

## NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

### I SIGNIFICANT ACCOUNTING POLICIES

#### (a) Statement of compliance

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

#### (b) Basis of preparation of the accounts

The measurement basis used in the preparation of the accounts is historical cost modified by the revaluation of investment properties and land and buildings.

#### (c) Basis of consolidation

The consolidated accounts include the accounts of the Company and all of its subsidiaries made up to 30 June each year. All material intercompany transactions and balances are eliminated on consolidation.

Goodwill arising on the acquisition of subsidiaries, being the excess of the cost of investments in these companies over the fair value of the Group's share of the separable net assets acquired, is amortised on a straight-line basis to the profit and loss account over its estimated useful economic life. The excess of the Group's share of the fair value of the separable net assets of subsidiaries acquired over the cost is credited to capital reserve.

On disposal of a subsidiary during the year, any attributable amount of purchased goodwill not previously amortised through the profit and loss account or which has previously been dealt with as a movement on Group reserves is included in the calculation of the profit or loss on disposal.

#### (d) Investments in subsidiaries

A subsidiary is a company in which the Group, directly or indirectly, holds more than half of the issued share capital, or controls more than half of the voting power, or controls the composition of the board of directors.

Investments in subsidiaries in the Company's balance sheet are stated at cost less any provisions for diminution in value which is other than temporary as determined by the directors for each subsidiary individually. Any such provisions are recognised as an expense in the profit and loss account.

## NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

### I SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (e) Associated companies

An associated company is an entity in which the Group has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

Unless the interest in the associated company is acquired and held exclusively with a view to subsequent disposal in the near future, an investment in an associated company is accounted for in the consolidated accounts under the equity method and is initially recorded at cost less acquisition goodwill and adjusted thereafter for the post acquisition change in the Group's share of the associated company's net assets. The consolidated profit and loss account reflects the Group's share of the post-acquisition results of the associated companies for the year. Goodwill arising on the acquisition of an associated company, being the excess of the cost over the fair value of the Group's share of the separable net assets acquired, is eliminated against reserves immediately on acquisition. The excess of the Group's share of the fair value of the separable net assets acquired over the cost of the investment is credited directly to reserves.

Unrealised profits and losses resulting from transactions between the Group and its associated companies are eliminated to the extent of the Group's interest in the associated company, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in the profit and loss account.

On disposal of an associated company during the year, any attributable amount of purchased goodwill which has previously been dealt with as a movement on Group reserves is included in the calculation of the profit or loss on disposal.

#### (f) Fixed assets

(i) Fixed assets are carried in the balance sheets on the following bases:

- investment properties with an unexpired lease term of more than 20 years are stated in the balance sheet at their open market value which is assessed annually by external qualified valuers;
- land use rights and buildings held for own use are stated in the balance sheet at cost or their revalued amount, being the fair value on the basis of their existing use at the date of revaluation less any subsequent accumulated depreciation. Revaluations are performed by qualified valuers with sufficient regularity to ensure that the carrying amount of these assets does not differ materially from that which would be determined using fair values at the balance sheet date; and
- Other fixed assets are stated in the balance sheet at cost or valuation less accumulated depreciation.

## NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

### I SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (f) Fixed assets (continued)

- (ii) Changes arising on the revaluation of investment properties and land use rights and buildings held for own use are generally dealt with in reserves. The only exceptions are as follows:
- when a deficit arises on revaluation, it will be charged to the profit and loss account, if and to the extent that it exceeds the amount held in the reserve in respect of that same asset, or, solely in the case of the investment properties, the portfolio of investment properties, immediately prior to the revaluation; and
  - when a surplus arises on revaluation, it will be credited to the profit and loss account, if and to the extent that a deficit on revaluation in respect of that same asset, or, solely in the case of the investment properties, the portfolio of investment properties, had previously been charged to the profit and loss account.
- (iii) The carrying amount of fixed assets (other than investment properties with an unexpired lease term of more than 20 years) is reviewed periodically in order to assess whether the recoverable amount has declined below the carrying amount. When such a decline has occurred, the carrying amount is reduced to the recoverable amount. The amount of the reduction is recognised as an expense in the profit and loss account except to the extent it relates to land use rights and buildings, in which case it is dealt with in accordance with (ii) above. In determining the recoverable amount, expected future cash flows generated by the fixed assets are not discounted to their present values.
- When the circumstances and event that led to the write-down or write-off cease to exist, any subsequent increase in the recoverable amount of an asset is written back to the profit and loss account, except to the extent it relates to land use rights and buildings, in which case it is dealt with in accordance with (ii) above. The amount written back is reduced by the amount that would have been recognised as depreciation had the write-down or write-off not occurred.
- (iv) Subsequent expenditure relating to a fixed asset that has already been recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the enterprise. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.
- (v) Gains or losses arising from the retirement or disposal of a fixed asset are determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and are recognised in the profit and loss account on the date of retirement or disposal. On disposal of an investment property, the related portion of surpluses or deficits previously taken to the investment properties revaluation reserve is also transferred to the profit and loss account for the year. For all other fixed assets, any related revaluation surplus is transferred from the revaluation reserve to retained profits.

## NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

### I SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (g) Amortisation and depreciation

- (i) No depreciation is provided on investment properties with an unexpired lease term of over 20 years.
- (ii) Depreciation is calculated to write off the cost or revalued amount of fixed assets on a straight line basis over their estimated useful lives as follows:

Buildings	The shorter of 20 years or the remaining terms of the leases
Leasehold improvements	5 years
Plant and machinery	10 years
Furniture, fixtures and office equipment	3 to 5 years
Motor vehicles	3 to 5 years

- (iii) Land use rights are amortised on a straight line basis over the remaining terms of the grant.

#### (h) Construction in progress

Construction in progress is stated at cost. Cost comprises direct costs of construction during the periods of construction and installation. Construction in progress is transferred to fixed assets when substantially all the activities necessary to prepare the assets for their intended use are completed. No depreciation is provided in respect of construction in progress.

#### (i) Leased assets

Leases of assets under which the lessor has not transferred all the risks and benefits of ownership are classified as operating leases.

- (i) *Assets held for use in operating leases*

Where the Group leases out assets under operating leases, the assets are included in the balance sheet according to their nature and, where applicable, are depreciated in accordance with the Group's depreciation policies, as set out in note I(g) above. Revenue arising from operating leases is recognised in accordance with the Group's revenue recognition policies, as set out in note I(k)(ii) below.

- (ii) *Operating lease charges*

Where the Group has the use of assets under operating leases, payments made under the leases are charged to the profit and loss account in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in the profit and loss account as an integral part of the aggregate net lease payments made. Contingent rentals are charged to the profit and loss account in the accounting period in which they are incurred.

## NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

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### I SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (j) Properties held for sale

Properties held for sale are stated at the lower of their carrying value and net realisable value and are rented out under operating leases pending sale of the properties. Net realisable value represents the estimated selling price less costs to be incurred in selling the properties.

#### (k) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the profit and loss account as follows:

##### (i) Sale of goods

Revenue is recognised when goods are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added or other sales taxes and is after deduction of any trade discounts.

##### (ii) Rental income from operating leases

Rental income receivable under operating leases is recognised in the profit and loss account in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives granted are recognised in the profit and loss account as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

##### (iii) Interest income

Interest income from bank deposits is accrued on a time-apportioned basis on the principal outstanding and the rate applicable.

## NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

### I SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (l) Inventories

Inventories are valued at the lower of cost and net realisable value.

For self-manufactured inventories, cost includes the cost of materials computed using the standard costing basis and, in the case of work in progress and finished goods, direct labour and an appropriate portion of production overheads. Finished goods purchased are stated at cost computed on a weighted average basis.

Net realisable value is determined by reference to the sales proceeds of items sold in the ordinary course of business after the balance sheet date or to management estimates based on prevailing market conditions.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

#### (m) Deferred taxation

Deferred taxation is provided using the liability method in respect of the taxation effect arising from all material timing differences between the accounting and tax treatment of income and expenditure, which are expected with reasonable probability to crystallise in the foreseeable future.

Future deferred tax benefits are not recognised unless their realisation is assured beyond reasonable doubt.

#### (n) Translation of foreign currencies

Foreign currency transactions during the year are translated into Hong Kong dollars at the exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. Exchange gains and losses are dealt with in the profit and loss account.

The results of subsidiaries outside Hong Kong are translated into Hong Kong dollars at the average exchange rates for the year; balance sheet items are translated at the rates of exchange ruling at the balance sheet date. Exchange differences are dealt with as a movement in reserves.

#### (o) Retirement scheme costs

Contributions to retirement schemes are charged to the profit and loss account as and when they are incurred.

## NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

### I SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (p) Borrowing costs

Borrowing costs are expensed in the profit and loss account in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

#### (q) Related parties

For the purposes of these accounts, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or entities.

#### (r) Cash equivalents

Cash equivalents are short-term, highly liquid investments which are readily convertible into known amounts of cash without notice and which were within three months of maturity when acquired. For the purposes of the cash flow statement, cash equivalents would also include advances from banks repayable within three months from the date of the advance.

### 2 TURNOVER

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are manufacturing, retailing and distribution of apparel and leasing of investment properties.

Turnover represents the aggregate of the net invoiced value of goods sold, after allowances for goods returned, trade discounts and value added tax as follows:

	2001 \$'000	2000 \$'000
Manufacturing, retailing and trading of apparel	121,368	91,219
Franchise fees	—	2,931
Rental income from investment properties	1,539	1,523
	<u>122,907</u>	<u>95,673</u>

## NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

### 3 SEGMENTAL INFORMATION

The analysis of the principal activities and geographical locations of the operations of the Company and its subsidiaries during the financial year are as follows:

#### Principal activities

	Group turnover		Contribution to (loss)/ profit from operations	
	2001	2000	2001	2000
	\$'000	\$'000	\$'000	\$'000
Manufacturing, retailing and trading of apparel	121,368	91,219	(9,635)	(8,130)
Franchise fees	—	2,931	—	2,638
Others	1,539	1,523	(7,252)	(8,757)
	<u>122,907</u>	<u>95,673</u>	<u>(16,887)</u>	<u>(14,249)</u>

#### Geographical locations of operations

	Group turnover		Contribution to (loss)/ profit from operations	
	2001	2000	2001	2000
	\$'000	\$'000	\$'000	\$'000
Hong Kong	1,539	1,523	(7,252)	(8,757)
Elsewhere in the People's Republic of China ("PRC")	121,368	94,150	(9,635)	(5,492)
	<u>122,907</u>	<u>95,673</u>	<u>(16,887)</u>	<u>(14,249)</u>



## NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

### 4 OTHER REVENUE

	2001 \$'000	2000 \$'000
Interest income	231	86
Sundry rental income	1,445	1,320
Sub-contracting fees	1,732	1,875
Other	940	1,422
	<u>4,348</u>	<u>4,703</u>

### 5 LOSS FROM ORDINARY ACTIVITIES BEFORE TAXATION

Loss from ordinary activities before taxation is arrived at after charging/(crediting):

	2001 \$'000	2000 \$'000
<b>(a) Finance cost:</b>		
Interest on bank advances and other borrowings repayable within five years	3,418	3,939
Others	6	9
	<u>3,424</u>	<u>3,948</u>
<b>(b) Other items:</b>		
Cost of inventories*	81,347	72,875
Depreciation*	10,591	10,210
Auditors' remuneration	694	502
Operating lease charges — property rentals	16,254	11,221
Staff costs (including retirement costs of \$301,000 (2000: \$269,000))*	20,367	16,961
Write off of investment securities	—	453
Other receivables written off	8,341	—
Loss on disposal of fixed assets	17	4
Pre-operating expenses written off #	1,413	—
Rental income from investment properties less direct outgoings of \$268,000 (2000: \$347,000)	<u>(1,271)</u>	<u>(1,176)</u>

\* Cost of inventories includes \$7,617,000 (2000: \$6,539,000) relating to staff costs and depreciation expenses, which amount is also included in the respective total amounts disclosed separately above for each of these types of expenses.

# Pre-operating expenses include \$334,000 (2000: \$Nil) relating to staff costs, which amount is also included in the total amount of staff costs disclosed separately above.

## NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

### 6 TAXATION

(a) Taxation in the consolidated profit and loss account represents:

	2001 \$'000	2000 \$'000
Taxation outside Hong Kong	252	732
Deferred taxation (note 20(a))	(466)	—
	<u>(214)</u>	<u>732</u>

No provision has been made in the accounts for the year ended 30 June 2001 for Hong Kong Profits Tax as the Group's Hong Kong operations sustained a loss for taxation purposes during the year.

Taxation for the Group's operations outside Hong Kong is provided at the applicable rates of taxation on the estimated assessable profits arising in the relevant jurisdiction during the year.

(b) Taxation in the balance sheet represents:

	The Group	
	2001 \$'000	2000 \$'000
Provision for the PRC taxation	252	732
Tax paid	(319)	(603)
	<u>(67)</u>	<u>129</u>

## NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

### 7 DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to section 161 of the Companies Ordinance is as follows:

	2001 \$'000	2000 \$'000
<b>(a) Executive directors</b>		
Fees	—	—
Salaries and other emoluments	4,491	4,885
Retirement scheme contributions	7	—
	<u>4,498</u>	<u>4,885</u>

#### (b) Independent non-executive directors

	2001 \$'000	2000 \$'000
Fees	<u>160</u>	<u>160</u>

#### (c) The remuneration of the directors is within the following bands:

	2001 Number of directors	2000 Number of directors
\$		
Nil - 1,000,000	3	3
1,000,001 - 1,500,000	<u>3</u>	<u>3</u>

#### (d) Share options

In addition to the above emoluments, certain directors were granted share options under the Company's share option scheme. Details of these benefits in kind are disclosed in note 21.

## NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

### 8 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, four (2000: four) are directors whose emoluments are disclosed in note 7. The aggregate of the emoluments in respect of the other individual (2000: one) is as follows:

	2001 \$'000	2000 \$'000
Salaries and other emoluments	546	546
Retirement scheme contributions	5	—
	<u>551</u>	<u>546</u>

The emoluments of the individual with the highest emoluments are within the following bands:

	2001 Number of individuals	2000 Number of individuals
\$ Nil - 1,000,000	<u>1</u>	<u>1</u>

### 9 LOSS ATTRIBUTABLE TO SHAREHOLDERS

The loss attributable to shareholders includes a loss of \$32,127,000(2000: \$15,530,000) which has been dealt with in the accounts of the Company.

### 10 LOSS PER SHARE

The calculation of basic loss per share is based on the consolidated loss attributable to shareholders of \$26,150,000 (2000: \$19,123,000) divided by the weighted average of 684,068,000 ordinary shares (2000: 526,881,000 ordinary shares) in issue during the year. Fully diluted figures are not shown as there is no potential dilutive effect for the year ended 30 June 2001.

## NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

### II FIXED ASSETS

#### Group

	Land use rights \$'000	Buildings \$'000	Leasehold improvements \$'000	Plant and machinery \$'000	Furniture, fixtures and office equipment \$'000	Motor vehicles \$'000	Subtotal \$'000	Investment properties \$'000	Total \$'000
<b>Cost or valuation:</b>									
At 1 July 2000	3,039	63,176	30,509	11,709	8,015	6,377	122,825	18,305	141,130
Exchange adjustments	3	29	57	17	8	8	122	—	122
Additions	—	156	398	2,945	1,037	157	4,693	—	4,693
Transfer from construction in progress (note 13)	—	—	8,255	—	—	—	8,255	—	8,255
Disposals	—	—	—	(50)	—	—	(50)	—	(50)
Reclassification to properties held for sale (note 12)	—	—	—	—	—	—	—	(18,305)	(18,305)
At 30 June 2001	3,042	63,361	39,219	14,621	9,060	6,542	135,845	—	135,845
<b>Representing:</b>									
Cost	—	1,293	39,219	11,885	9,060	4,430	65,887	—	65,887
Valuation	—	—	—	2,736	—	2,112	4,848	—	4,848
— 1994	—	—	—	—	—	—	—	—	—
— 1998	3,042	62,068	—	—	—	—	65,110	—	65,110
	3,042	63,361	39,219	14,621	9,060	6,542	135,845	—	135,845
<b>Aggregate amortisation and depreciation:</b>									
At 1 July 2000	516	12,005	22,606	5,047	4,068	5,490	49,732	—	49,732
Exchange adjustments	1	7	39	5	4	8	64	—	64
Charge for the year	148	3,071	4,535	1,098	1,452	287	10,591	—	10,591
Written back on disposal	—	—	—	(22)	—	—	(22)	—	(22)
At 30 June 2001	665	15,083	27,180	6,128	5,524	5,785	60,365	—	60,365
<b>Net book value:</b>									
At 30 June 2001	2,377	48,278	12,039	8,493	3,536	757	75,480	—	75,480
At 30 June 2000	2,523	51,171	7,903	6,662	3,947	887	73,093	18,305	91,398

## NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

### II FIXED ASSETS (continued)

An analysis of the net book value of properties is as follows:

	Properties			
	Investment	Others	Investment	Others
	2001	2001	2000	2000
	\$'000	\$'000	\$'000	\$'000
<b>Held under medium-term leases:</b>				
In Hong Kong	—	—	18,305	—
Outside Hong Kong	—	50,655	—	53,694
	<u>—</u>	<u>50,655</u>	<u>18,305</u>	<u>53,694</u>

Notes:

- (i) Land use rights and buildings of the Group in the PRC were revalued by directors on 30 June 1998 after taking into account a valuation report as at 28 February 1997 prepared by American Appraisal Hong Kong Limited, an independent firm of surveyors who have among their staff Fellows of the Hong Kong Institute of Surveyors. The directors determined that the open market value at 30 June 2001 did not materially differ from its net book value.

The carrying amount of the land use rights and buildings of the Group at 30 June 2001 would have been approximately \$713,000 (2000: \$749,000) and \$12,039,000 (2000: \$12,593,000) respectively had the land use rights and buildings been carried at cost less accumulated depreciation.

- (ii) Certain plant and machinery and motor vehicles as at 30 April 1994 were valued by China Certified Accountant and Financial Management, a firm of valuers registered in the PRC. The valuation was carried out on a depreciated replacement cost basis.

The valuation was an one-off exercise which established the deemed costs of these fixed assets. There has been no revaluation subsequent to the revaluation at 30 April 1994 as advantage has been taken of the transitional provisions set out in paragraph 80 of Statement of Standard Accounting Practice No. 17 "Property, Plant and Equipment" issued by the Hong Kong Society of Accountants.

These fixed assets would have been fully depreciated at 30 June 2000 had they been carried at cost less accumulated depreciation.

- (iii) The Group leases out certain fixed assets under operating leases. The leases typically run for an initial period of one to four years. None of the leases includes contingent rentals.

## NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

### 11 FIXED ASSETS (continued)

Notes: (continued)

- (iv) The carrying amount of investment properties of the Group held for use in operating leases was \$Nil (2000: \$18,305,000). The carrying amounts of other fixed assets of the Group held for use in operating leases were \$11,620,000 (2000: \$13,679,000) and the related accumulated depreciation charges were \$3,193,000 (2000: \$3,185,000).

The Group's total future minimum lease payments under non-cancellable operating leases are receivable as follows:

	2001 \$'000	2000 \$'000
Within 1 year	687	1,861
After 1 year but within 5 years	—	385
	<u>687</u>	<u>2,246</u>

### 12 PROPERTIES HELD FOR SALE

	2001 \$'000	2000 \$'000
Properties held for sale	18,305	—
Less: Provision for diminution in value of properties held for sale	<u>(6,005)</u>	<u>—</u>
	<u>12,300</u>	<u>—</u>

During the year, a decision was made by the Group to dispose of the investment properties. Accordingly, they have been reclassified as properties held for sale under current assets. On 2 May 2001 and 17 September 2001, the Group entered into sale and purchase agreements with certain independent third parties for the disposal of the investment properties for a total consideration of \$12,300,000. Completions are scheduled to take place on or before 16 October 2001 and 15 November 2001 respectively.

The carrying value of the properties held for sale has been written down to \$12,300,000 as at 30 June 2001 in order to reflect their net realisable value.

An analysis of the properties held for sale is as follows:

	Purpose	Gross floor area	Percentage interest
Units 8 - 11 Ground Floor and car parking spaces, Sun Fung Centre, No. 88 Kwok Shui Road, Tsuen Wan, New Territories, Hong Kong	Industrial	17,005 sq. ft	100%

## NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

### 13 CONSTRUCTION IN PROGRESS

	The Group	
	2001	2000
	\$'000	\$'000
At 1 July	4,802	3,437
Exchange adjustments	9	16
Additions	11,680	7,246
Transfer to fixed assets (note 11)	(8,255)	(5,897)
	<u>8,236</u>	<u>4,802</u>

### 14 INTEREST IN SUBSIDIARIES

	The Company	
	2001	2000
	\$'000	\$'000
Unlisted shares, at cost	179,488	179,488
Long term loan to a subsidiary	6,500	6,500
Amount due from subsidiaries	79,628	69,492
Amount due to a subsidiary	(6,886)	(6,923)
	<u>258,730</u>	<u>248,557</u>
Less: Provision for diminution in value	(180,244)	(154,753)
	<u>78,486</u>	<u>93,804</u>

The long term loan to a subsidiary at 30 June 2001 was unsecured, interest free and had no fixed terms of repayment.



## NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

### 14 INTERESTS IN SUBSIDIARIES (continued)

Details of the subsidiaries are as follows. The class of shares held is ordinary unless otherwise stated.

Name of company	Place of incorporation/ establishment and operation	Percentage of equity held		Particulars of issued and paid up capital	Principal activity
		by the company	held by subsidiary		
Benefashion Limited	Hong Kong	—	100	3,623,077 shares of US\$1 each	Dormant
Fun (Xiamen) Enterprise Corporation Limited	*Mainland China	—	100	S\$15,300,000	Garment manufacturing and retailing
Anxi Fenfa Enterprise Company Limited	*Mainland China	—	100	S\$1,000,000	Garment manufacturing and distribution
Anxi Sing Garments Company Limited	*Mainland China	—	100	\$3,380,000	Garment manufacturing and retailing
Benefun (BVI) Limited	British Virgin Islands ("BVI")	100	—	1 share of US\$1	Investment holding
Wylkeen Investment Limited	BVI	100	—	1 share of US\$1	Investment holding
Fast Good Resources Limited	Hong Kong	—	100	2 shares of \$1 each	Property investment
Top Ace Enterprises Limited	Hong Kong	—	100	2 shares of \$1 each	Provision of management services
Sunton Limited	BVI	—	100	1 share of US\$1	Garment distribution

Note: \*These are wholly foreign owned companies established in Mainland China.

## NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

### 15 INTEREST IN ASSOCIATED COMPANIES

	2001 \$'000	2000 \$'000
Share of net assets	<u>2,452</u>	<u>—</u>

Particulars of associated companies, all of which are unlisted entities are as follows:

Name of company	Place of incorporation	Proportion of ownership interest		Particulars of issued and paid up capital	Principal activity
		held by the company	held by subsidiary		
Danco Group Limited	British Virgin Islands	—	49	US\$50,000	Trading of medical equipment
L.A. Resources Limited	Hong Kong	—	25	10,000,000 ordinary shares \$1 each	Sports shoes and apparel manufacturing and retailing

### 16 INVENTORIES

	The Group	
	2001 \$'000	2000 \$'000
Raw materials	5,412	6,364
Work in progress	3,463	2,310
Finished goods	<u>35,175</u>	<u>50,315</u>
	<u>44,050</u>	<u>58,989</u>

Included in finished goods are inventories of \$3,126,000 (2000: \$12,375,000), stated net of a provision, made in order to state these inventories at the lower of their cost and estimated net realisable value. The amount of reversal of a write-down of inventories to estimated net realisable value, recognised in the consolidated profit and loss account as a reduction in the amount of inventories recognised as an expense during the year, is \$25,458,000 (2000: \$29,372,000). This reversal arose due to an increase in the estimated net realisable value of certain garments as a result of change in consumer preferences.

## NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

### 17 TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2001	2000	2001	2000
	\$'000	\$'000	\$'000	\$'000
Accounts receivable	7,336	11,369	—	—
Prepayments, deposits and other receivables	8,685	9,134	73	73
Tax recoverable (note 6(b))	67	—	—	—
Amounts due from related companies	—	751	—	—
	<u>16,088</u>	<u>21,254</u>	<u>73</u>	<u>73</u>

All of the trade and other receivables are expected to be recovered within one year.

Included in trade and other receivables are accounts receivable with the following ageing analysis:

	2001	2000
	\$'000	\$'000
Current	4,761	8,702
1 to 3 months overdue	1,912	2,787
More than 3 months overdue but less than 12 months overdue	1,179	884
Over 12 months overdue	<u>5,349</u>	<u>4,330</u>
Total accounts receivable before provision	13,201	16,703
Provision for doubtful debts	<u>(5,865)</u>	<u>(5,334)</u>
Total accounts receivable	<u>7,336</u>	<u>11,369</u>

The credit terms given to the customers vary and are generally based on the financial strengths of individual customers. In order to effectively manage the credit risks associated with trade receivables, credit evaluations of customers are performed periodically.

## NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

### 18 TRADE AND OTHER PAYABLES

	The Group		The Company	
	2001	2000	2001	2000
	\$'000	\$'000	\$'000	\$'000
Accounts payable	19,633	22,581	—	—
Other payable and accrued liabilities	30,697	18,344	3,018	11,616
Tax payable (note 6(b))	—	129	—	—
	<u>50,330</u>	<u>41,054</u>	<u>3,018</u>	<u>11,616</u>

All of the trade and other payables are expected to be settled within one year.

Included in trade and other payables are accounts payable with the following ageing analysis:

	2001	2000
	\$'000	\$'000
Due within 1 month or demand	8,255	3,961
Due after 1 month but within 3 months	3,061	3,480
Due after 3 months but within 6 months	2,596	4,726
Due after 6 months and above	5,721	10,414
Total accounts payable	<u>19,633</u>	<u>22,581</u>

## NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

### 19 BANK LOANS

At 30 June 2001, the bank loans of the Group were repayable as follows:

	The Group	
	2001 \$'000	2000 \$'000
Within 1 year or on demand	35,980	40,107
After 1 year but within 2 years	—	6,020
After 2 years but within 5 years	—	7,691
	—	13,711
	<u>35,980</u>	<u>53,818</u>

As at 30 June 2001, the bank loans of the Group were secured as follows:

	The Group	
	2001 \$'000	2000 \$'000
Secured loans	31,263	38,470
Unsecured loans	4,717	15,348
	<u>35,980</u>	<u>53,818</u>

The bank loans of certain subsidiaries amounting to \$16,509,000 (2000: \$24,105,000) are secured by their properties with an aggregate carrying value of approximately \$48,123,000 (2000: \$51,171,000) at 30 June 2001.

In addition, a bank loan of a subsidiary amounting to \$10,980,000 (2000: \$13,147,000) is secured by a mortgage over the subsidiary's interest in properties held for sale with an aggregate carrying value of \$12,300,000 (2000: \$18,305,000).

At 30 June 2001, bank loans totalling \$3,774,000 (2000: \$3,774,000) are secured by the personal properties and the land use rights in respect of a piece of land in the Mainland China owned by certain directors of the Company.

## NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

### 20 DEFERRED TAXATION

(a) Movement on deferred taxation comprises:

	The Group	
	2001 \$'000	2000 \$'000
Balance at 1 July	466	466
Transfer to the profit and loss account (note 6(a))	(466)	—
Balance at 30 June	<u>—</u>	<u>466</u>

(b) Major components of deferred tax of the Group are set out below:

	2001	2000
	\$'000	\$'000
Depreciation allowances in excess of related depreciation	<u>—</u>	<u>466</u>

The potential deferred tax asset unprovided at 30 June 2001 amounting to approximately \$12,356,000 (2000: \$12,356,000) comprises the future benefit of tax losses in respect of a subsidiary. This asset has not been reflected in the accounts in accordance with the Group's accounting policy.

Disposals of land use rights and buildings in the PRC are subject to land appreciation taxes. Such taxes are generally imposed at certain progressive rates on the assessable gains, which represent the excess of the sale proceeds over the purchase and other relevant costs incurred by the seller on the properties sold. No land appreciation tax liabilities was provided for in the accounts in respect of the surpluses arising on revaluation of the Group's land use rights and buildings in the PRC, as the Group has no plan to dispose such assets in the foreseeable future.

There are no other significant potential deferred tax liabilities for which provision has not been made.

## NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

### 21 SHARE CAPITAL

	2001 \$'000	2000 \$'000
<b>Authorised:</b>		
1,000,000,000 ordinary shares of \$0.10 each	<u>100,000</u>	<u>100,000</u>
<b>Issued and fully paid:</b>		
At 1 July, 668,329,000 (2000: 479,449,000) ordinary shares of \$0.10 each	66,833	47,945
New shares issued under share option scheme	—	3,250
Issue of new shares	<u>13,360</u>	<u>15,638</u>
At 30 June, 801,929,000 (2000: 668,329,000) ordinary shares of 0.10 each	<u>80,193</u>	<u>66,833</u>

All the shares issued by the Company rank pari passu and do not carry pre-emptive rights.

#### (a) Share option scheme

Pursuant to a written resolution passed on 5 May 1997, a Share Option Scheme for employees was approved and the directors may, at their discretion, invite any employees or directors of the Group, to take up options to subscribe for shares of the Company at a price to be determined by the Board which will not be less than 80 per cent of the average closing prices of the shares of the Company on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") for the five trading days immediately preceding the date of offer of the option or the nominal value of the shares, whichever is the higher. To comply with the relevant new rules of the Stock Exchange, which came into effect from 1 September 2001, options will be granted in the future at a price determined by the Board which will be the higher of

- (i) the closing price of the shares of the Company as stated in the Stock Exchange's daily quotation sheet on the date of grant; and
- (ii) the average closing price of the shares of the Company as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant.

The maximum number of shares in respect of which options may be granted (together with shares in respect of which any options remain outstanding) under the Share Option Scheme of the Company may not exceed 10 per cent of the issued share capital of the Company from time to time, excluding for this purpose shares issued on exercise of options granted pursuant to the Share Option Scheme.

On 23 February 2000, the Company granted in total 19,833,000 share options for a total consideration of \$3 to three executive directors at 6,611,000 share options each at a subscription price of \$0.4496 per share. All these share options are exercisable on or after 23 August 2000 and will expire on 23 August 2003.

On 31 January 2001, the Company granted in total 11,200,000 share options for a total consideration of \$5 to 4 executive directors and a senior executive at a subscription price of \$0.16 per share. All these share options are exercisable on or after 31 July 2001 and will expire on 1 July 2004.

## NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

### 21 SHARE CAPITAL (continued)

#### (a) Share option scheme (continued)

At 30 June 2001, the outstanding options are summarised as follows:

Date option granted	Period during which options exercisable	Exercise price	Number of options outstanding at the year end
31 January 2001	31 July 2001 to 30 June 2004	\$0.16	11,200,000
23 February 2000	23 August 2000 to 22 August 2003	\$0.4496	19,833,000

No share options have been exercised during the year.

#### (b) Issue of new shares

Pursuant to a placing agreement dated 2 May 2001, a total of 133,600,000 new ordinary shares of \$0.1 each, ranking pari passu with the existing shares of the Company, were placed through a placing agent on a fully underwritten basis at a placing price of \$0.115 per share. The closing market price was HK\$0.133 per share as quoted on The Stock Exchange of Hong Kong Limited on 2 May 2001.



## NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

### 22 RESERVES

#### (a) Group

	Share premium \$'000 (Note i)	Legal reserve \$'000 (Note iii)	Foreign exchange revaluation reserve \$'000 (Note iv)	Revaluation reserve \$'000 (Note iv)	Accumulated losses \$'000	Total \$'000
At 1 July 2000	104,515	3,090	1,516	40,990	(108,286)	41,825
Premium on placement of shares	2,004	—	—	—	—	2,004
Share issue expenses	(157)	—	—	—	—	(157)
Transfer between reserves	—	—	—	(2,722)	2,722	—
Goodwill arising on acquisition of an associated company	—	—	—	(10,798)	—	(10,798)
Exchange difference on translation of accounts of subsidiaries outside Hong Kong	—	—	97	—	—	97
Loss for the year	—	—	—	—	(26,150)	(26,150)
At 30 June 2001	<u>106,362</u>	<u>3,090</u>	<u>1,613</u>	<u>27,470</u>	<u>(131,714)</u>	<u>6,821</u>
At 1 July 1999	82,427	3,090	1,227	44,135	(90,399)	40,480
Premium on shares issued under share option scheme	1,245	—	—	—	—	1,245
Premium on placement of shares	21,229	—	—	—	—	21,229
Share issue expenses	(386)	—	—	—	—	(386)
Transfer between reserves	—	—	—	(3,145)	3,145	—
Goodwill arising on acquisition of additional shares in an associated company	—	—	—	(1,909)	—	(1,909)
Permanent diminution in value of acquired goodwill	—	—	—	1,909	(1,909)	—
Exchange difference on translation of accounts of subsidiaries outside Hong Kong	—	—	289	—	—	289
Loss for the year	—	—	—	—	(19,123)	(19,123)
At 30 June 2000	<u>104,515</u>	<u>3,090</u>	<u>1,516</u>	<u>40,990</u>	<u>(108,286)</u>	<u>41,825</u>

Included in the Group retained profits is a loss of \$299,000 (2000: \$251,000) being the Group's share of accumulated losses attributable to the associated companies.

## NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

### 22 RESERVES (continued)

#### (b) Company

	Share premium \$'000 (Note i)	Contributed surplus \$'000 (Note ii)	Accumulated losses \$'000	Total \$'000
At 1 July 2000	104,515	65,261	(130,130)	39,646
Premium on placement of shares	2,004	—	—	2,004
Share issue expenses	(157)	—	—	(157)
Loss for the year	—	—	(32,127)	(32,127)
At 30 June 2001	<u>106,362</u>	<u>65,261</u>	<u>(162,257)</u>	<u>9,366</u>
At 1 July 1999	82,427	65,261	(114,600)	33,088
Premium on shares issued under share option scheme	1,245	—	—	1,245
Premium on placement of shares	21,229	—	—	21,229
Share issue expenses	(386)	—	—	(386)
Loss for the year	—	—	(15,530)	(15,530)
At 30 June 2000	<u>104,515</u>	<u>65,261</u>	<u>(130,130)</u>	<u>39,646</u>

Notes:

- (i) Under the Bye-Laws of the Company, the amount is distributable subject to certain restrictions.
- (ii) The excess value of the shares of the subsidiaries acquired pursuant to the Group reorganisation scheme over the nominal value of the new shares of the Company issued in exchange is credited to the contributed surplus account. Under the Bye-Laws of the Company, the amount is distributable subject to certain restrictions.
- (iii) According to the relevant rules and regulations in Mainland China, companies shall provide 10 per cent per annum of net income after tax as legal reserve until the balance reaches 50 per cent of the paid up capital, where further appropriation will be at the directors' recommendation.
- (iv) The revaluation reserve and foreign exchange revaluation reserve have been set up and will be dealt with in accordance with the accounting policies adopted for the revaluation of fixed assets and translation of the accounts of foreign subsidiaries as set out in note 1. The transfer from revaluation reserve to retained earnings represents the reserve realised on the retirement or disposal of the revalued assets and the additional depreciation made during the year.

## NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

### 23 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

#### (a) Reconciliation of loss before taxation to net cash inflow from operating activities

	2001 \$'000	2000 \$'000
Loss from ordinary activities before taxation	(26,364)	(18,391)
Interest income	(231)	(86)
Interest expense	3,424	3,948
Depreciation	10,591	10,210
Loss on disposal of fixed assets	17	4
Decrease in inventories	14,939	9,320
Decrease/(increase) in accounts receivable	4,033	(3,471)
Decrease in prepayments, deposits and other receivables	449	558
Decrease/(increase) in amounts due from related companies	751	(751)
(Decrease)/increase in accounts payable	(2,948)	5,310
Decrease in bills and trust receipts payable	—	(458)
Increase in other payable and accrued liabilities	12,353	5,852
Decrease in amounts due to related companies	—	(5,996)
Exchange difference	30	523
Provision for diminution in value of properties held for sale	6,005	—
Share of loss of an associated company	48	194
	<u>23,097</u>	<u>6,766</u>
Net cash inflow from operating activities	<u>23,097</u>	<u>6,766</u>

## NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

### 23 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

#### (b) Analysis of changes in financing during the year

	Share capital (including premium) \$'000	Short term bank loans \$'000	Long term bank loans \$'000
Balance at 1 July 1999	130,372	42,993	12,960
Proceeds	41,362	—	2,731
Repayments	—	(6,886)	(1,980)
Issue costs	(386)	—	—
Net cash inflow/(outflow) from financing activities	40,976	(6,886)	751
Exchange difference	—	234	—
Balance at 30 June 2000	<u>171,348</u>	<u>36,341</u>	<u>13,711</u>
Balance at 1 July 2000	171,348	36,341	13,711
Proceeds	15,364	48,302	—
Repayments	—	(57,273)	(5,101)
Issue costs	(157)	—	—
Net cash inflow/(outflow) from financing activities	15,207	(8,971)	(5,101)
Exchange difference	—	—	—
Balance at 30 June 2001	<u>186,555</u>	<u>27,370</u>	<u>8,610</u>

### 24 COMMITMENTS

#### (a) Capital commitments

Capital commitments in respect of plant and machinery and other fixed assets outstanding at 30 June 2001 not provided for in the accounts were as follows:

	The Group	
	2001 \$'000	2000 \$'000
Contracted for	830	737
Authorised but not contracted for	—	7,853
	<u>830</u>	<u>8,590</u>

## NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

### 24 COMMITMENTS (continued)

#### (b) Operating lease commitments

At 30 June 2001, the total future minimum lease payments under non-cancellable operating leases are payable:

	2001 \$'000	2000 \$'000
Within 1 year	16,066	10,767
After 1 year but within 5 years	19,557	14,637
	<u>35,623</u>	<u>25,404</u>

The Group leases a number of properties under operating leases. The leases typically run for an initial period of one to five years, with an option to renew the lease when all terms are renegotiated. Lease payments are usually fixed with a few of them increased annually to reflect market rentals. A minority of these leases includes contingent rentals which are determined based on percentage of sales.

### 25 MATERIAL RELATED PARTY TRANSACTIONS

At 30 June 2001, the Group had bank loans totalling \$3,774,000 (2000: \$3,774,000) secured by the personal properties and the land use rights in respect of a piece of land in Mainland China owned by certain directors of the Company.

### 26 OUTSTANDING LITIGATION

A previous landlord of a subsidiary, Benefashion Limited ("Benefashion") disagreed with the early termination of an operating lease on a commercial property and has obtained a judgement against Benefashion. The previous landlord claimed compensation for early termination of approximately \$7 million. The Company has not provided any undertaking or guarantee in respect of this lease. Benefashion is insolvent and is considering commencing a voluntary liquidation. Accordingly, no provision for the compensation claimed has been included in these accounts.