NOTES TO FINANCIAL STATEMENTS

30 June 2003

1. GROUP REORGANISATION AND CORPORATE INFORMATION

The Company

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands on 22 April 2003. On incorporation, the Company had authorised capital of HK$10,000 divided into 1,000,000 shares of HK$0.01 each, of which 1,000,000 shares were allotted and issued nil paid on 5 June 2003. Apart from the foregoing, no other transactions were carried out by the Company during the period from 22 April 2003 (date of incorporation) to 30 June 2003. Accordingly, the Company did not have any profits and losses for the period.

Comparative amounts have not been presented for the Company's balance sheet and the notes thereto because the Company was not in existence on 30 June 2002.

Group reorganisation

Pursuant to the group reorganisation (the "Group Reorganisation") to rationalise the structure of the Group in preparation for the listing of the Company's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 10 September 2003 (the "Listing"), the Company became the holding company of the companies now comprising the Group on 15 August 2003. This was accomplished by acquiring the entire issued share capital of Right Lane International Limited ("Right Lane"), which is, at the date of this report, the holding company of other subsidiaries (the "Subsidiaries") as set out in note 27 to the financial statements, in consideration of crediting as fully paid 1,000,000 shares allotted and issued on 5 June 2003 and the allotment and issue of an additional 1,000,000 shares to the former shareholders of Right Lane. Further details of the Group Reorganisation are set out in the Company's prospectus dated 28 August 2003 and in note 21 to the financial statements.

Upon the completion of the Group Reorganisation, the Company has direct or indirect interests in the Subsidiaries. All the Subsidiaries are private companies or, if incorporated/established outside Hong Kong, have substantially similar characteristics to a private company incorporated in Hong Kong.

Corporation information

The principal place of business of the Company is located at Room 305, Carpo Commercial Building, 18-20 Lyndhurst Terrace, Central, Hong Kong.

Had the Group Reorganisation been completed on 1 July 2001 and had the Group been in existence since that date, the Group's principal activities would have remained unchange and were engaged in the manufacture and sale of finished woven fabrics during the period from 1 July 2001 to 30 June 2003.

In the opinion of the directors, had the Group Reorganisation been completed on 1 July 2001 and had the Group been in existence since that date, the ultimate holding company of the Company as at 30 June 2003 would have been Talent Crown Investment Limited, a company incorporated in the British Virgin Islands ("BVI") and the entire issued share capital of which is beneficially owned by Mr. Chen Dong, a director of the Company.

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The Group Reorganisation involved companies under common control. Because the Group Reorganisation took place on 15 August 2003, which was subsequent to the balance sheet date, according to Hong Kong Statement of Standard Accounting Practice ("SSAP") 27 "Accounting for group reconstructions", the Company, together with its subsidiaries, should only be regarded and accounted for as a continuing group in the preparation of the Group's financial statements for the year ending 30 June 2004. Nevertheless, for the benefit of shareholders and for information purpose only, supplementary pro forma combined financial information for the current year has been presented in these financial statements on the basis that the Company is treated as the holding company of the Subsidiaries for the financial years presented rather than from the subsequent date of acquisition of the Subsidiaries on 15 August 2003. The pro forma combined financial information includes pro forma combined profit and loss account, balance sheet, statement of changes in equity, cash flow statement and notes thereto. The pro forma combined profit and loss accounts of the Group for each of the years ended 30 June 2002 and 2003 include the results of the Company and the Subsidiaries with effect from 1 July 2001 or since their respective dates of incorporation/establishment, where this is a shorter period. The pro forma combined balance sheets as at 30 June 2002 and 2003 have been prepared on the basis as if the current Group structure was in place at those dates.

All significant transactions and balances among the companies comprising the Group have been eliminated on combination.

Although the Group Reorganisation has not been completed and accordingly, the Group did not legally exist until 15 August 2003, in the opinion of the directors, the presentation of such pro forma combined financial information prepared on the aforesaid basis is necessary to apprise the Company's shareholders of the Group's results and its state of affairs as a whole.

Basis of preparation

These financial statements have been prepared under the historical cost convention, subject to the basis of presentation and combination as set out above and in accordance with SSAPs, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance.

Subsidiaries

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties

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

Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however, not to an amount higher than the carrying amount that would have been determined (net of any depreciation) had no impairment loss been recognised for the asset in prior years.

A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises.

Fixed assets and depreciation

Fixed assets, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed assets, the expenditure is capitalised as an additional cost of that asset.

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fixed assets and depreciation (continued)

Depreciation is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life. The principal annual rates used for this purpose are as follows:

Medium term leasehold land outside Hong Kong	Over the lease terms
Buildings outside Hong Kong	10%
Plant and machinery	10%
Furniture, fixtures, office equipment and motor vehicles	20%

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents the costs incurred in connection with the construction and installation of fixed assets in bringing construction from its preparation stage to its working condition, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises direct costs of construction during the period of construction. Construction in progress is reclassified to the appropriate category of fixed assets when completed and ready for use.

Research and development costs

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

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

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals payable under operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

Inventories

Inventories are stated at the lower of cost and net realisable value, after making due allowances for obsolete or slow-moving items. Cost is determined on a weighted average basis and, in case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Trade receivables

Trade receivables are recognised and carried at original invoiced amount, less provision for doubtful debts when the collection of full amount is no longer probable. Bad debts are written off as incurred.

Cash and cash equivalents

For the purpose of the pro forma combined cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the pro forma combined balance sheet, cash and bank balances comprised cash on hand and at banks, including demand deposits, which are not restricted as to use.

Deferred tax

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

Revenue recognition

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

– from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold; and

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

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits

Pension schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries or the maximum mandatory contributions as required by the MPF Scheme and are charged to the profit and loss account as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme, except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the MPF Scheme.

The employees of the Group's subsidiary which operates in the People's Republic of China (the "PRC") are required to participate in a central pension scheme (the "CP Scheme") operated by the local municipal government. The PRC subsidiary is required to contribute certain percentage of its payroll costs to the CP Scheme to fund the retirement benefits. The local government undertakes to assume the retirement benefits obligations of all existing and future retired employees of the PRC subsidiary. The only obligation of the PRC subsidiary with respect to the CP Scheme is to meet the required contributions. The contributions are charged to the profit and loss account as they become payable in accordance with the rules of the CP Scheme.

Share option scheme

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The financial impact of share options granted under the share option scheme is not recorded in the Company's or the Group's balance sheet until such time as the share options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Share options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding share options.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the capital and reserves section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Foreign currencies

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

On combination, the financial statements of overseas subsidiaries are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries are translated into Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

For the purpose of the pro forma combined cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

3. SEGMENT INFORMATION

During the year, the Group has only one business segment, which is the manufacture and sale of finished woven fabrics and accordingly, no further business segmental analysis is presented. In addition, all of the Group's revenue and results are derived from customers based in the PRC and all of its operating assets and liabilities are based in the PRC. Accordingly, no further geographic segmental analysis is presented.

4. TURNOVER

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts. All significant intra-group transactions have been eliminated on combination.

5. PROFIT FROM OPERATING ACTIVITIES

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

	2003 HK$'000	2002 HK$'000
Cost of inventories sold	**243,622**	159,868
Auditors' remuneration	**980**	550
Research costs	**752**	1,214
Minimum lease payments under operating leases in respect of:		
– plant and machinery	**2,377**	3,821
– leasehold buildings	**799**	647
	3,176	4,468
Staff costs (excluding directors' remuneration – note 7)		
Wages and salaries	**5,418**	5,189
Pension scheme contributions	**688**	533
	6,106	5,722
Depreciation	**9,230**	5,872
Provision for doubtful debts	**37**	165
Bad debts written off	**–**	340
Provision for inventory obsolescence	**51**	45
Loss on disposal of a fixed asset	**46**	–
Interest income	**(168)**	(158)

Cost of inventories sold includes HK$15,328,000 (2002: HK$13,745,000) in respect of staff costs, depreciation, minimum lease payments under operating leases in respect of plant and machinery and leasehold buildings, and provision for inventory obsolescence, which are also included in the respective total amounts disclosed separately above.

Research costs include HK$96,000 (2002: HK$73,000) in respect of staff costs which are also included in the staff costs disclosed separately above.

6. FINANCE COSTS

	Group	
	2003	2002
	HK$'000	HK$'000
Interest expenses on bank loans wholly repayable within one year	**1,677**	1,720

7. DIRECTORS' REMUNERATION

Directors' remuneration, disclosed pursuant to Appendix 16 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Group	
	2003	2002
	HK$'000	HK$'000
Fees	**–**	–
Basic salaries	**195**	195
Pension scheme contributions	**40**	40
	235	235

The remuneration of each of the directors for the years ended 30 June 2002 and 2003 fell within the Nil to HK$1,000,000 band.

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

8. FIVE HIGHEST PAID EMPLOYEES

The five highest paid individuals in the Group during the year included three (2002: three) directors, details of whose remuneration are set out in note 7 above. Details of remuneration of the remaining two (2002: two) non-director, highest paid employees are as follows:

	Group	
	2003	2002
	HK$'000	HK$'000
Basic salaries	**118**	138
Pension scheme contributions	**14**	11
	132	149

The remuneration of each of the non-director, highest paid employees for the years ended 30 June 2002 and 2003 fell within the Nil to HK$1,000,000 band.

9. TAX

	Group	
	2003	2002
	HK$'000	HK$'000
Current year provision:		
Hong Kong	**–**	–
The PRC	**10,223**	6,211

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the year (2002: Nil).

Fuzhou Huaguan Knitting and Sprining Co., Ltd. ("Fuzhou Huaguan") is a subsidiary in the PRC which is exempted from the PRC corporate income tax ("CIT") for two years starting from its first profit-making year of operations and thereafter is eligible for 50% relief from CIT for the following three years under the Income Tax Law of the PRC. The first profit-making year of Fuzhou Huaguan was the year ended 31 December 1999. The current tax rate applicable to Fuzhou Huaguan is 12%.

No provision for deferred tax has been made as the Group did not have any significant timing differences during the year (2002: Nil).

10. EARNINGS PER SHARE

The calculation of pro forma basic earnings per share for the year is based on the Group's pro forma combined net profit from ordinary activities attributable to shareholders for the year of HK$68,732,000 (2002: HK$42,792,000), and 700,000,000 shares (2002: 700,000,000) deemed to have been issued during the year on the assumption that the Group Reorganisation and the subsequent capitalisation issue of 698,000,000 shares of the Company as set out in notes 1 and 21 to the financial statements, respectively, had been completed on 1 July 2001.

Pro forma diluted earnings per share amounts have not been presented as the Company did not have any potential ordinary shares during the year (2002: Nil).

11. DIVIDENDS

No dividend has been paid or declared by the Company or any of the companies comprising the Group during the year (2002: Nil).

12. FIXED ASSETS

Group

	Leasehold land and buildings	**Plant and machinery**	**Furniture, fixtures, office equipment and motor vehicles**	**Construction in progress**	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Cost:					
At 1 July 2002	43,177	49,454	2,947	–	95,578
Additions	–	13,681	–	24,806	38,487
Disposal	–	(550)	–	–	(550)
At 30 June 2003	43,177	62,585	2,947	24,806	133,515
Accumulated depreciation:					
At 1 July 2002	6,746	11,619	751	–	19,116
Provided during the year	3,102	5,556	572	–	9,230
Disposal	–	(32)	–	–	(32)
At 30 June 2003	9,848	17,143	1,323	–	28,314
Net book value:					
At 30 June 2003	33,329	45,442	1,624	24,806	105,201
At 30 June 2002	36,431	37,835	2,196	–	76,462

12. FIXED ASSETS (continued)

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

The Group's leasehold land and buildings and certain construction in progress relating to the construction of buildings, included above at cost, were valued at HK$46,300,000 as at 30 June 2003 in connection with the Listing by DTZ Debenham Tie Leung Limited, independent professionally qualified valuers, using depreciated replacement cost basis. Had the Group's leasehold land and buildings been included in these financial statements at such valuation amount throughout the year ended 30 June 2003, an additional depreciation charge of approximately HK$27,000 would have been charged to the pro forma combined profit and loss account for the year ended 30 June 2003. Further details regarding the above are set out in the Company's prospectus dated 28 August 2003.

At 30 June 2003, certain of the Group's leasehold land and buildings with aggregate net book values of HK$24,970,000 (2002: HK$5,292,000) were pledged to a bank to secure the interest-bearing bank borrowings as set out in note 16 to the financial statements.

At 30 June 2003, certain of the Group's plant and machinery with aggregate net book values of HK$19,379,000 (2002: HK$22,640,000) were pledged to a bank to secure the interest-bearing bank borrowings as set out in note 16 to the financial statements.

13. INVENTORIES

	Group	
	2003	2002
	HK$'000	HK$'000
Raw materials	**7,847**	9,764
Work in progress	**7,657**	5,706
Finished goods	**7,782**	4,289
	23,286	19,759

None of the inventory included above was stated at net realisable value as at 30 June 2003 (2002: Nil).

14. TRADE RECEIVABLES

A defined credit policy is maintained within the Group. The general credit term ranges from 45 days to 90 days, except for certain well-established customers with long business relationships with the Group, where the terms are extended. The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are regularly reviewed by the senior management of the Group.

An aged analysis of the Group's trade receivables as at the balance sheet date, based on invoice date and net of provision for doubtful debts, is as follow:

	Group	
	2003	2002
	HK$'000	HK$'000
Within 90 days	**37,591**	30,286
Between 91 – 180 days	**–**	2,996
	37,591	33,282

15. CASH AND BANK BALANCES

At 30 June 2003, the Group's cash and bank balances denominated in Renminbi ("RMB") amounted to approximately HK$66,422,000 (2002: HK$17,204,000) and were not freely convertible into other currencies. Under the PRC's Foreign Exchange Control Regulations and Administration of Settlement Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for foreign currencies through banks authorised to conduct foreign exchange business.

16. INTEREST-BEARING BANK BORROWINGS, SECURED

At 30 June 2003, the Group's interest-bearing bank borrowings were secured by the following:

(i) a pledge of certain leasehold land and buildings as set out in note 12 to the financial statements; and

(ii) a pledge of certain plant and machinery as set out in note 12 to the financial statements.

At 30 June 2002, an interest-bearing bank borrowing was secured by a corporate guarantee executed by a related company whose substantial shareholder is a relative of the directors of the Company. The above corporate guarantee was released and replaced by the pledge of certain leasehold land and buildings of the Group during the year.

17. TRADE PAYABLES

An aged analysis of the Group's trade payables as at the balance sheet date, based on invoice date, is as follows:

	Group	
	2003	2002
	HK$'000	HK$'000
Within 90 days	**20,385**	12,775
Between 91 – 180 days	**–**	808
	20,385	13,583

18. DUE TO DIRECTORS

The amounts due to directors were unsecured, interest-free and were subsequently settled in August 2003.

19. DUE TO A RELATED COMPANY

The amount due to a related company was unsecured, interest-free and was subsequently settled in August 2003.

20. DEFERRED TAX

At 30 June 2003, the Company and the Group did not have any significant timing differences (2002: Nil).

21. SHARE CAPITAL

Share

The following is a summary of movements in the authorised and issued share capital of the Company:

	Notes	**Number of ordinary shares**	**Nominal value** HK$'000
Authorised:			
On incorporation and at 30 June 2003	(i)	1,000,000	10
Increase in authorised share capital	(ii)	1,999,000,000	19,990
At 10 September 2003, the Listing date		2,000,000,000	20,000
Issued and fully paid:			
Allotted and issued at nil paid	(i)	1,000,000	–
On acquisition of Right Lane *			
– nil paid shares credited as fully paid	(ii) (a)	–	10
– consideration shares issued	(ii) (b)	1,000,000	10
Capitalisation issue credited as fully paid conditional on the share premium account of the Company being credited as a result of the issue of new shares to the public	(iii)	698,000,000	–
Pro forma share capital of the Group at 30 June 2002 and 2003		700,000,000	20
Capitalisation of the share premium account as set out above	(iii)	–	6,980
New issue of shares	(iv)	175,000,000	1,750
At 10 September 2003, the Listing date		875,000,000	8,750

* Pursuant to the basis of presentation and combination as set out in note 2 to the financial statements, the pro forma combined financial information of the Group have been presented as if the Group Reorganisation as set out in note 1 to the financial statements was completed on 1 July 2001.

21. SHARE CAPITAL (continued)

Share (continued)

The following changes in the Company's authorised and issued share capital took place during the period from 22 April 2003 (date of incorporation) to the date of this report:

(i) On 22 April 2003 (date of incorporation), the authorised share capital of the Company was HK$10,000 divided into 1,000,000 shares of HK$0.01 each and all of which were allotted and issued at nil paid on 5 June 2003. The shares were subsequently credited as fully paid as described in (ii) (a) below.

(ii) Pursuant to a written resolution of all shareholders of the Company passed on 15 August 2003, the authorised share capital of the Company was increased from HK$10,000 to HK$20,000,000 by the creation of additional 1,999,000,000 shares of HK$0.01 each; and the directors of the Company were authorised:

(a) to credit as fully paid at par the aggregate of 1,000,000 shares of HK$0.01 each allotted and issued nil paid on 5 June 2003 as set out in (i) above; and

(b) to further allot and issue an aggregate of 1,000,000 shares of HK$0.01 each, credited as fully paid

as consideration of and in exchange for the entire issued share capital of Right Lane.

(iii) Pursuant to a written resolution of all shareholders of the Company passed on 16 August 2003, an aggregate of 698,000,000 shares were allotted and issued, credited as fully paid at par by the capitalisation of HK$6,980,000 from the share premium account, to the then existing shareholders of the Company, whose names appeared in the register of the Company on 16 August 2003, in proportion to their respective shareholdings. Such allotment and capitalisation were conditional on the share premium account being credited as a result of the new shares issued to the public pursuant to the Listing.

(iv) Pursuant to the Listing on the Stock Exchange on 10 September 2003, the Company issued 175,000,000 new shares of HK$0.01 each at HK$0.50 per share to the public.

Share options

Details of the Company's share option scheme are included in note 22 to the financial statements.

22. SHARE OPTION SCHEME

Subsequent to the balance sheet date, on 16 August 2003, the Company adopted a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants for their contribution to the Group and/or to enable the Group to recruit and retain high-calibre employees and attract human resources that are valuable to the Group and any entity in which the Group holds any equity interest ("Invested Entity"). Eligible participants of the Scheme include the directors and employees of the Company, its subsidiaries or any Invested Entity, suppliers and customers, of the Group or any Invested Entity, any person or entity that provides research, development or other technological support to the Group or any Invested Entity, and any shareholder of any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity. The Scheme became effective on 10 September 2003 and, unless otherwise terminated or amended, will remain in force for 10 years.

The maximum number of shares which may be issued upon exercise of all outstanding share options granted and yet to be exercised under the Scheme and any other share option schemes adopted by the Group shall not exceed such number of Company's shares as equals 30% of the issued share capital of the Company from time to time. The total number of shares which may be issued upon exercise of all share options to be granted under the Scheme and any other share option scheme of the Group must not in aggregate exceed 10% of the Company's shares in issue as at the Listing date.

Share options granted may be exercised in accordance with the terms of the Scheme at any time during the option period which shall not be more than 10 years from the date on which the option is deemed to be granted and accepted. A consideration of HK$1 will be payable upon the acceptance of the offer. There is no minimum period for which an option must be held before the exercise of the subscription right attaching thereto, except as otherwise imposed by the board of directors.

The exercise price of the share options is determinable by the directors, but may not be less than the highest of (i) the Stock Exchange's closing price of the Company's shares on the date of the offer of the share options; (ii) the average Stock Exchange's closing price of the Company's shares for the five trading days immediately preceding the date of the offer; and (iii) the nominal value of the Company's shares.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

No share options were granted under the Scheme after the listing of the Company on 10 September 2003 and up to the date of this report.

23. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the pro forma combined statement of changes in equity of the financial statements.

The Group's capital reserve represents the difference between the nominal value of the shares capital of the Subsidiaries acquired pursuant to the Group Reorganisation, as set in note 1 to the financial statements, over the nominal value of the shares capital of the Company issued in exchange therefor (note 21 (ii) to the financial statements).

In accordance with the relevant PRC regulations, the subsidiary established in the PRC is required to transfer a certain percentage of its profits after tax to the statutory reserve fund. Subject to certain restrictions set out in the relevant PRC regulations and the subsidiary's articles of association, the statutory reserve fund may be used either to offset losses, or for capitalisation issues by way of paid-up capital.

24. OPERATING LEASE ARRANGEMENTS

The Group leases certain offices under operating lease arrangements and the leases were negotiated for terms ranging from one to three years.

At 30 June 2003, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2003	2002
	HK$'000	HK$'000
Within one year	**839**	2,589
In the second to fifth years, inclusive	**1,014**	–
Total	**1,853**	2,589

The Company had not entered into any operating lease arrangements as at 30 June 2003.

25. COMMITMENTS

In addition to the operating lease commitments detailed in note 24 above, the Group had the following commitments at 30 June 2003:

	Group	
	2003	2002
	HK$'000	HK$'000
Contracted, but not provided for in respect of:		
Construction of land and buildings	**4,553**	5,558
Acquisition of land use right	**166**	–
Acquisition of plant and machinery	**–**	23,731
Leasehold improvements of offices	**13**	–
Research costs	**105**	247
	4,837	29,536

The Company did not have any commitments as at 30 June 2003.

26. RELATED PARTY TRANSACTIONS

In addition to those disclosed elsewhere in the financial statements, the Group had not entered into any other transactions with related parties during the year. During the year ended 30 June 2002, as set out in note 16 to the financial statements, the Group obtained a bank borrowing which was secured by a corporate guarantee executed by a related company whose substantial shareholder is a relative to the directors of the Company. The above corporate guarantee was released and replaced by the pledge of certain leasehold land and buildings of the Group during the year.

27. SUBSIDIARIES

Particulars of the Subsidiaries which were acquired pursuant to the Group Reorganisation as set out in note 1 to the financial statements are as follows:

Company	Place of incorporation/ registration and operations	Paid up shares/ registered capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Right Lane International Limited	BVI	Ordinary US$30,000	100	–	Investment holding
Shine York Limited	Hong Kong	Ordinary HK$2	–	100	Dormant
Art Technology Limited (formerly known as First Broad International Limited)	BVI/The PRC	Ordinary US$10,000	–	100	Research and development of finished woven fabrics
Global Art International Limited	BVI	Ordinary US$1	–	100	Investment holding
Fuzhou Huaguan Knitting and Sprining Co., Ltd. *	The PRC	RMB25,000,000	–	100	Manufacture and sale of finished woven fabrics

* Fuzhou Huaguan is established as a wholly foreign-owned enterprise under the PRC relevant law and regulations with an operating period up to 26 July 2010.

28. POST BALANCE SHEET EVENTS

In addition to those disclosed elsewhere in the financial statements, the Group had the following significant post balance sheet events:

(a) After the completion of the Group Reorganisation on 15 August 2003 as set out in note 1 to the financial statements, the Company became the immediate holding company of the Group.

(b) On 10 September 2003, the Company's shares were listed on the Stock Exchange for a total consideration, after deducting related issuing expenses, of approximately HK$77,100,000.

Save as aforesaid, no other significant events took place subsequent to 30 June 2003.

29. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 16 October 2003.