has led to certain changes in the Group's accounting policies. The revised accounting policies are set out in note 3. In addition, the new and revised SSAPs have introduced additional and revised disclosure requirements which have been adopted in these financial statements.

The adoption of these new and revised SSAPs has resulted in the following changes to the Group's accounting policies which have affected the amounts reported for the current or prior periods.

Foreign currencies

The revisions to SSAP 11 "Foreign Currency Translation" have eliminated the choice of translating the income statements of overseas operations at the closing rate for the period, the policy previously followed by the Group. They are now required to be translated at average rate. This change in accounting policy has been applied retrospectively, resulting in an adjustment of HK\$448,000 and HK\$1,299,000 to the opening balance of retained earnings and the translation reserve as at 1 July 2001 and 1 July 2002, respectively. The change in accounting policy has resulted in a decrease in the Group's profit for the year ended 30 June 2002 and an increase in the Group's profit for the year ended 30 June 2003 of approximately HK\$851,000 and HK\$334,000, respectively.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2003

2. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE – continued

Cash flow statements

In the current year, the Group has adopted SSAP 15 (Revised) “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 and expenses, which were previously presented under a separate heading, are classified as operating cash flows. 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 operations 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. The change in exchange rates used for translation of cash flows of overseas operations have not had any material effect on the comparative amounts shown in the cash flow statement.

Employee benefits

In the current year, the Group has adopted SSAP 34 “Employee Benefits”, which introduces measurement rules for employee benefits. Under SSAP 34, a provision is recognised for the best estimates of long service payments that would be required to be made to the employees of the Group in respect of their service up to the balance sheet date, less any amounts that would be expected to be met out of the Group’s retirement benefits scheme. This change in accounting policy has been applied retrospectively, resulting in an adjustment of approximately HK\$2,386,000 and HK\$2,648,000 to the opening balance of retained earnings at 1 July 2001 and 1 July 2002, respectively. The change in policy has resulted in a decrease in the profit for the years ended 30 June 2002 and 2003 by HK\$262,000 and HK\$407,000, respectively.

The financial effect of the adoption of the new and revised accounting policies described above is summarised below:

	Accumulated losses	Translation reserve
	HK\$'000	HK\$'000
Balance at 1 July 2001		
– as originally stated	(363,432)	(5,022)
– recognition of the excess liability in respect of the Group retirement benefit scheme	(2,386)	–
– effect of the retranslation of income statements of overseas operations at average rate	(448)	448
	<u>(366,266)</u>	<u>448</u>
– as restated	<u>(366,266)</u>	<u>(4,574)</u>

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong, which follow the historical cost convention as modified for the revaluation of certain leasehold properties and investment securities.

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 30 June each year.

The results of subsidiaries, acquired and disposed of during the year are included in the consolidated income statement from and up to their effective dates of acquisition or disposal, respectively.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

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 a subsidiary, associate or jointly controlled entity at the date of acquisition.

Goodwill is recognised as an asset and is amortised on a straight-line basis over its estimated economic life. Goodwill arising on the acquisition of an associate or a jointly controlled entity is included within the carrying amount of the associate or jointly controlled entity and was fully impaired in previous years. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet.

On disposal of a subsidiary, associate or jointly controlled entity, the attributable amount of unamortised goodwill is included in the determination of the gain or loss on disposal.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2003

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Revenue recognition

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

Income from sale of securities is recognised on a trade-date basis when the sales agreement becomes unconditional.

Service income is recognised at the time when services are rendered.

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

Property, plant and equipment

(a) *Construction in progress*

Construction in progress is stated at cost less any identified impairment loss, as appropriate.

(b) *Other fixed assets*

Property, plant and equipment are stated at cost or valuation less depreciation and amortisation and any identified impairment loss, as appropriate.

Certain of the Group's land and buildings are stated at valuation less depreciation and amortisation and any subsequent impairment loss. Advantage has been taken of the transitional relief provided by paragraph 80 of the SSAP 17 "Property, Plant and Equipment" issued by the HKSA from the requirement to make revaluation on a regular basis of the Group's land and buildings which had been carried at revalued amounts prior to 30 September 1995 and accordingly no further revaluation of land and buildings is carried out. In previous years, the revaluation increase arising on the revaluation of these assets was credited to the revaluation reserve. Any future decreases in value of these assets will be dealt with as an expense to the extent that they exceed the balance, if any, on the revaluation reserve relating to a previous revaluation of the same asset. On the subsequent sale of these land and buildings, the attributable revaluation surplus not yet transferred to retained profits in prior years will be transferred to retained profits.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Property, plant and equipment – continued

(b) *Other fixed assets – continued*

Depreciation and amortisation is provided to write off the cost or valuation of items of property, plant and equipment other than construction in progress over their estimated useful lives, using the straight-line method, at the following rates per annum:

Leasehold land	Over the remaining unexpired terms of the leases
Buildings	2% – 6.5%
Leasehold improvements	5% – 30%
Furniture, fixtures and equipment	10% – 45%
Motor vehicles	20% – 30%

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

Subsidiaries

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

Associates

An associate is an enterprise over which the Group is in a position to exercise significant influence in management, including participation in financial and operating policy decisions.

The consolidated income statement includes the Group's share of the post-acquisition results of associates for the year. The consolidated balance sheet includes the Group's share of net assets of the associates on acquisition less any identified impairment loss.

The Company's interests in associates are included in the Company's balance sheet at cost less any identified impairment loss, as appropriate.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2003

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Jointly controlled entities

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and over which none of the participating parties has unilateral control.

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. The Group's share of the post-acquisition results of 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.

All securities other than held-to-maturity debt securities are measured at subsequent reporting dates at fair value.

Where securities are held for trading purposes, unrealised gains and losses are included in net profit or loss for the period. For other securities, unrealised gains and losses are dealt with in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss is included in net profit or loss for the period.

Inventories

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

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its 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. Impairment losses are recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another accounting standard, in which case the impairment loss is treated as a revaluation decrease under that accounting standard.

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, unless the relevant asset is carried at a revalued amount under another accounting standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that other accounting standard.

Taxation

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

Leases

A lease is classified as a finance lease whenever the terms of the lease transfer substantially all the risks and rewards of ownership of the leased asset to the Group. An asset held under a finance lease is capitalised at its fair value at the date of inception of the lease. The resulting leasing commitment, net of interest charges, is shown as a finance lease obligation of the Group on the balance sheet. Finance costs, which represent the difference between the total leasing commitment and the fair values of the assets acquired, are charged to the income statement as finance charges on an actuarial basis over the period of the lease so as to produce a constant periodic rate of change on the remaining balance of the obligations for each accounting period.

All other leases are classified as operating leases and their rentals payable are charged to the income statement on a straight-line basis over the term of the relevant lease.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2003

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Foreign currencies

Transactions in foreign currencies are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated into Hong Kong dollars at the rates prevailing on the balance sheet date. Gains and losses arising on exchange are included in the 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.

Textile quota entitlements

The cost of textile quota entitlements is charged to the income statement at the time of utilisation.

Retirement benefit costs

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

4. TURNOVER AND SEGMENT INFORMATION

Turnover represents the net amounts received and receivable for goods sold by the Group to outside customers during the year.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2003

4. TURNOVER AND SEGMENT INFORMATION – continued

The business activities of the Group can be categorised into manufacturing business and branded business. Segment information in respect of these activities is as follows:

(a) Business segments

TURNOVER AND RESULTS YEAR ENDED 30 JUNE 2003

	Manufacturing business HK\$'000	Branded business HK\$'000	Elimination HK\$'000	Consolidated HK\$'000
TURNOVER				
External sales	1,070,467	23,897	–	1,094,364
Inter-segment sales (<i>note</i>)	9,412	–	(9,412)	–
Total sales	<u>1,079,879</u>	<u>23,897</u>	<u>(9,412)</u>	<u>1,094,364</u>
RESULTS				
Segment results	<u>186,739</u>	<u>(9,529)</u>	<u>–</u>	177,210
Unallocated corporate expenses				(12,450)
Interest income				<u>655</u>
Profit from operations				165,415
Finance costs				<u>(7,051)</u>
Profit before taxation				158,364
Taxation				<u>(24,087)</u>
Profit before minority interests				134,277
Minority interests				<u>(385)</u>
Profit for the year				<u>133,892</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2003

4. TURNOVER AND SEGMENT INFORMATION – continued

(a) Business segments – continued

TURNOVER AND RESULTS – continued

YEAR ENDED 30 JUNE 2002

	Manufacturing business HK\$'000 (Restated)	Branded business HK\$'000 (Restated)	Elimination HK\$'000 (Restated)	Consolidated HK\$'000 (Restated)
TURNOVER				
External sales	817,792	29,054	–	846,846
Inter-segment sales (<i>note</i>)	<u>9,607</u>	<u>–</u>	<u>(9,607)</u>	<u>–</u>
Total sales	<u><u>827,399</u></u>	<u><u>29,054</u></u>	<u><u>(9,607)</u></u>	<u><u>846,846</u></u>
RESULTS				
Segment results	<u><u>98,353</u></u>	<u><u>(3,484)</u></u>	<u><u>–</u></u>	94,869
Unallocated corporate expenses				(12,277)
Interest income				<u>722</u>
Profit from operations				83,314
Finance costs				(15,095)
Gain on deemed disposal of interest in a subsidiary				<u>10,400</u>
Profit before taxation				78,619
Taxation				<u>(5,582)</u>
Profit before minority interests				73,037
Minority interests				<u>(2,733)</u>
Profit for the year				<u><u>70,304</u></u>

Note: Inter-segment sales are charged at prices determined by management with reference to market prices.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2003

4. TURNOVER AND SEGMENT INFORMATION – continued

(a) Business segments – continued

BALANCE SHEET

30 JUNE

	2003 HK\$'000	2002 HK\$'000 (Restated)
ASSETS		
Segment assets		
– manufacturing business	388,550	336,843
– branded business	23,093	28,705
Interests in a jointly controlled entity	811	682
Unallocated corporate assets	11,355	16,297
	<u>423,809</u>	<u>382,527</u>
Consolidated total assets	<u>423,809</u>	<u>382,527</u>
LIABILITIES		
Segment liabilities		
– manufacturing business	57,883	92,275
– branded business	3,537	2,974
Unallocated corporate liabilities	73,675	223,460
	<u>135,095</u>	<u>318,709</u>
Consolidated total liabilities	<u>135,095</u>	<u>318,709</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2003

4. TURNOVER AND SEGMENT INFORMATION – continued

(a) Business segments – continued

OTHER INFORMATION

YEAR ENDED 30 JUNE

	2003 HK\$'000	2002 HK\$'000
Capital expenditure		
– manufacturing business	59,855	24,268
– branded business	873	968
	<u>60,728</u>	<u>25,236</u>
Depreciation and amortisation of property, plant and equipment		
– manufacturing business	19,307	16,863
– branded business	819	453
	<u>20,126</u>	<u>17,316</u>
Loss on disposal of property, plant and equipment		
– manufacturing business	440	1,356
– branded business	–	199
	<u>440</u>	<u>1,555</u>
Gain on deemed disposal of interest in a subsidiary	–	<u>10,400</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2003

4. TURNOVER AND SEGMENT INFORMATION – continued

(b) Geographical segments

The Group's operations in manufacturing are principally located in Hong Kong, the People's Republic of China ("PRC") and Thailand. Branded business is principally carried out in Hong Kong and PRC.

The following table provides an analysis of the Group's sales by geographical market, irrespective of the origin of the goods:

YEAR ENDED 30 JUNE

	Sales revenue by geographical market		Contribution to profit from operations	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000 (Restated)
United States of America	851,865	614,075	148,604	76,048
Europe	142,087	99,136	24,788	8,741
Asia (excluding Hong Kong)	52,105	81,186	4,636	8,626
Australia and New Zealand	29,075	31,929	5,072	4,485
Hong Kong	19,232	20,520	(5,890)	(3,031)
	<u>1,094,364</u>	<u>846,846</u>	<u>177,210</u>	<u>94,869</u>
Unallocated corporate expenses			(12,450)	(12,277)
Interest income			655	722
Profit from operations			<u>165,415</u>	<u>83,314</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2003

4. TURNOVER AND SEGMENT INFORMATION – continued

(b) Geographical segments – continued

The following is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets		Additions to property, plant and equipment	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Hong Kong	169,947	154,467	5,884	2,736
The PRC	173,516	152,213	49,659	11,389
Thailand	51,785	59,694	4,634	9,333
Others	28,561	16,153	551	1,778
	<u>423,809</u>	<u>382,527</u>	<u>60,728</u>	<u>25,236</u>

5. OTHER OPERATING INCOME

Other operating income includes:

	2003 HK\$'000	2002 HK\$'000
Gain on disposal of investment in listed securities	3,108	2,267
Interest income	655	722
Net exchange gain	–	4,831
	<u>–</u>	<u>4,831</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2003

6. PROFIT FROM OPERATIONS

	2003	2002
	HK\$'000	HK\$'000
Profit from operations has been arrived at after charging:		
Auditors' remuneration	1,620	1,417
Cost of textile quota entitlements	6,512	15,489
Depreciation and amortisation on:		
Owned assets	18,737	16,133
Assets held under finance leases	1,389	1,183
Net exchange loss	1,067	–
Loss on disposal of property, plant and equipment	440	1,555
Minimum lease payments paid under operating leases in respect of land and buildings	17,049	15,838
Staff costs, including directors' emoluments	202,137	175,872
	<u>202,137</u>	<u>175,872</u>

7. DIRECTORS' REMUNERATION AND HIGHEST PAID INDIVIDUALS

	2003	2002
	HK\$'000	HK\$'000
Fees to Non-executive Directors	–	–
Remuneration to Executive Directors		
Salaries and other benefits	12,985	8,985
Retirement benefits scheme contributions	24	24
	<u>13,009</u>	<u>9,009</u>

During the year, share options have been granted to certain directors of the Company, details of which have been set out in note 25. Other than the share options granted to the independent non-executive directors, no emoluments or other benefits were paid or payable to them during the two years ended 30 June 2003.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2003

7. DIRECTORS' REMUNERATION AND HIGHEST PAID INDIVIDUALS – continued

Emoluments of the Directors were within the following bands:

	Number of Directors	
	2003	2002
Nil to HK\$1,000,000	8	6
HK\$4,000,001 – HK\$4,500,000	–	1
HK\$4,500,001 – HK\$5,000,000	–	1
HK\$5,500,001 – HK\$6,000,000	1	–
HK\$7,000,001 – HK\$7,500,000	1	–
	<u>1</u>	<u>–</u>

Details of emoluments paid by the Group to the five highest paid individuals (including Directors, details of whose emoluments are set out above, and employees) are as follows:

	2003	2002
	HK\$'000	HK\$'000
Salaries and other benefits	19,099	12,989
Retirement benefits scheme contributions	60	60
	<u>19,159</u>	<u>13,049</u>

Emoluments of the five highest paid individuals were within the following bands:

	Number of individuals	
	2003	2002
HK\$1,000,001 – HK\$1,500,000	1	3
HK\$2,000,001 – HK\$2,500,000	2	–
HK\$4,000,001 – HK\$4,500,000	–	1
HK\$4,500,001 – HK\$5,000,000	–	1
HK\$5,500,001 – HK\$6,000,000	1	–
HK\$7,000,001 – HK\$7,500,000	1	–
	<u>1</u>	<u>–</u>
Number of Directors	2	2
Number of employees	3	3
	<u>5</u>	<u>5</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2003

8. FINANCE COSTS

	2003 HK\$'000	2002 HK\$'000
Interests on:		
Bank borrowings wholly repayable within five years	3,638	7,758
Convertible loan notes	3,138	7,116
Obligations under finance leases	275	221
	<u>7,051</u>	<u>15,095</u>

9. TAXATION

	2003 HK\$'000	2002 HK\$'000
Hong Kong Profits Tax calculated at 17.5% (2002: 16%) on the estimated assessable profit for the year	20,555	4,500
Under(over)provision for Hong Kong Profits Tax in prior years	77	(534)
Taxation in other jurisdictions calculated at the rates prevailing in the respective jurisdictions	3,735	1,133
(Over)underprovision for taxation in other jurisdictions in prior years	(280)	483
	<u>24,087</u>	<u>5,582</u>

10. DIVIDENDS

A final dividend of 4 HKcents (2002: Nil) per share and a special dividend of 2 HKcents (2002: Nil) per share have been proposed by the Directors and are subject to the approval by the shareholders in general meeting. No dividend was paid during the year.

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For the year ended 30 June 2003

II. EARNINGS PER SHARE

The computation of basic and diluted earnings per share is as follows:

	2003	2002
	HK\$'000	HK\$'000 (Restated)
Profit for the purpose of basic earnings per share	133,892	70,304
Interest on convertible loan notes	3,138	7,116
	<u>137,030</u>	<u>77,420</u>
Profit for the purpose of diluted earnings per share	137,030	77,420
	<u>137,030</u>	<u>77,420</u>
	Number of shares	
	2003	2002
Number of shares for the purpose of basic earnings per share	936,623,919	739,434,795
Effect of dilutive potential shares:		
Convertible loan notes	162,974,991	382,707,614
Options	2,564,079	–
	<u>1,102,162,989</u>	<u>1,122,142,409</u>
Number of shares for the purpose of diluted earnings per share	1,102,162,989	1,122,142,409
	<u>1,102,162,989</u>	<u>1,122,142,409</u>

In last year, the Company's share options were not taken into account in the computation of diluted earnings per share as there was no potential ordinary share as at 30 June 2002.

The adjustment to comparative basic and diluted earnings per share, arising from the changes in accounting policies shown in note 2 above, is as follows:

	Basic	Diluted
	HK cents	HK cents
Reconciliation of 2002 earning per share:		
Reported figures before adjustments	9.7	7.0
Adjustments arising from the adoption of SSAPs 11 and 34	(0.2)	(0.1)
	<u>9.5</u>	<u>6.9</u>
Restated	9.5	6.9
	<u>9.5</u>	<u>6.9</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2003

12. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Leasehold improvements	Furniture, fixtures and equipment	Motor vehicles	Construction in progress	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
THE GROUP						
COST OR VALUATION						
At 1 July 2002	36,395	38,998	149,953	9,192	1,735	236,273
Currency realignment	(98)	(189)	(424)	(32)	–	(743)
Additions	10,851	5,164	35,822	3,015	5,876	60,728
Disposals	–	–	(3,910)	(292)	–	(4,202)
At 30 June 2003	47,148	43,973	181,441	11,883	7,611	292,056
Comprising						
At cost	45,687	43,973	181,441	11,883	7,611	290,595
At valuation – 1992	1,461	–	–	–	–	1,461
	47,148	43,973	181,441	11,883	7,611	292,056
DEPRECIATION AND IMPAIRMENT						
At 1 July 2002	17,019	30,943	104,773	6,618	–	159,353
Currency realignment	(97)	(77)	(246)	(20)	–	(440)
Provide for the year	1,427	3,542	13,699	1,458	–	20,126
Eliminated on disposals	–	–	(2,935)	(159)	–	(3,094)
At 30 June 2003	18,349	34,408	115,291	7,897	–	175,945
NET BOOK VALUES						
At 30 June 2003	28,799	9,565	66,150	3,986	7,611	116,111
At 30 June 2002	19,376	8,055	45,180	2,574	1,735	76,920

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2003

12. PROPERTY, PLANT AND EQUIPMENT – continued

Notes:

- (a) The net book value of the Group's property interests as at the balance sheet date comprises:

	2003 HK\$'000	2002 HK\$'000
Land and buildings outside Hong Kong under:		
Long lease	4,444	4,619
Medium term lease	17,256	13,496
Short lease	6,218	252
Land and buildings in Hong Kong under medium term lease	<u>881</u>	<u>1,009</u>
	<u>28,799</u>	<u>19,376</u>

- (b) The net book values of the Group's property, plant and equipment in respect of assets held under finance leases are as follows:

	2003 HK\$'000	2002 HK\$'000
Furniture, fixtures and equipment	3,352	1,828
Motor vehicles	<u>1,807</u>	<u>1,700</u>
	<u>5,159</u>	<u>3,528</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2003

13. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2003 HK\$'000	2002 HK\$'000
Unlisted shares	125,002	125,002
Capital contribution	5,460	5,460
	<u>130,462</u>	<u>130,462</u>
Impairment loss recognised	(5,460)	(5,460)
	<u>125,002</u>	<u>125,002</u>
Amounts due from subsidiaries, less allowances	138,064	178,024
	<u>263,066</u>	<u>303,026</u>

The value of unlisted shares is based on the underlying net assets of Top Form (B.V.I.) Limited and its subsidiaries at the time they became members of the Group pursuant to the group reorganisation in 1991.

Details of the principal subsidiaries as at 30 June 2003 are set out in note 34.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2003

14. INTERESTS IN ASSOCIATES

Details of the Group's associates as at 30 June 2003 are as follows:

Name of company	Form of business structure	Place of incorporation/ registration	Principal place of operation	Proportion of nominal value of registered capital held by the Group	Principal activities
Shenzhen Fenghua Weaving Tape Factory Company Limited 深圳豐華織帶廠有限公司	Joint venture	The PRC	The PRC	25%	Inactive
Yingkou Xinfu Industrial Park Development Company Limited 營口鑫發工業園開發有限公司	Joint venture	The PRC	The PRC	30%*	Industrial land development

* Directly held by the Company

Share of net assets of associates of HK\$15,422,000 by the Group and the Company were fully impaired in previous years.

15. INTERESTS IN A JOINTLY CONTROLLED ENTITY

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Share of net assets	—	—
Amount due from a jointly controlled entity, less allowances	811	682
	<u>811</u>	<u>682</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2003

15. INTERESTS IN A JOINTLY CONTROLLED ENTITY – continued

Details of the Group's jointly controlled entity as at 30 June 2003 is as follows:

Name of company	Form of business structure	Place of incorporation	Principal place of operation	Proportion of nominal value of issued ordinary share capital held by the Group	Principal activities
Datel Asia Limited	Incorporated	Hong Kong	Hong Kong	50%	Licensing of computer softwares

16. INVESTMENT IN SECURITIES

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Other equity securities at market value, shares listed overseas	–	4,355

17. INVENTORIES

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Raw materials	47,537	51,197
Work in progress	38,189	43,501
Finished goods	34,558	37,473
	<u>120,284</u>	<u>132,171</u>
At cost	116,784	125,451
Finished goods stated at net realisable value	3,500	6,720
	<u>120,284</u>	<u>132,171</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2003

18. DEBTORS, DEPOSITS AND PREPAYMENTS

Included in the balance are trade debtors of HK\$55,773,000 (2002: HK\$50,555,000). The Group allows an average credit period of 30 days to its trade customers.

An aged analysis of trade debtors is as follows:

	THE GROUP	
	2003	2002
	HK\$'000	HK\$'000
Within 30 days	50,890	47,073
Over 30 days and under 60 days	1,841	1,401
Over 60 days and under 90 days	576	947
Over 90 days	2,466	1,134
	<u>55,773</u>	<u>50,555</u>

19. CREDITORS AND ACCRUED CHARGES

Included in the balance are trade creditors of HK\$19,130,000 (2002: HK\$56,712,000).

An aged analysis of trade creditors is as follows:

	THE GROUP	
	2003	2002
	HK\$'000	HK\$'000
Within 30 days	16,785	45,150
Over 30 days and under 60 days	1,315	10,479
Over 60 days and under 90 days	676	845
Over 90 days	354	238
	<u>19,130</u>	<u>56,712</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2003

20. SECURED BANK BORROWINGS AND OTHER LIABILITIES

	THE GROUP		THE COMPANY	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Secured bank borrowings:				
Trust receipts and import loans	17,048	51,208	–	–
Bank overdrafts	3,702	24,985	–	6,049
Bank loans	–	16,507	–	11,370
	<u>20,750</u>	<u>92,700</u>	<u>–</u>	<u>17,419</u>
Total bank borrowings (note a)	20,750	92,700	–	17,419
Other unsecured liabilities (note b)	449	531	–	–
	<u>21,199</u>	<u>93,231</u>	<u>–</u>	<u>17,419</u>
Less: Amount due within one year shown as current liabilities	<u>(20,832)</u>	<u>(92,782)</u>	<u>–</u>	<u>(17,419)</u>
Amount due after one year	<u>367</u>	<u>449</u>	<u>–</u>	<u>–</u>

Notes:

- (a) All bank borrowings are repayable within one year or upon demand and are all secured.

	THE GROUP		THE COMPANY	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
(b) Other liabilities are unsecured and repayable:				
Within one year	82	82	–	–
Between one to two years	82	82	–	–
Between two to five years	246	246	–	–
After five years	39	121	–	–
	<u>449</u>	<u>531</u>	<u>–</u>	<u>–</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2003

21. OBLIGATIONS UNDER FINANCE LEASES

	Minimum lease payments		Present value of minimum lease payments	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
THE GROUP				
Within one year	2,018	1,709	1,821	1,518
Between one to two years	1,331	577	1,216	509
Between two to five years	495	757	467	733
	<u>3,844</u>	<u>3,043</u>	<u>3,504</u>	<u>2,760</u>
Less: future finance charges	(340)	(283)	–	–
Present value of lease obligations	<u>3,504</u>	<u>2,760</u>	<u>3,504</u>	<u>2,760</u>
Less: Amount due within one year shown as current liabilities			<u>(1,821)</u>	<u>(1,518)</u>
Amount due after one year			<u>1,683</u>	<u>1,242</u>

It is the Group's policy to lease certain of its furniture, fixtures and equipment and motor vehicles under finance leases. The average lease term is three years. For the year ended 30 June 2003, the average effective borrowing rate was 7.3%. Interest rates are fixed at the contract rate. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent payments.

The Group's obligations under finance leases are secured by the lessor's charge over the leased assets.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2003

22. CONVERTIBLE LOAN NOTES

	THE GROUP AND THE COMPANY	
	2003	2002
	HK\$'000	HK\$'000
Convertible loan notes ("CLN")		
At the beginning of the year	109,557	120,000
Exchange adjustment	68	435
Converted during the year (note b)	(93,732)	(10,878)
Repaid upon maturity (note c)	(15,893)	–
	<hr/>	<hr/>
At the end of the year	–	109,557
	<hr/> <hr/>	<hr/> <hr/>

On 23 January 1998, the Company issued US\$15.5 million (equivalent to approximately HK\$120 million) of CLNs. The salient features of the CLN are set out below:

- (a) Interest on CLN is compounded and payable semi-annually and interest accrued at a semi-annual rate of 2.875 per cent.
- (b) During the year, US\$12.1 million (2002: US\$1.4 million) of CLN were converted into 300,828,495 (2002: 34,912,718) ordinary shares of the Company at the conversion price of US\$0.0401 (equivalent to HK\$0.31 per share). The new shares issued rank pari passu in all respects with the then existing shares.
- (c) Upon the maturity of the CLN on 20 January 2003, cash of US\$2 million (equivalent to HK\$15,893,000) was repaid.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2003

23. DEFERRED TAXATION

	THE GROUP	
	2003	2002
	HK\$'000	HK\$'000
At the beginning of the year	2,380	2,372
Currency realignment	—	8
	<u> </u>	<u> </u>
At the end of the year	<u>2,380</u>	<u>2,380</u>

Deferred taxation represents the taxation effect of the following timing differences:

	THE GROUP	
	2003	2002
	HK\$'000	HK\$'000
Excess of depreciation allowances claimed for tax purposes over accounting depreciation charged in the financial statements	2,673	2,673
Taxation losses	(293)	(293)
	<u> </u>	<u> </u>
	<u>2,380</u>	<u>2,380</u>

The surplus arising from revaluation of the Group's property in Hong Kong does not constitute a timing difference for taxation purposes as any profit realised on subsequent disposal would not be subject to taxation. Accordingly, the revaluation does not constitute a timing difference for tax purpose.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2003

23. DEFERRED TAXATION – continued

At the balance sheet date, the unrecognised deferred taxation asset represents the taxation effect of the following timing differences:

	THE GROUP		THE COMPANY	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Difference between depreciation allowances claimed for tax purposes and accounting depreciation charged in the financial statements	221	243	–	–
Taxation losses	12,473	12,700	2,650	3,000
	<u>12,694</u>	<u>12,943</u>	<u>2,650</u>	<u>3,000</u>

A significant portion of the potential deferred tax asset which principally represents the tax losses of the Company and certain of its subsidiaries available to set off future assessable profits has not been recognised in the financial statements as it is uncertain whether the tax benefit will be utilised in the foreseeable future.

The amount of unrecognised deferred taxation credit (charge) of the Group for the year is as follows:

	2003 HK\$'000	2002 HK\$'000
Tax effect of timing differences because of:		
Difference between depreciation allowances for tax purposes and depreciation charged in the financial statements	(45)	55
Taxation losses	826	57
Effect of change in tax rate	<u>(1,030)</u>	<u>–</u>
	(249)	112
Currency realignment	<u>–</u>	<u>(161)</u>
	<u>(249)</u>	<u>(49)</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2003

24. SHARE CAPITAL

	2003 Number of shares	2002 Number of shares	2003 HK\$'000	2002 HK\$'000
Ordinary shares of HK\$0.10 each				
Authorised:				
At the beginning and the end of the year	<u>1,500,000,000</u>	<u>1,500,000,000</u>	<u>150,000</u>	<u>150,000</u>
Issued and fully paid:				
At the beginning of the year	770,521,462	735,608,744	77,052	73,561
Issue of shares upon the conversion of CLNs (<i>note 22b</i>)	<u>300,828,495</u>	<u>34,912,718</u>	<u>30,083</u>	<u>3,491</u>
At the end of the year	<u>1,071,349,957</u>	<u>770,521,462</u>	<u>107,135</u>	<u>77,052</u>

25. SHARE OPTION SCHEME

The Company's share option scheme (the "Old Scheme"), was adopted pursuant to a resolution passed on 20 November 1999 for the primary purpose of providing incentives or rewards for the contribution by the directors, employees or any other persons, who in the discretion of the Board. Under the Old Scheme, the Board of Directors of the Company might grant options to any employees or executives or officers of the Company and its subsidiaries and any other persons, who in the discretion of the Board have contributed to the Company and its subsidiaries, to subscribe for shares in the Company.

The Old Scheme expired on 19 November 2001. All the unexercised options under the Old Scheme lapsed on 19 November 2001.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2003

25. SHARE OPTION SCHEME – continued

The following tables disclose details of the Company's share options held by directors under the Old Scheme and movements in such holding during the two years ended 30 June 2003:

Grant to	Option type	Number of share options		
		At 1.7.2001	Lapsed	At 30.6.2002 and 30.6.2003
Directors	A	3,600,000	(3,600,000)	–
	B	<u>6,000,000</u>	<u>(6,000,000)</u>	<u>–</u>
		<u>9,600,000</u>	<u>(9,600,000)</u>	<u>–</u>
Employees	A	925,000	(925,000)	–
	C	<u>5,500,000</u>	<u>(5,500,000)</u>	<u>–</u>
		<u>6,425,000</u>	<u>(6,425,000)</u>	<u>–</u>
		<u>16,025,000</u>	<u>(16,025,000)</u>	<u>–</u>

Option	Date of grant	Exercise period	Exercise price HK\$	Vesting period
A	23 December 1991	23 December 1993 to 19 November 2001	0.87	23 December 1991 to 22 December 1993
B	3 September 1992	3 September 1994 to 19 November 2001	1.35	3 September 1992 to 2 September 1994
C	21 October 1997	21 October 1999 to 19 November 2001	0.23	21 October 1997 to to 20 October 1999

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2003

25. SHARE OPTION SCHEME – continued

The Company's new share option scheme (the "New Scheme"), was adopted pursuant to a resolution passed on 22 November 2001 for the primary purpose of providing incentives or rewards for the contribution by the directors, employees or any other persons, who in the discretion of the Board, and will expire on 21 November 2012. Under the New Scheme, the Board of Directors of the Company may grant options to any employees or executives or officers of the Company and its subsidiaries and any other persons, who in the discretion of the Board have contributed to the Company and its subsidiaries, to subscribe for shares in the Company.

At 30 June 2003, the number of shares in respect of which options had been granted and remained outstanding under the New Scheme was 6,164,168 (2002: Nil), representing 0.6% (2002: Nil) of the shares of the Company in issue at that date. The total number of shares in respect of which options may be granted under the New Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. The number of shares in respect of which options may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted to substantial shareholders or independent non-executive directors in excess of 0.1% of the Company's share capital or with a value in excess of HK\$5 million must be approved in advance by the Company's shareholders.

Options granted must be taken up within 14 days of the date of grant, upon payment of HK\$1 per grant. Options may generally be exercised at any time from the second anniversary of the date of acceptance to the tenth anniversary of the date of grant. In each grant of options, the Board of Directors may at their discretion determine the specific exercise period. The exercise price is determined by the directors of the Company, and will not be less than the highest of the closing price of the Company's shares on the date of grant and the average closing price of the shares for the five business days immediately preceding the date of grant and the nominal value of the shares.

The following tables disclose details of the Company's share options held by directors under the New Scheme and movements in such holdings during the year:

Date of grant	Vesting period	Exercise period	Exercise price HK\$	Number of share options		
				Outstanding at 1.7.2002	Granted during year	Outstanding at 30.6.2003
9 September 2002	9 September 2002 to 8 September 2004	9 September 2004 to 8 September 2012	0.343	–	6,164,168	6,164,168

Total consideration received during the year from directors for taking up the options granted is amounted HK\$8 (2002: Nil).

No charge is recognised in the income statement in respect of the value of options granted in the year (2002: Nil).

During the year ended 30 June 2003, no option were exercised or cancelled under the New Scheme.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2003

26. RESERVES (DEFICIT)

	THE GROUP		THE COMPANY	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
SHARE PREMIUM				
At the beginning of the year	249,546	242,159	249,546	242,159
Premium arising on issue of shares upon the conversion of CLN	63,649	7,387	63,649	7,387
Cancellation against accumulated losses	(230,594)	–	(230,594)	–
Transfer to other distributable reserve	(82,601)	–	(82,601)	–
At the end of the year	–	249,546	–	249,546
LEGAL RESERVE				
At the beginning and the end of the year	323	323	–	–
SPECIAL RESERVE				
At the beginning of the year	7,139	7,139	–	–
CONTRIBUTED SURPLUS				
At the beginning and the end of the year	–	–	124,802	124,802
OTHER DISTRIBUTABLE RESERVE				
Transfer from share premium and at the end of the year	82,601	–	82,601	–
REVALUATION RESERVES				
At the beginning of the year	5,511	13,735	–	–
Deficit arising from revaluation of investment in securities	–	(5,048)	–	–
Realised on disposal of investment in securities	(3,019)	(3,176)	–	–
At the end of the year	2,492	5,511	–	–
TRANSLATION RESERVE				
At the beginning of the year as originally stated	(3,556)	(5,022)	–	–
prior year adjustment in respect of foreign currencies	1,299	448	–	–
as restated	(2,257)	(4,574)	–	–
Exchange differences arising on translation of overseas operations	1,807	2,317	–	–
At the end of the year	(450)	(2,257)	–	–
ACCUMULATED PROFITS (LOSSES)				
At the beginning of the year as originally stated	(292,015)	(363,432)	(563,457)	(562,942)
prior year adjustments in respect of:				
– foreign currencies	(1,299)	(448)	–	–
– employee benefits	(2,648)	(2,386)	–	–
as restated	(295,962)	(366,266)	(563,457)	(562,942)
Eliminated against share premium	230,594	–	230,594	–
Profit for the year	133,892	70,304	279,901	(515)
At the end of the year	68,524	(295,962)	(52,962)	(563,457)
RESERVES (DEFICIT)	160,629	(35,700)	154,441	(189,109)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2003

26. RESERVES (DEFICIT) – continued

Legal reserve represents the transfer from retained profits of a subsidiary in Switzerland pursuant to legal requirements in Switzerland.

Special reserve represents the difference between the nominal amount of the share capital issued by the Company in exchange for the nominal amount of the share capital of companies forming the Group, pursuant to the group reorganisation in 1991.

Contributed surplus represents the difference between the combined net assets of the subsidiaries acquired by the Company under the group reorganisation, and the nominal amount of the Company's shares issued.

Under the Company Act 1981 of Bermuda (as amended), the contributed surplus account of the Company is available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

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

Pursuant to a special resolution passed on 4 April 2003, the entire amount standing to the credit of the share premium account of the Company was cancelled and the credit arising therefrom was being applied towards eliminating the accumulated losses of the Company as at 31 December 2002 with the remaining balance credited to other distributable reserve of the Company. Other distributable reserve represents the surplus transferred from share premium accounts.

The Company's reserves available for distribution to shareholders as at 30 June 2003 amounted to approximately HK\$154,441,000 (2002: Nil).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2003

27. MAJOR NON-CASH TRANSACTIONS

During the year, the Group entered into finance lease arrangements in respect of assets with a total capital value of HK\$3,690,000 (2002: HK\$2,089,000) at the inception of the finance leases.

During the year, HK\$93,732,000 (2002: HK\$10,878,000) of CLNs were converted into 300,828,495 (2002: 34,912,718) ordinary shares of the Company.

Part of the consideration in connection with the issue of new shares of Charming Elastic Fabric Company Limited ("Elastic") in last year, a subsidiary of the Company was settled in the form of property, plant and equipment. At 30 June 2003, production facilities and equipment at cost of HK\$5,677,000 (2002: HK\$7,018,000) have been contributed.

28. CONTINGENT LIABILITIES

	THE GROUP		THE COMPANY	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Export bills discounted with recourse	-	3,848	-	-
Guarantees given (extent of facilities utilised) to banks in respect of credit facilities granted to subsidiaries	-	-	20,751	79,128
	<u>-</u>	<u>-</u>	<u>20,751</u>	<u>79,128</u>

29. PLEDGE OF ASSETS

As at 30 June 2003, the Group has pledged certain of its properties with an aggregate carrying value of approximately HK\$877,000 (2002: HK\$1,003,000), to secure credit facilities granted to the Group.

The Company and certain of its subsidiaries each has executed a debenture in favour of certain banks so that all the assets, including bank balances and cash, and rights of the Company and the related subsidiaries are provided as securities for the continuation of the banking facilities granted to the Group.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2003

30. CAPITAL COMMITMENTS

	THE GROUP	
	2003	2002
	HK\$'000	HK\$'000
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the financial statements	4,292	5,210
Capital expenditure in respect of acquisition of property, plant and equipment authorised but not contracted for	<u>26,898</u>	<u>44,255</u>
	<u><u>31,190</u></u>	<u><u>49,465</u></u>

The Company did not have any significant capital commitments as at the balance sheet date.

31. OPERATING LEASE COMMITMENTS

At the balance sheet date, the Group had outstanding commitments under non-cancellable operating leases in respect of land and buildings, which fall due as follows:

	2003	2002
	HK\$'000	HK\$'000
– Within one year	13,054	12,732
– In the second to fifth year inclusive	13,888	6,370
– Over five years	<u>3,489</u>	<u>211</u>
	<u><u>30,431</u></u>	<u><u>19,313</u></u>

Leases are negotiated for an average term of three to five years with fixed rental over the terms of the relevant leases.

The Company had no operating lease commitments as at the balance sheet date (2002: Nil).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2003

32. RETIREMENT BENEFITS SCHEMES

The Group has joined a Mandatory Provident Fund scheme ("MPF Scheme") for all employees in Hong Kong which is registered with the Mandatory Provident Fund Scheme Authority under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rules of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rate specified in the rules. The only obligation of the Group with respect of the 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.

The eligible employees of the Company's subsidiaries in the PRC are members of pension schemes operated by the Chinese local government. The subsidiaries are required to contribute a certain percentage of the relevant part of the payroll of these employees to the pension schemes to fund the benefits.

Eligible employees of the Company's subsidiaries in Thailand and Philippines currently participate in a defined contribution pension scheme operated by the local municipal government. The calculation of contributions is based on certain percentages of the employees' payroll.

During the year, the Group made retirement benefit scheme contributions of HK\$1,681,000 (2002: HK\$1,636,000).

33. RELATED PARTY TRANSACTIONS

During the year, the Group had significant transactions with related parties as follows:

Name of related party	Nature of transactions	2003 HK\$'000	2002 HK\$'000
Van de Velde N.V. (note a)	Sale of finished products (note d)	24,283	–
	Interest payable on CLN	223	–
AIG Asia Direct Investment Fund Ltd. (note b)	Interest payable on CLN	1,068	2,517
American International Assurance Co. (Bermuda) Ltd. (note b)	Interest payable on CLN	1,068	2,517
Charming Industrial Co. Ltd. (note c)	Purchase of raw materials or semi-finished products (note e)	5,843	5,995

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2003

33. RELATED PARTY TRANSACTIONS – continued

Notes:

- (a) On 9 September 2002, Mr. Herman Van de Velde and Mr. Lucas A.M. Laureys, directors of Van de Velde N.V. (“VdV”) were appointed as directors of the Company. Since then, VdV became a related party of the Company and it held an interest of 19.17% in the Company as at 30 June 2003. As at 30 June 2003, the balances of trade receivable from VdV amounted to HK\$692,000 while no interest was payable to VdV.
- (b) In last year, AIG Asia Direct Investment Fund Ltd. (“AIGA”) and American International Assurance Co. (Bermuda) Ltd. (“AIA”), both of which are managed by AIG Global Investment Corporation (Asia) Limited (“AIGGIC”), each held US\$4.8 million of the CLN issued by the Company. During the year, all of the CLNs held by AIGA and AIA were converted into 119,700,748 shares of the Company. Lin Sian Zu, John and Tse Koon Hang, Ada, Non-executive Directors of the Company, are executive directors of AIGGIC. As at 30 June 2003, no interest was payable to each of AIGA and AIA (2002: HK\$1,015,000).
- (c) In last year, the Company disposed of a 40% interest in Elastic to Ko Ching Enterprises Limited which is controlled by Mr. Wong Lok Cheung (“Mr. Wong”). Since then, Mr. Wong became a related party of the Group and Elastic became a 60% owned subsidiary of the Company. At 30 June 2003, a trade payable to Charming Industrial Co., Ltd. (“Charming”) amounted to HK\$168,000 (2002: HK\$1,267,000). Mr. Wong has a beneficial interest in Charming.
- (d) The sales were carried out at market price or, where no market price was available, at cost plus a percentage profit mark-up.
- (e) The purchases were mutually agreed with the suppliers.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2003

34. PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries as at 30 June 2003 are as follows:

Name of company	Place of incorporation/ registration	Nominal value of issued share capital/ registered capital	Proportion of nominal value of issued ordinary share capital/ registered capital held by the Company	Principal activities
Charming Elastic Fabric Company Limited	Hong Kong	Ordinary – HK\$316,667 Deferred – HK\$810,000	60%	Manufacture of elastic garment straps
Grand Gain Industrial Limited	Hong Kong	Ordinary – HK\$100,000	55%	Laminating business
Long Nan County Grand Gain Underwear Company Limited 龍南縣建盈內衣有限公司	The PRC	HK\$5,000,000	55%	Moulding
Long Nan County Top Form Underwear Co. Ltd 龍南縣黛麗斯內衣 有限公司	The PRC	Capital contribution – HK\$20,000,000	100%	Manufacture of ladies' underwear
Marguerite Lee Limited	Hong Kong	Ordinary – HK\$2,500,000	100%	Retail sales of underwear, sleepwear and other intimate apparel
Marguerite Lee (Overseas) Limited	British Virgin Islands	Ordinary – US\$10	100%	Investment holding

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2003

34. PRINCIPAL SUBSIDIARIES – continued

Name of company	Place of incorporation/ registration	Nominal value of issued share capital/ registered capital	Proportion of nominal value of issued ordinary share capital/ registered capital held by the Company	Principal activities
Meritlux Industries Philippines., Inc.	Republic of Philippines	Ordinary – Peso 17,500,000	100%	Manufacture of ladies' underwear
Nan Hai Top Form Underwear Company Limited 南海市黛麗斯內衣 有限公司	The PRC	Capital contribution – HK\$20,800,000	75%	Manufacture of ladies' underwear
Shenzhen Top Form Underwear Co., Limited 深圳黛麗斯內衣 有限公司	The PRC	Capital contribution – HK\$8,616,475	70%	Manufacture and distribution of ladies' underwear
Top Form Brassiere Co., Limited	Thailand	Ordinary – Baht 80,000,000	100%	Manufacture of ladies' underwear
Top Form Brassiere Mfg. Co., Limited	Hong Kong	Ordinary – HK\$100 Deferred – HK\$4,000,000	100%	Manufacture of ladies' underwear
Top Form (B.V.I.) Limited	British Virgin Islands	Ordinary – US\$50,000	100%*	Investment holding

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2003

34. PRINCIPAL SUBSIDIARIES – continued

Name of company	Place of incorporation/ registration	Nominal value of issued share capital/ registered capital	Proportion of nominal value of issued ordinary share capital/ registered capital held by the Company	Principal activities
Top Prospect Investment Limited	Hong Kong	Ordinary – HK\$2	100%	Property holding in the PRC
Topfull Development Limited	Hong Kong	Ordinary – HK\$2	100%	Property holding in the PRC
Twin Peak Brassiere Company Limited	Thailand	Ordinary – Baht 3,000,000	97%	Manufacture of ladies' underwear
Unique Form Manufacturing Company Limited	Hong Kong	Ordinary – HK\$1,000 Deferred – HK\$200	100%	Retail sales of underwear, sleepwear and other intimate apparel
Wide Gain Investment Limited	Hong Kong	Ordinary – HK\$2	100%	Investment holding

* Directly held by the Company

34. PRINCIPAL SUBSIDIARIES – continued

Shenzhen Top Form Underwear Company Limited 深圳黛麗斯內衣有限公司 is a joint venture company established in the PRC and was originally held for a period of twelve years from 10 November 1987. On 18 September 1998, an extension agreement was entered into between the Group and the joint venture partner to extend the joint venture period for a further 10 years to 28 February 2009. Nan Hai Top Form Underwear Company Limited 南海市黛麗斯內衣有限公司 is also a joint venture company established in the PRC and is held for a period of ten years from 1 January 1992. On 1 January 2002, an extension agreement was entered, between the Group and the joint venture partner to extend the joint venture period for a further 3 years to 5 September 2004. Pursuant to the agreements under which the joint ventures were established, the Group has contributed 70% and 75% of the nominal registered capital of Shenzhen Top Form Underwear Company Limited 深圳黛麗斯內衣有限公司 and Nan Hai Top Form Underwear Company Limited 南海市黛麗斯內衣有限公司, respectively. However, under the joint venture agreements, the Group is entitled to 100% of the joint venture companies' profit after deducting a fixed annual amount attributable to assets contributed by the joint venture partners. The Group is entitled to receive its attributable share of the net assets upon liquidation of the joint ventures.

As at 30 June 2003, all of the deferred shares issued by subsidiaries were held by group companies. The deferred shares carry no right to dividend or to receive notice of or to attend or vote at any general meeting of the respective companies. On winding-up, the holders of the deferred shares are entitled to one half of the remaining assets of the respective companies after the first HK\$100,000,000,000 has been distributed equally amongst the holders of the ordinary shares.

None of the subsidiaries had any debt securities subsisting as at 30 June 2003 or at any time during the year.

All subsidiaries operate principally in their respective places of incorporation unless specified otherwise under the heading "Principal activities".

The above tables list the subsidiaries of the Company which, in the opinion of the Directors, principally comprised the Group's results of the year. To give details of other subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.