# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2003

## 1. CORPORATE INFORMATION

The principal place of business of the Company is located at Room 2901, Shun Tak Centre, West Tower, 168-200 Connaught Road Central, Hong Kong.

The principal activity of the Company is investment holding. The principal activities of the Company's subsidiaries are set out in note 14 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

Pursuant to a special resolution passed at the extraordinary general meeting of shareholders of the Company held on 22 July 2003, the Company changed its name from Huafeng Environmental Protection Textile International Group Limited to Huafeng Textile International Group Limited.

## 2. IMPACT OF NEW AND REVISED HONG KONG STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPs")

The following recently issued and revised SSAPs are effective for the first time for the current year's financial statements:

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

These SSAPs prescribe new accounting measurement and disclosure practices. The major effects on the Group's accounting policies and on the amounts disclosed in these financial statements of adopting these SSAPs are summarised as follows:

SSAP 1 (revised) prescribes the basis for the presentation of financial statements and sets out guidelines for their structure and minimum requirements for the contents thereof. The principal impact of the revision of this SSAP is that a consolidated statement of changes in equity is now presented on page 22 of the financial statements in place of the consolidated statement of recognised gains and losses that was previously required and in place of the note on the Group's reserves.

SSAP 11 (revised) prescribes the basis for the translation of foreign currency transactions and financial statements. The principal impact of the revision of this SSAP on the consolidated financial statements is that the profit and loss accounts of overseas subsidiaries are now translated into Hong Kong dollars at the weighted average exchange rates for the year, whereas previously they were translated at the exchange rates ruling at the balance sheet date. The adoption of the revised SSAP 11 has had no material effect on the financial statements.

## 2. IMPACT OF NEW AND REVISED HONG KONG STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPs") (continued)

SSAP 15 (revised) prescribes the revised format for the cash flow statement. The principal impact of the revision of this SSAP is that the consolidated cash flow statement now presents cash flows under three headings, cash flows from operating, investing and financing activities, rather than the five headings previously required. The significant reclassifications resulting from the change in presentation are that taxes paid is now included in cash flows from operating activities, interest received is now included in cash flows from investing activities, and interest paid and dividends paid are now included in cash flows from financing activities. The presentation of the comparative consolidated cash flow statement for the year ended 30 September 2002 has been changed to accord with the new format. In addition, cash flows from overseas subsidiaries arising during the year are now translated to Hong Kong dollars at the exchange rates at the dates of the transactions or at an approximation thereon, whereas previously they were translated at the exchange rates at the balance sheet date. This change has no significant impact on the cash flows from the operating activities, investing activities and financing activities for the years ended 30 September 2003 and 2002.

SSAP 34 prescribes the recognition and measurement criteria to apply to employee benefits, together with the required disclosures in respect thereof. The adoption of this SSAP has resulted in no material change to the previously adopted accounting treatments for employee benefits as at the balance sheet date. In addition, disclosures are now required in respect of the Company's share option scheme, as detailed on note 21 to the financial statements.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Basis of preparation**

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic remeasurement of the Group's leasehold land and buildings as further explained below.

**Basis of presentation and consolidation**

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 30 September 2003.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Basis of presentation and consolidation** (continued)

The consolidated financial statements for the year ended 30 September 2002 have been prepared using the merger basis of accounting as a result of the reorganisation scheme (the "Group Reorganisation") completed on 2 August 2002 to rationalise the structure of the Group in preparation for the public listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Under this basis, the Company has been treated as the holding company of the subsidiaries pursuant to the Group Reorganisation for the year ended 30 September 2002, rather than from the date of its acquisition of the subsidiaries. Accordingly, the consolidated results of the Group for the year ended 30 September 2002 include the results of the Company and its subsidiaries with effect from 1 October 2001 as if the then Group structure established pursuant to the Group Reorganisation had been in existence throughout the year.

In the opinion of the directors of the Company, the comparative consolidated financial statements prepared on the above basis present more fairly the results and the state of affairs of the Group as a whole.

All significant intercompany transactions and balances within the Group have been eliminated in the preparation of the consolidated financial statements.

**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:

(i) from the provision of fabric processing services, when the services are rendered; and

(ii) sales of goods, on the transfer of risks and rewards of ownership, which generally coincides with the time when goods are delivered to the customers and the title has passed.

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

**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 the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Employee benefits**

(i) *Employee leave entitlements*

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity or paternity leave are not recognised until the time of leave.

(ii) *Retirement benefits scheme*

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all of its employees in Hong Kong. Contributions are made based on a percentage of the employees' basic salaries 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.

The employees in the Company's subsidiaries operating in the People's Republic of China (the "PRC") are members of a retirement benefits scheme (the "PRC RB Scheme"), being operated by the local municipal government in Fujian Province, the PRC. The PRC subsidiaries are required to contribute to the PRC RB Scheme to fund the retirement benefits. The local municipal government in the PRC undertakes to assume the retirement benefits obligations of all existing and future retired employees of the PRC subsidiaries. The only obligation of the PRC subsidiaries with respect to the PRC RB Scheme is to meet the required contributions under the PRC RB Scheme. The contributions are charged to the profit and loss account as they become payable in accordance with the relevant laws and regulations of the PRC.

(iii) *Share option scheme*

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 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, equity is increased by the amount of the proceeds received. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2003

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Research and development costs**

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

Expenditure incurred on projects to develop new fabrics processing 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 processes have commercial value. Product development expenditure which does not meet these criteria is expensed when incurred.

During the year, all development costs have been expensed as no expenses satisfied the criteria for capitalisation.

**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 dividend. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

**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, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

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/amortisation), had no impairment loss been recognised for the asset in prior years.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2003

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Impairment of assets** (continued)

A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

**Fixed assets and depreciation**

Fixed assets, other than construction in progress, are stated at cost or valuation 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 asset, the expenditure is capitalised as an additional cost of that asset.

Changes in the values of fixed assets, other than construction in progress, are dealt with as movements in the fixed asset revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged. On disposal of a revalued asset, the relevant portion of the fixed asset revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

Depreciation is calculated on the straight-line basis to write off the cost or valuation of each asset, less any estimated residual value, over the following estimated useful lives:

| | |
|---|---|
| Leasehold land and buildings | The shorter of the lease terms and 20 to 50 years |
| Plant and machinery | 10 years |
| Furniture, fixtures and office equipment | 5 years |
| Motor vehicles | 5 years |

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 leasehold buildings under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of fixed assets when completed and ready for use.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. The capitalisation is based on the actual cost of the related borrowings. All other borrowing costs are recognised as expenses in the period in which they are incurred.

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

**Inventories**

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

**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 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.

**Foreign currencies**

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

On consolidation, 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.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2003

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Foreign currencies** (continued)

For the purpose of the consolidated 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.

**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.

**Cash and cash equivalents**

For the purpose of the consolidated 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 balance sheet, cash and cash equivalents comprise cash on hand and at bank, including term deposits, which are not restricted as to use.

**Segment reporting**

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment revenue, expenses, results, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment.

Segment capital expenditure is the total cost incurred during the year to acquire segment assets that are expected to be used for more than one year.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, corporate and financing expenses and minority interests.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2003

## 4. TURNOVER AND REVENUE

The Group's turnover represents the net invoiced value of services rendered or goods sold, after allowances for trade discounts and returns.

| | 2003 HK$'000 | 2002 HK$'000 |
|---|---|---|
| Turnover | | |
| Provision of fabric processing services | 333,758 | 290,131 |
| Sales of goods | 4,713 | – |
| | 338,471 | 290,131 |
| Other revenue | | |
| Bank interest income | 1,095 | 131 |
| | 339,566 | 290,262 |

## 5. SEGMENT INFORMATION

Segment information is presented by way of two segment formats:

(i) on a primary segment reporting basis, by geographical segment; and

(ii) on a secondary segment reporting basis, by business segment.

The principal activity of the Group is the provision of fabric processing services, which is managed according to the geographical location of customers.

Each of the Group's geographical segments, based on the location of customers, represents a strategic business unit that offers services to customers located in different geographical areas which are subject to risks and returns that are different from those of other geographical segments.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2003

## 5. SEGMENT INFORMATION (continued)

### (a) Geographical segments based on the location of customers

In determining the Group's geographical segments, revenues, results, assets and liabilities are attributed to the segments based on the location of the customers.

The following table presents revenue, results and certain asset, liability and expenditure information for the Group's geographical segments.

**Group**

| | Hong Kong | | The Philippines | | Elsewhere in Asia | | Africa, Australia and North America | | Consolidated | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2003** | 2002 | **2003** | 2002 | **2003** | 2002 | **2003** | 2002 | **2003** | 2002 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Segment revenue: | | | | | | | | | | |
| Sales to external customers | **5,445** | 11,381 | **214,274** | 184,798 | **44,300** | 22,414 | **74,452** | 71,538 | **338,471** | 290,131 |
| Inter-segment sales | **–** | – | **–** | – | **–** | – | **–** | – | **–** | – |
| | **5,445** | 11,381 | **214,274** | 184,798 | **44,300** | 22,414 | **74,452** | 71,538 | **338,471** | 290,131 |
| Segment results | **1,954** | 3,918 | **74,841** | 57,668 | **12,919** | 7,186 | **24,435** | 25,924 | **114,149** | 94,696 |
| Unallocated revenue | | | | | | | | | **1,095** | 131 |
| Unallocated expenses | | | | | | | | | **(4,719)** | (802) |
| Profit from operating activities | | | | | | | | | **110,525** | 94,025 |
| Finance costs | | | | | | | | | **(1,217)** | (770) |
| Profit before taxation | | | | | | | | | **109,308** | 93,255 |
| Taxation | | | | | | | | | **(18,614)** | (15,158) |
| Profit before minority interests | | | | | | | | | **90,694** | 78,097 |
| Minority interests | | | | | | | | | **(26)** | (50) |
| Net profit from ordinary activities attributable to shareholders | | | | | | | | | **90,668** | 78,047 |

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2003

## 5. SEGMENT INFORMATION (continued)

### (a) Geographical segments based on the location of customers (continued)

**Group**

| | Hong Kong | | The Philippines | | Elsewhere in Asia | | Africa, Australia and North America | | Consolidated | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2003** | 2002 | **2003** | 2002 | **2003** | 2002 | **2003** | 2002 | **2003** | 2002 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Segment assets | **3,201** | 7,999 | **176,170** | 143,548 | **35,604** | 18,817 | **66,726** | 52,869 | **281,701** | 223,233 |
| Unallocated assets | **–** | – | **–** | – | **–** | – | **–** | – | **232,241** | 71,526 |
| Total assets | **3,201** | 7,999 | **176,170** | 143,548 | **35,604** | 18,817 | **66,726** | 52,869 | **513,942** | 294,759 |
| Segment liabilities | **686** | 1,467 | **26,971** | 23,815 | **5,576** | 2,889 | **9,371** | 9,219 | **42,604** | 37,390 |
| Unallocated liabilities | **–** | – | **–** | – | **–** | – | **–** | – | **91,533** | 51,132 |
| Total liabilities | **686** | 1,467 | **26,971** | 23,815 | **5,576** | 2,889 | **9,371** | 9,219 | **134,137** | 88,522 |
| Other segment information: | | | | | | | | | | |
| Depreciation | **211** | 298 | **8,305** | 4,840 | **1,717** | 587 | **2,886** | 1,875 | **13,119** | 7,600 |
| Segment capital expenditure | **860** | 1,778 | **33,844** | 28,876 | **6,996** | 3,502 | **11,758** | 11,181 | **53,458** | 45,337 |
| Unallocated capital expenditure | **–** | – | **–** | – | **–** | – | **–** | – | **116,553** | – |
| Total capital expenditure | **860** | 1,778 | **33,844** | 28,876 | **6,996** | 3,502 | **11,758** | 11,181 | **170,011** | 45,337 |

### (b) Geographic segments based on the location of assets

Additional information in respect of segment assets and cost for capital expenditure, based on the location of assets, is as follows:

**Group**

| | Hong Kong | | Macau | | Elsewhere in the PRC | | Consolidated | |
|---|---|---|---|---|---|---|---|---|
| | **2003** | 2002 | **2003** | 2002 | **2003** | 2002 | **2003** | 2002 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Segment assets | **5,159** | 806 | **80,906** | 69,110 | **427,877** | 224,843 | **513,942** | 294,759 |
| Capital expenditure | **45** | 72 | **13** | – | **169,953** | 45,265 | **170,011** | 45,337 |

### (c) Business segment

No business segment information has been disclosed as over 90% of the Group's revenue and results are derived from its principal activity of the provision of fabric processing services.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2003

## 6. PROFIT FROM OPERATING ACTIVITIES

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

| | Group | |
|---|---|---|
| | **2003** | 2002 |
| | **HK$'000** | HK$'000 |
| Cost of services provided and cost of sales | **195,489** | 164,471 |
| Depreciation | **13,119** | 7,600 |
| Minimum lease payments under operating leases on leasehold land and buildings | **374** | 550 |
| Staff costs (excluding directors' remuneration (note 7)): | | |
| Wages and salaries | **12,440** | 10,436 |
| Retirement benefits scheme contributions | **1,212** | 1,171 |
| | **13,652** | 11,607 |
| Auditors' remuneration | **600** | 1,000 |
| Research and development costs | **1,583** | 3,264 |
| Interest income | **(1,095)** | (131) |

## 7. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES

| | Group | |
|---|---|---|
| | **2003** | 2002 |
| | **HK$'000** | HK$'000 |
| Fees: | | |
| Executive directors | **–** | – |
| Independent non-executive directors | **240** | 20 |
| | **240** | 20 |
| Basic salaries, housing benefits, other allowances and benefits in kind: | | |
| Executive directors | **2,925** | 1,795 |
| Independent non-executive directors | **–** | – |
| Performance related bonus | **–** | – |
| | **2,925** | 1,795 |
| Retirement benefits scheme contributions: | | |
| Executive directors | **18** | – |
| Independent non-executive directors | **–** | – |
| | **18** | – |
| | **3,183** | 1,815 |

## 7. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES (continued)

The number of directors whose remuneration fell within the following band is as follows:

| | Number of directors | |
|---|---|---|
| | **2003** | 2002 |
| | **HK$'000** | HK$'000 |
| HK$Nil – HK$1,000,000 | **8** | 7 |

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

During the year ended 30 September 2003, all the five highest paid employees are directors of the Company, details of whose remuneration are disclosed above.

The five highest paid employees for the year ended 30 September 2002 included two directors, details of whose remuneration are disclosed above. Details of the remuneration of the remaining three non-director, highest paid employees for the year ended 30 September 2002, which fell within the HK$Nil to HK$1,000,000 band, are as follows:

| | **Group** |
|---|---|
| | 2002 |
| | HK$'000 |
| Basic salaries, housing benefits, other allowances and benefits in kind | 1,473 |
| Performance related bonus | – |
| Retirement benefits scheme contributions | – |
| | 1,473 |

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

## 8. FINANCE COSTS

| | **2003** | 2002 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Interest on bank loans wholly repayable within five years | **1,217** | 1,063 |
| Less: Interest capitalised | **–** | (293) |
| | **1,217** | 770 |

## 9. TAXATION

| | 2003 HK$'000 | 2002 HK$'000 |
|---|---|---|
| Current year provision: | | |
| Macau | **17,661** | 14,696 |
| Elsewhere in the PRC | **953** | 462 |
| Tax charge for the year | **18,614** | 15,158 |

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).

Macau Complementary Tax has been calculated at the rate of 15.75% (2002: 15.75%) on the estimated assessable profits of Huafeng Trading Limited, a wholly-owned subsidiary of the Company, in respect of the year.

According to the Income Tax Law of the PRC, Huafeng Knitting Co., Ltd. Shishi City, Fujian which operates in one of the coastal economic open zones of the PRC, is subject to a 24% state income tax and a 3% local income tax of the PRC.

According to the Income Tax Law of the PRC, Fujian Fenghua Textile Co., Ltd. ("Fujian Fenghua") is exempt from income tax for the first two profitable years of operations and is entitled to a 50% reduction in the income tax for the following three years. Fujian Fenghua has not generated any assessable profits since its establishment up to 30 September 2003 and, accordingly, no provision for PRC income tax has been made.

No provision for deferred tax had been made as the Group did not have any significant deferred tax liabilities in respect of the year (2002: Nil).

The revaluation of the Group's leasehold land and buildings does not constitute a timing difference and consequently, there is no deferred tax arising thereon.

## 10. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders dealt with in the financial statements of the Company for the year ended 30 September 2003 was approximately HK$30,325,000 (2002: HK$13,314,000).

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2003

## 11. DIVIDENDS

| | 2003<br>HK$'000 | 2002<br>HK$'000 |
|---|---|---|
| Interim – HK1.50 cents (2002: Nil) per ordinary share | **10,080** | – |
| Proposed final – HK2.25 cents (2002: HK2.00 cents) per ordinary share | **17,361** | 12,800 |
| | **27,441** | 12,800 |

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

## 12. EARNINGS PER SHARE

The calculation of basic earnings per share for the year is based on the Group's net profit from ordinary activities attributable to shareholders for the year of approximately HK$90,668,000 (2002: HK$78,047,000) and the weighted average number of 665,049,951 (2002: 552,416,438) ordinary shares in issue during the year.

The weighted average number of ordinary shares used to calculate the earnings per share for the year ended 30 September 2002 includes the pro forma issued share capital of the Company, comprising 10,000,000 ordinary shares issued nil paid on 23 January 2002 and sub-divided, 10,000,000 ordinary shares issued pursuant to the Group Reorganisation and the capitalisation issue of 524,000,000 ordinary shares, and the additional 96,000,000 ordinary shares issued upon the listing of the Company's shares on the Main Board of the Stock Exchange.

The calculation of diluted earnings per share for the year is based on the Group's net profit from ordinary activities attributable to shareholders for the year of approximately HK$90,668,000 and on 670,693,814 ordinary shares, being the weighted average number of 665,049,951 ordinary shares in issue during the year, as used in the basic earnings per share calculation, plus the weighted average of 5,643,863 ordinary shares assumed to have been issued at HK$0.65 per share on the deemed exercise of all warrants outstanding during the year.

There were no potential dilutive ordinary shares in existence for the year ended 30 September 2002 and, accordingly, no diluted earnings per share has been presented for that year.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2003

## 13. FIXED ASSETS

**Group**

| | Leasehold land and buildings HK$'000 | Plant and machinery HK$'000 | Furniture, fixtures, office equipment and motor vehicles HK$'000 | Construction in progress HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| **Cost or valuation:** | | | | | |
| At 1 October 2002 | 37,735 | 96,896 | 883 | – | 135,514 |
| Additions | – | 86,740 | 2,466 | 38,765 | 127,971 |
| Transfer | 6,477 | – | – | (6,477) | – |
| Surplus on revaluation | 1,447 | – | – | – | 1,447 |
| At 30 September 2003 | **45,659** | **183,636** | **3,349** | **32,288** | **264,932** |
| **Analysis of cost or valuation:** | | | | | |
| At cost | – | 183,636 | 3,349 | 32,288 | 219,273 |
| At valuation | 45,659 | – | – | – | 45,659 |
| At 30 September 2003 | **45,659** | **183,636** | **3,349** | **32,288** | **264,932** |
| **Accumulated depreciation:** | | | | | |
| At 1 October 2002 | – | 13,882 | 388 | – | 14,270 |
| Provided during the year | 2,362 | 10,312 | 445 | – | 13,119 |
| Written back on revaluation | (2,362) | – | – | – | (2,362) |
| At 30 September 2003 | **–** | **24,194** | **833** | **–** | **25,027** |
| **Net book value:** | | | | | |
| At 30 September 2003 | **45,659** | **159,442** | **2,516** | **32,288** | **239,905** |
| At 30 September 2002 | 37,735 | 83,014 | 495 | – | 121,244 |

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

At 30 September 2003, the Group's leasehold land and buildings in the PRC, including the buildings for which the Group are currently in the process of obtaining the building ownership certificates, were revalued by BMI Appraisals Limited ("BMI"), an independent firm of professional valuers, at open market value of approximately HK$45,659,000 (2002: HK$37,735,000). The resulting revaluation surplus of approximately HK$3,809,000 (2002: HK$23,833,000) has been credited to the fixed asset revaluation reserve.

Had the Group's leasehold land and buildings been carried at historical cost less accumulated depreciation, their carrying amounts would have been approximately HK$19,504,000 (2002: HK$13,902,000).

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2003

## 13. FIXED ASSETS (continued)

During the year ended 30 September 2003, no interests were capitalised in fixed assets. During the year ended 30 September 2002, prior to its transfer to other categories of fixed assets, the carrying amount of construction in progress included capitalised interests of approximately HK$445,000.

At 30 September 2003, the Group's plant and machinery with an aggregate net book value of approximately HK$4,320,000 (2002: HK$28,321,000) were pledged to secure certain banking facilities granted to the Group (note 18).

## 14. INVESTMENTS IN SUBSIDIARIES

| | Company | |
|---|---|---|
| | **2003** | 2002 |
| | **HK$'000** | HK$'000 |
| Unlisted shares, at cost | **133,900** | 133,900 |

The balances with subsidiaries included in the Company's current assets and current liabilities are unsecured, interest-free and have no fixed terms of repayment.

Particulars of the subsidiaries as at the balance sheet date are as follows:

| Name | Place of incorporation/ establishment and operations | Paid-up share/ registered capital | Percentage of equity interest attributable to the Company | Principal activities |
|---|---|---|---|---|
| **Directly held** | | | | |
| Treasure Wealth Assets Limited ("Treasure Wealth") | British Virgin Islands ("BVI") | Ordinary US$600 | 100% | Investment holding |
| **Indirectly held** | | | | |
| Huafeng Knitting Co., Ltd. Shishi City, Fujian (note (i)) | PRC | RMB75,000,000 | 98.93% | Provision of fabric processing services |
| Huafeng Marketing Limited | BVI/PRC | Ordinary US$100 | 100% | Dormant |
| Huafeng Quality Control Limited | BVI/PRC | Ordinary US$100 | 100% | Dormant |
| Huafeng Technical Services Limited | BVI/PRC | Ordinary US$100 | 100% | Dormant |

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2003

## 14. INVESTMENTS IN SUBSIDIARIES (continued)

| Name | Place of incorporation/ establishment and operations | Paid-up share/ registered capital | Percentage of equity interest attributable to the Company | Principal activities |
|---|---|---|---|---|
| **Indirectly held** | | | | |
| Huafeng Trading Limited | BVI/Macau | Ordinary US$100 | 100% | Provision of fabric processing services |
| Powerful China Development Limited | Hong Kong | Ordinary HK$100 | 100% | Provision of administrative services |
| Huafeng Trading Macau Commercial Offshore Limited | Macau | MOP100,000 | 100% | Not yet commenced business |
| Fujian Fenghua Textile Co., Ltd. (note (ii)) | PRC | US$15,000,000 | 100% | Not yet commenced business |

Notes:

(i) Huafeng Knitting Co., Ltd. Shishi City, Fujian is a sino-foreign equity joint venture established under the law of the PRC. During the year, the registered capital of this subsidiary was increased from RMB20,000,000 to RMB75,000,000. The increased capital was contributed by the Group, resulting in an increase in the percentage of equity interest attributable to the Company from 96% to 98.93%.

(ii) Fujian Fenghua Textile Co., Ltd. was incorporated during the year as a wholly foreign owned enterprise in the PRC.

## 15. INVENTORIES

| | Group | |
|---|---|---|
| | **2003** | 2002 |
| | **HK$'000** | HK$'000 |
| Consumables | **22,247** | 21,395 |
| Raw materials | **4,614** | – |
| Finished goods | **5,261** | – |
| | **32,122** | 21,395 |

No inventories of the Group were carried at net realisable value (2002: HK$Nil) at 30 September 2003.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2003

## 16. TRADE RECEIVABLES

The Group normally allows credit terms to well-established customers ranging from 30 to 120 days. A 100% provision is made for outstanding debts aged over 365 days.

An aging analysis of the trade receivables as at the balance sheet date, based on the date of recognition of the service income or goods sold, is as follows:

| | Group | |
|---|---|---|
| | **2003** | 2002 |
| | **HK$'000** | HK$'000 |
| 0 – 30 days | **30,080** | 27,861 |
| 31 – 60 days | **25,160** | 20,412 |
| 61 – 90 days | **20,549** | 17,407 |
| Over 90 days | **6,897** | 6,220 |
| | **82,686** | 71,900 |

## 17. CASH AND CASH EQUIVALENTS

| | Group | | Company | |
|---|---|---|---|---|
| | **2003** | 2002 | **2003** | 2002 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Bank and cash balances | **114,537** | 23,962 | **352** | 656 |
| Short-term deposits | **–** | 47,564 | **–** | – |
| Cash and cash equivalents | **114,537** | 71,526 | **352** | 656 |

At 30 September 2003, the cash and cash equivalents of the Group denominated in Renminbi ("RMB") amounting to approximately HK$97 million (2002: HK$71 million) were kept in the PRC. The conversion of RMB denominated balances into foreign currencies is subject to rules and regulations of foreign exchange control promulgated by the PRC government.

## 18. BANKING FACILITIES

At 30 September 2003, the Group's banking facilities were secured by the following:

(i) fixed charges on the Group's plant and machinery with an aggregate net book value of approximately HK$4,320,000 (2002: HK$28,321,000) (note 13);

(ii) fixed charges on the leasehold land and buildings held by a minority shareholder of a subsidiary; and

(iii) a corporate guarantee given by a subsidiary.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2003

## 19. TRADE PAYABLES

The Group normally obtains credit terms ranging from 30 to 90 days from its suppliers.

An aging analysis of the trade payables as at the balance sheet date, based on the date of receipt of consumables or goods purchased, is as follows:

| | Group | |
|---|---|---|
| | **2003** | 2002 |
| | **HK$'000** | HK$'000 |
| 0 – 30 days | **12,524** | 12,581 |
| 31 – 60 days | **11,413** | 9,933 |
| 61 – 90 days | **6,757** | 6,614 |
| Over 90 days | **671** | – |
| | **31,365** | 29,128 |

## 20. SHARE CAPITAL

**Shares**

| | **2003** | 2002 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Authorised: | | |
| 2,000,000,000 ordinary shares of HK$0.01 each | **20,000** | 20,000 |
| Issued and fully paid: | | |
| 771,612,000 (2002: 640,000,000) ordinary shares of HK$0.01 each | **7,716** | 6,400 |

A summary of the movements in the issued share capital of the Company is as follows:

| | Note | **Number of share issued** | **Nominal value of shares issued** |
|---|---|---|---|
| | | '000 | HK$'000 |
| Pro forma share capital at 30 September 2001 | | 20,000 | 200 |
| Issue of new shares | | 96,000 | 960 |
| Capitalisation issue of shares credited as fully paid | | 524,000 | 5,240 |
| At 30 September 2002 | | 640,000 | 6,400 |
| Shares issued on exercise of warrants | (i) | 412 | 4 |
| Shares issued on exercise of share options | (ii) | 64,000 | 640 |
| Issue of Subscribed Shares | (iii) | 67,200 | 672 |
| At 30 September 2003 | | **771,612** | **7,716** |

## 20. SHARE CAPITAL (continued)

### Shares (continued)

Notes:

(i) During the year, 412,000 ordinary shares of HK$0.01 each in the Company were issued to certain warrant holders at a price of HK$0.65 per share, following the exercise of the warrants. The excess of the consideration received over the nominal value of the shares issued, in the amount of approximately HK$264,000, was credited to the share premium account (note 22(b)).

(ii) During the year, 64,000,000 share options were exercised at the subscription price of HK$0.57 per share, resulting in the issue of 64,000,000 shares of HK$0.01 each for a total cash consideration, before expenses, of approximately HK$36,480,000. The excess of the subscription consideration received over the nominal value of shares issued, amounting to approximately HK$35,840,000, was credited to the share premium account (note 22(b)).

(iii) On 1 August 2003, 67,200,000 ordinary shares of HK$0.01 each in the Company were placed by Mr. Cai Zhen Rong, a substantial shareholder of the Company, to an independent third party not connected with the directors, chief executives or substantial shareholders of the Company, or any of its subsidiaries, or any of their associates as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”), at a price of HK$1.00 per share. Mr. Cai Zhen Rong then subscribed for a total of 67,200,000 new shares of HK$0.01 each in the Company (the “Subscribed Shares”) at HK$1.00 per share. The proceeds received of approximately HK$65 million, net of expenses, were intended to be used for the construction of a new cotton yarn spinning plant within the Group’s existing factory complex and acquisition of cotton yarn spinning machineries and equipment and as general working capital of the Group. The excess of the consideration received over the nominal value of shares issued before the related issued expenses, in the amount of HK$66,528,000, was credited to the share premium account (note 22(b)).

### Warrants

Following the placing and the issue of new shares on 29 August 2002, the Company granted one bonus warrant for every two ordinary shares of HK$0.01 each in the share capital of the Company to: (i) the successful subscribers under the new issue of ordinary shares and the placees under the placing of ordinary shares; and (ii) Mr. Cai Zhen Rong of the balance of the warrants created and issuable.

Each of the bonus warrants entitles the holder thereof to subscribe for one ordinary share of the Company at an initial subscription price of HK$0.65 per share, subject to adjustment, from the date of issue to 21 August 2005 (both dates inclusive). Any ordinary shares falling to be issued upon the exercise of the subscription rights attaching to the bonus warrants will rank pari passu in all respects with the existing fully-paid ordinary shares in issue of the Company on the relevant subscription date.

At 1 October 2002, the outstanding number of warrants was 128,000,000. During the year, 412,000 warrants were exercised for 412,000 shares of HK$0.01 each at HK$0.65 per share with proceeds of approximately HK$268,000. At 30 September 2003, the Company had 127,588,000 warrants outstanding. The exercise in full of such warrants would, under the present capital structure of the Company, results in the issue of 127,588,000 additional ordinary shares of the Company, with proceeds of approximately HK$82,932,000 in aggregate before any related share issue expenses.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2003

## 21. SHARE OPTION SCHEME

The Company operates a share option scheme (the "SO Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the SO Scheme include the Company's directors, including independent non-executive directors, other employees of the Group, suppliers of goods or services to the Group, customers of the Group, persons or entities providing research, development or other technological support to the Group, and any minority shareholder in the Company's subsidiaries. The SO Scheme became effective on 30 August 2002 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the SO Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the SO Scheme within any 12-month year, is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the closing price of the Company's shares at the date of the grant) in excess of HK$5 million, within any 12-month year, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 21 days from the date of the offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise year of the share options granted is determinable by the directors, and commences after a certain vesting period and ends on a date which is not later than 10 years from the date of the grant of the share options or the expiry date of the SO Scheme, if earlier.

The exercise price of the share options is determinable by the directors, but may not be less than the higher of (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheet on the date of the offer of grant, which must be a trading day; (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of the offer of the grant; and (iii) the nominal value of the Company's shares.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2003

## 21. SHARE OPTION SCHEME (continued)

A summary of the movement of share options granted under the SO Scheme during the year is as follows:

| Name or category of participants | Number of share options outstanding at 1 October 2002 | Number of share options granted during the year | Number of share options exercised during the year | Number of share options outstanding at 30 September 2003 | Date of share options granted | Exercisable period | Exercise price per share HK$ | Closing price before the date of grant HK$ |
|---|---|---|---|---|---|---|---|---|
| **Directors and their associates** | | | | | | | | |
| Mr. Cai Zhen Yao | – | 6,400,000 | 6,400,000 | – | 29 January 2003 | 29 January 2003- 28 January 2013 | 0.57 | 0.57 |
| Mr. Cai Zhen Ying | – | 6,400,000 | 6,400,000 | – | 29 January 2003 | 29 January 2003- 28 January 2013 | 0.57 | 0.57 |
| Mr. Cai Yang Bo | – | 6,400,000 | 6,400,000 | – | 29 January 2003 | 29 January 2003- 28 January 2013 | 0.57 | 0.57 |
| Ms. Su Li Yuan (note (i)) | – | 6,400,000 | 6,400,000 | – | 29 January 2003 | 29 January 2003- 28 January 2013 | 0.57 | 0.57 |
| Mr. Cai Yang Hang (note (i)) | – | 6,400,000 | 6,400,000 | – | 29 January 2003 | 29 January 2003- 28 January 2013 | 0.57 | 0.57 |
| **Other employees** | | | | | | | | |
| In aggregate | – | 32,000,000 | 32,000,000 | – | 29 January 2003 | 29 January 2003- 28 January 2013 | 0.57 | 0.57 |
| | – | 64,000,000 | 64,000,000 | – | | | | |

Notes:

(i) Ms. Su Li Yuan and Mr. Cai Yang Hang are respectively the spouse and the son (under the age of 18 years at the date of grant of share options) of Mr. Cai Zhen Rong, the Chairman and an executive director of the Company.

(ii) All the above options were immediately vested upon granted.

(iii) During the year, no share options were lapsed or cancelled.

## 22. RESERVES

### (a) Group

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

The share premium account of the Group includes: (i) the premium arising from the new issue of shares; and (ii) the difference between the nominal value of the share capital of the subsidiaries acquired pursuant to the Group Reorganisation over the nominal value of the share capital of the Company issued in exchange therefor.

### (b) Company

| | Share premium HK$'000 | Retained profits HK$'000 | Total HK$'000 |
|---|---|---|---|
| Arising on acquisition of Treasure Wealth pursuant to the Group Reorganisation and applied in payment of 10,000,000 ordinary shares allotted nil paid on incorporation | 133,700 | – | 133,700 |
| Issue of new shares | 47,040 | – | 47,040 |
| Capitalisation issue of shares | (5,240) | – | (5,240) |
| Share issue expenses | (10,278) | – | (10,278) |
| Net profit for the period (note 10) | – | 13,314 | 13,314 |
| Proposed final dividend (note 11) | – | (12,800) | (12,800) |
| At 30 September 2002 and 1 October 2002 | 165,222 | 514 | 165,736 |
| Arising on exercise of warrants (note 20) | 264 | – | 264 |
| Arising on exercise of share options (note 20) | 35,840 | – | 35,840 |
| Issue of Subscribed Shares (note 20) | 66,528 | – | 66,528 |
| Share issue expenses | (2,003) | – | (2,003) |
| Net profit for the year (note 10) | – | 30,325 | 30,325 |
| Interim dividend (note 11) | – | (10,080) | (10,080) |
| Proposed final dividend (note 11) | – | (17,361) | (17,361) |
| At 30 September 2003 | **265,851** | **3,398** | **269,249** |

Notes:

The share premium account of the Company includes: (i) the premium arising from the new issue of shares; and (ii) the difference between the then combined net asset value of the subsidiaries acquired pursuant to the Group Reorganisation, over the nominal value of the share capital of the Company issued in exchange therefor.

In accordance with the Companies Law (Revised) of the Cayman Islands, the share premium account is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business. The share premium account may also be distributed in the form of fully paid bonus shares.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2003

## 23. CONTINGENT LIABILITIES

At 30 September 2003, neither the Company nor the Group had any significant contingent liabilities (2002: Nil).

## 24. OPERATING LEASE COMMITMENTS

The Group leases certain leasehold land and buildings under operating lease arrangements. The original lease terms for these leasehold land and buildings range from one to ten years.

At 30 September 2003, the Group had total future minimum lease payments under non-cancellable operating leases for leasehold land and buildings falling due as follows:

| | Group | |
|---|---|---|
| | **2003** | 2002 |
| | **HK$'000** | HK$'000 |
| Within one year | **403** | 545 |
| In the second to fifth years, inclusive | **63** | 1,436 |
| After five years | **–** | 1,189 |
| | **466** | 3,170 |

The Company did not have any significant operating lease commitments as at 30 September 2003 (2002: HK$Nil).

## 25. COMMITMENTS

At 30 September 2003, the Group had capital commitments as follows:

| | Group | |
|---|---|---|
| | **2003** | 2002 |
| | **HK$'000** | HK$'000 |
| Purchases of a parcel of land, authorised but not contracted for | **6,983** | – |
| Construction of leasehold land and buildings, contracted for | **8,676** | 3,596 |
| Purchases of plant and machinery, contracted for | **19,361** | 8,504 |
| | **35,020** | 12,100 |

The Company did not have any significant capital commitments as at 30 September 2003 (2002: Nil).

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2003

## 26. RELATED PARTY TRANSACTIONS

During the year, the Group's bank loan facilities to the extent of approximately HK$6 million were secured by a corporate guarantee given by a related company of which Mr. Cai Zhen Yao, an executive director of the Company, is the legal representative. The bank loans were fully repaid during the year.

During the year, leasehold land and buildings held by a minority shareholder of a subsidiary were pledged to a bank to secure a bank loan of approximately HK$800,000 granted to the Group. A close family member of Mr. Cai Zhen Rong is the legal representative of the minority shareholder.

## 27. POST BALANCE SHEET EVENT

On 16 January 2004, the Company proposed to declare a final dividend of HK2.25 cents per ordinary share to its shareholders whose names appeared on the register of members of the Company on 13 February 2004, as further detailed in note 11 to the financial statements.

## 28. COMPARATIVE AMOUNTS

As further explained in note 2 to the financial statements, due to the adoption of certain new or revised SSAPs during the current year, the presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been reclassified to conform to the current year's presentation.

## 29. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 16 January 2004.