

Notes to the Accounts

1 PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these consolidated accounts are set out below:

(a) Basis of preparation

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants ("HKSA"). The accounts are prepared under the historical cost convention except that land use rights and leasehold properties outside Hong Kong are stated at fair value.

In the current year, the Group adopted the following Statements of Standard Accounting Practice ("SSAPs") issued by the HKSA which are effective for accounting periods commencing on or after 1 January 2001:

SSAP 9 (revised)	:	Events after the balance sheet date
SSAP 14 (revised)	:	Leases (effectively for periods commencing on or after 1 July 2000)
SSAP 26	:	Segment reporting
SSAP 28	:	Provisions, contingent liabilities and contingent assets
SSAP 29	:	Intangible assets
SSAP 30	:	Business combinations
SSAP 31	:	Impairment of assets
SSAP 32	:	Consolidated financial statements and accounting for investments in subsidiaries

The adoption of SSAPs 9 (revised), 26, 28, 29 and 32 has no changes to the accounting policies that affect the Group's accounts. The effect on the adoption of SSAP 14(revised) was summarised in note 1(e) below. The adoption of SSAPs 30 and 31 and Interpretation of 13 "Goodwill — continuing requirements for goodwill and negative goodwill previously eliminated against/credited to reserves" constitutes a change in accounting policies of the Group regarding the treatment of goodwill and the provision against impairment on goodwill (notes 1(f) and (g)).

(b) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31 December. Subsidiaries are companies in which the Group controls more than half of the voting power or issued share capital or controls the composition of the board of directors.

1 PRINCIPAL ACCOUNTING POLICIES *(continued)***(b) Consolidation** *(continued)*

The result of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

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

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any goodwill or negative goodwill which was not previously charged or recognised in the consolidated profit and loss account.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

In the Company's balance sheet, the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(c) Fixed assets

Properties represent interests in land and buildings (including land use rights) other than leasehold land and buildings in Hong Kong are stated at fair value which is determined by the directors based on independent valuations which are performed every three years. The valuations are on an open market basis related to individual properties and separate values are not attributed to land and buildings. In the intervening years, the directors review the carrying value of the other properties and adjustment is made where they consider that there has been a material change. Increases in valuation are credited to the other properties revaluation reserve. Decreases in valuation are first offset against increases on earlier valuations in respect of the same property and are thereafter debited to operating profit. Any subsequent increases are credited to operating profit up to the amount previously debited.

Land use rights are amortised on a straight-line basis over the land use rights period. Construction in progress is stated at cost and not depreciated.

1 PRINCIPAL ACCOUNTING POLICIES (continued)

(c) Fixed assets (continued)

Other fixed assets, comprising leasehold land and buildings in Hong Kong, leasehold improvements, plant and machinery, furniture, fixtures and office equipment and motor vehicles are stated at cost less accumulated depreciation and accumulated impairment losses.

Leasehold land is depreciated over the period of the lease while other fixed assets are depreciated at rates sufficient to write off their cost less accumulated impairment losses over their estimated useful lives on a straight-line basis. The principal annual rates are as follows:

Leasehold buildings	5%
Plant and machinery	10%
Furniture, fixtures and office equipment	20%
Motor vehicles	30%

Improvements are capitalised and depreciated over their expected useful lives to the Group.

(d) Impairment and gain or loss on sale

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account except where the asset is carried at valuation and the impairment loss does not exceed the revaluation surplus for that same asset, in which case it is treated as a revaluation decrease.

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account. Any revaluation reserve balance remaining attributable to the relevant asset is transferred to retained earnings and is shown as a movement in reserves.

(e) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the profit and loss account on a straight-line basis over the lease periods.

1 PRINCIPAL ACCOUNTING POLICIES *(continued)***(e) Operating leases** *(continued)*

In note 26(b) to these consolidated accounts the Group has disclosed operating lease commitments under the revised SSAP 14 which requires the disclosure of the aggregate future minimum lease payments. This is a change from the previous SSAP 14 which only required disclosure of the minimum lease payments payable in the next twelve months.

(f) Goodwill on acquisition

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary at the date of acquisition. In accordance with SSAP 30, goodwill on acquisitions occurring on or after 1 January 2001 is included in intangible assets and is amortised using the straight-line method over its estimated useful life. Goodwill is amortised over a maximum period of twenty years.

Goodwill on acquisition that occurred prior 1 January 2001 was written off against reserves. In respect of goodwill previously written off against reserves, the Group has applied the transitional provision 1(a) in SSAP 30 and the relevant goodwill previously written off against reserves has not been restated.

In note 10 to these consolidated accounts positive goodwill arising from acquisitions is recognised as intangible assets in the balance sheet and is amortised to the profit and loss account on a straight-line basis over a period of 10 years from the date of the respective acquisition instead of being directly charged to the capital reserve account in the time of the acquisition as adopted by the Group previously.

(g) Impairment of goodwill

Where an indication of impairment exists, the carrying amount of any goodwill, including goodwill previously written off against reserves, is assessed and written down immediately to its recoverable amount.

(h) Accounts receivable

Provision is made against accounts receivable to the extent they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

1 PRINCIPAL ACCOUNTING POLICIES *(continued)*

(i) Inventories

Inventories comprise raw materials, work in progress and finished goods and are stated at the lower of cost and net realisable value. Cost of raw materials is calculated on the first-in, first-out basis by reference to invoiced value. Cost of work in progress and finished goods, calculated on the first-in, first-out basis, comprise materials, direct labour and an appropriate proportion of all production overhead expenditure. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

(j) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, bank overdrafts and trust receipt loans repayable within three months.

(k) Borrowing costs

All borrowing costs are charged to the profit and loss account in the year in which they are incurred except for those borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sales, which are capitalised as part of the cost of that asset. During the year, all borrowing costs have been expensed.

(l) Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

(m) Deferred taxation

Deferred taxation is accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset is expected to be payable or recoverable in the foreseeable future.

1 PRINCIPAL ACCOUNTING POLICIES *(continued)*

(n) Translation of foreign currencies

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling of the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

The assets, liabilities, revenue and expense of the accounts of a subsidiary expressed in foreign currencies are translated at the rates exchange ruling at the date on which the amounts recorded in the accounts was established. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are retranslated at the rate at the balance sheet date, and any resulting exchange difference is taken to the profit and loss account.

(o) Retirement benefit costs

The Group contributes to a defined contribution retirement scheme which is available to all employees. Contributions to the scheme by the Group and employees are calculated as a percentage of employees' basic salaries. The retirement benefit scheme cost charged to the profit and loss account represents contributions payable by the Company to the fund.

The Group's contributions to the defined contribution retirement scheme are expensed as incurred and are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions.

(p) Revenue recognition

Revenue from the provision of fabrics processing services is recognised on the completion of the process, which generally coincides with the time when goods are delivered to customers.

Revenue from the sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

Notes to the Accounts

1 PRINCIPAL ACCOUNTING POLICIES (continued)

(q) Segment reporting

In accordance with the Group's internal financial reporting the Group has determined that business segments be presented as the primary reporting format and geographical as the secondary reporting format.

Unallocated costs represent corporate expenses. Segment assets consist primarily of intangible assets, fixed assets, inventories, receivables and operating cash, and mainly exclude investments in securities and investment properties. Segment liabilities comprise operating liabilities and exclude items such as taxation and certain corporate borrowings. Capital expenditure comprises additions to goodwill or intangible asset (note 10) and fixed assets (note 11), including additions resulting from acquisitions through purchases of subsidiaries (notes 11, 12 and 24(b)).

In respect of geographical segment reporting, sales are based on the country in which the customer is located. Total assets and capital expenditure are where the assets are located.

2 TURNOVER, REVENUE AND SEGMENT INFORMATION

The Group is principally engaged in the provision of fabric processing, sale of fabric and garment and accessories. Revenues recognised during the year are as follows:

	2001 HK\$'000	2000 HK\$'000
Turnover		
Fabric processing	46,025	97,791
Sale of fabric	67,156	23,619
Sale of garment and accessories	78,327	—
	<u>191,508</u>	<u>121,410</u>
Other revenues		
Sale of scrap and defective products	912	3,103
Bank interest income	1,764	2,679
	<u>2,676</u>	<u>5,782</u>
Total revenues	<u>194,184</u>	<u>127,192</u>

2 TURNOVER, REVENUE AND SEGMENT INFORMATION *(continued)*

Primary report format — business segments

The Group is organised into three main business segments:

- Fabric processing — provision of fabric processing services
- Sale of fabric — manufacture, wholesale and distribution of fabric
- Sale of garment and accessories — manufacture, wholesale and distribution of garment and accessories

On 3 April 2001, the garment and accessories segment was acquired.

Secondary report format — geographical segments

The Group's three business segments are operated in five main geographical areas:

- Hong Kong — fabric processing and sale of fabric
- The People's Republic of China (the "PRC") — fabric processing, sale of fabric and garment
- United States — sale of garment and accessories
- Other countries (principally Bangladesh and Germany) — sale of garment and accessories

Notes to the Accounts

2 TURNOVER, REVENUE AND SEGMENT INFORMATION *(continued)*

Primary report format — business segments

	For the year ended 31 December 2001			
	Fabric processing <i>HK\$'000</i>	Sale of fabric <i>HK\$'000</i>	Sale of garment and accessories <i>HK\$'000</i>	Total <i>HK\$'000</i>
Turnover	46,025	67,156	78,327	191,508
Segment results	(17,003)	1,191	720	(15,092)
Unallocated costs				(7,416)
Operating loss				(22,508)
Finance costs				(4,381)
Loss for the year				(26,889)
Taxation				(542)
Loss after taxation				(27,431)
Minority interests				622
Loss attributable to shareholders				(26,809)
Segment assets	92,133	72,912	24,576	189,621
Unallocated assets				75,373
Total assets				264,994
Segment liabilities	14,775	8,864	7,816	31,455
Unallocated liabilities				84,616
Total liabilities				116,071
Capital expenditure	10,352	1,291	18,856	30,499
Depreciation	13,921	89	67	14,077
Impairment charge	—	230	—	230

2 TURNOVER, REVENUE AND SEGMENT INFORMATION *(continued)***Primary report format — business segments** *(continued)*

	For the year ended 31 December 2000		
	Fabric processing	Sale of fabric	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	97,791	23,619	121,410
Segment results	(9,163)	709	(8,454)
Unallocated costs			(4,638)
Operating loss			(13,092)
Finance costs			(2,520)
Loss for the year			(15,612)
Taxation credit			210
Loss attributable to shareholders			(15,402)
Segment assets	159,678	13,783	173,461
Unallocated assets			54,314
Total assets			227,775
Segment liabilities	33,415	3,814	37,229
Unallocated liabilities			34,695
Total liabilities			71,924
Capital expenditure	20,002	11	20,013
Depreciation	12,487	—	12,487

Notes to the Accounts

2 TURNOVER, REVENUE AND SEGMENT INFORMATION *(continued)*

Secondary report format — geographical segments

	For the year ended 31 December 2001			
	Turnover <i>HK\$'000</i>	Segment results <i>HK\$'000</i>	Segment assets <i>HK\$'000</i>	Capital expenditure <i>HK\$'000</i>
Hong Kong	93,409	(9,575)	94,889	18,582
United States	70,182	1,469	15,351	360
The PRC	15,858	(7,062)	148,799	11,394
Other countries	12,059	76	5,955	163
	<u>191,508</u>	<u>(15,092)</u>	<u>264,994</u>	<u>30,499</u>
Unallocated costs		<u>(7,416)</u>		
Operating loss		<u>(22,508)</u>		
Total assets			<u>264,994</u>	

	For the year ended 31 December 2000			
	Turnover <i>HK\$'000</i>	Segment results <i>HK\$'000</i>	Segment assets <i>HK\$'000</i>	Capital expenditure <i>HK\$'000</i>
Hong Kong	107,432	(7,681)	74,306	447
The PRC	13,978	(773)	153,469	19,566
	<u>121,410</u>	<u>(8,454)</u>	<u>227,775</u>	<u>20,013</u>
Unallocated costs		<u>(4,638)</u>		
Operating loss		<u>(13,092)</u>		
Total assets			<u>227,775</u>	

3 OPERATING LOSS

Operating loss is stated after crediting and charging the following:

	2001 HK\$'000	2000 HK\$'000
Crediting:		
Profit on disposal of fixed assets	270	—
Profit on dissolution of subsidiaries	—	272
Charging:		
Amortisation of goodwill	660	—
Auditors' remuneration	743	792
Cost of inventories sold	115,455	19,848
Depreciation	14,077	12,487
Impairment of fixed assets	230	—
Loss on disposal of fixed assets	—	1,992
Net exchange loss	238	458
Operating lease rental in respect of land and buildings	1,405	996
Retirement benefit costs		
(including contribution to directors) (note 8)	377	249
Staff costs (including directors' emoluments)	16,509	12,538

4 FINANCE COSTS

	2001 HK\$'000	2000 HK\$'000
Interest on bank loans and overdrafts	4,307	2,502
Interest on other loans	74	18
	4,381	2,520

Notes to the Accounts

5 TAXATION (CHARGE)/CREDIT

The amount of taxation (charged)/credited to the consolidated profit and loss account represents:

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Hong Kong profits tax	(400)	—
PRC taxation	(142)	—
Deferred taxation (<i>note 23</i>)	—	210
	<u>(542)</u>	<u>210</u>

- (i) Hong Kong profits tax has been provided at the rates of 16% (2000: 16%) on the estimated assessable profit for the year.
- (ii) Taxation on overseas profits is calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates. No provision of overseas profits tax has been made in the accounts as the Group has no assessable profit for the year.
- (iii) A subsidiary established and operated in Zhongshan City, Guangdong Province, the PRC is subjected to a preferential tax of 24% on its taxable income. The subsidiary is also granted full exemption from the PRC income tax for two years from its first profit-making year of operations (being the year ended 31 December 1997) followed by a 50% reduction in income tax (i.e. 12%) for the next three years.
- (iv) There was no material unprovided deferred taxation for the year.

6 LOSS ATTRIBUTABLE TO SHAREHOLDERS

The loss attributable to shareholders is dealt with in the accounts of the Company to the extent of a loss of HK\$601,000 (2000: loss of HK\$339,000).

7 LOSS PER SHARE

The calculation of the basic loss per share is based on the Group's loss attributable to shareholders of HK\$26,809,000 (2000: HK\$15,402,000) and on the weighted average number of 232,468,632 (2000: 197,540,983) ordinary shares in issue during the year.

Diluted loss per share is not presented as the conversion of shares options to ordinary shares would have anti-dilutive effect to the basic loss per share.

8 RETIREMENT BENEFIT COSTS

The Group contributes to defined contribution retirement schemes which are available to all full time employees in Hong Kong and employees who are registered residents of Nantou Town, Zhongshan City, the PRC. Contributions to the scheme by the Group and employees are calculated as a percentage of employees' basic salaries.

The Group's contributions to the retirement scheme which is available to Hong Kong employees are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions. Forfeited contributions totaling HK\$213,000 (2000: HK\$77,000) were utilised during the year and there was no outstanding forfeited contribution as at 31 December 2001.

For the mandatory provident fund ("MPF Scheme"), the Group's contributions are at 5% of the employee's relevant income as defined in the Hong Kong Mandatory Provident Fund Schemes Ordinance up to a maximum of HK\$1,000 per employee per month. The employees also contribute a corresponding amount to the MPF Scheme from 31 December 2000 if their relevant income is more than HK\$4,000 per month. The MPF contributions are fully and immediately vested in the employees as accrued benefits once they are paid.

9 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

The aggregate amounts of emoluments payable to directors of the Company during the year are as follows:

	2001 HK\$'000	2000 HK\$'000
Fees	180	180
Other emoluments:		
Basic salaries	3,000	3,000
Contributions to pension schemes	150	150
	<u>3,330</u>	<u>3,330</u>

Directors' fees of HK\$180,000 (2000: HK\$180,000) were payable to independent non-executive directors during the year. During the year, three non-executive directors have each waived their emoluments of HK\$20,000 (2000: HK\$20,000) each.

Notes to the Accounts

9 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS *(continued)*

(a) Directors' emoluments *(continued)*

The emoluments of the directors fell within the following bands:

	Number of individuals	
	2001	2000
HK\$Nil — HK\$1,000,000	5	4
HK\$1,000,000 — HK\$1,500,000	2	2
	<u>7</u>	<u>6</u>

In addition to the directors' emoluments disclosed above, during the year, 12,000,000 options were granted to four executive directors under the share option schemes as disclosed in note 19 to the accounts. During the year, no options had been exercised by the directors.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include two (2000: two) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three (2000: three) individuals during the year are as follows:

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Basic salaries	1,314	1,776
Discretionary bonuses	464	370
Contributions to pension schemes	49	69
	<u>1,827</u>	<u>2,215</u>

9 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS *(continued)***(b) Five highest paid individuals** *(continued)*

The emoluments of the above employees fell within the following bands:

	Number of individuals	
	2001	2000
HK\$Nil – HK\$1,000,000	3	2
HK\$1,000,000 – HK\$1,500,000	—	1
	3	3

During the year, no emoluments have been paid by the Group to the directors or the five highest paid individuals as an inducement or upon joining the Group, or as compensation for loss of office.

10 GOODWILL

	2001	2000
	HK\$'000	HK\$'000
At 1 January	—	—
Acquisition of subsidiaries <i>(note 24(b))</i>	17,227	—
Amortisation for the year	(660)	—
At 31 December	16,567	—

Notes to the Accounts

11 FIXED ASSETS

	Group								
	Construction in progress HK\$'000	Land use rights outside Hong Kong HK\$'000	Leasehold land and buildings outside Hong Kong HK\$'000	Leasehold land and buildings in Hong Kong HK\$'000	Leasehold improvements HK\$'000	Plant and machinery HK\$'000	Furniture, fixtures and office equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Cost or valuation:									
At 1 January 2001	17,938	6,045	32,555	—	7,244	92,951	5,159	5,555	167,447
Additions, at cost	—	—	—	454	379	10,138	929	—	11,900
Acquisition of subsidiaries	—	—	—	—	9	1,368	168	307	1,852
Transfers	(17,807)	—	—	—	1,832	15,975	—	—	—
Disposals	—	—	—	—	—	—	(6)	(907)	(913)
At 31 December 2001	131	6,045	32,555	454	9,464	120,432	6,250	4,955	180,286
Accumulated depreciation:									
At 1 January 2001	—	121	1,606	—	1,408	44,913	3,324	4,756	56,128
Charge for the year	—	121	1,702	8	386	10,605	750	505	14,077
Acquisition of subsidiaries	—	—	—	—	2	228	35	215	480
Impairment charge	—	—	—	—	35	195	—	—	230
Disposals	—	—	—	—	—	—	(2)	(907)	(909)
At 31 December 2001	—	242	3,308	8	1,831	55,941	4,107	4,569	70,006
Net book value:									
At 31 December 2001	131	5,803	29,247	446	7,633	64,491	2,143	386	110,280
At 31 December 2000	17,938	5,924	30,949	—	5,836	48,038	1,835	799	111,319
The analysis of the cost or valuation at 31 December 2001 of the above assets is as follows:									
At cost	131	—	—	454	9,464	120,432	6,250	4,955	141,686
At 1999 valuation	—	6,045	32,555	—	—	—	—	—	38,600
	131	6,045	32,555	454	9,464	120,432	6,250	4,955	180,286
The analysis of the cost or valuation at 31 December 2000 of the above assets is as follows:									
At cost	17,938	—	—	—	7,244	92,951	5,159	5,555	128,847
At 1999 valuation	—	6,045	32,555	—	—	—	—	—	38,600
	17,938	6,045	32,555	—	7,244	92,951	5,159	5,555	167,447

11 FIXED ASSETS *(continued)*

- (a) The Group has land use rights with lease terms from 50 to 64 years.
- (b) The Group's interests in leasehold properties are under lease terms of between 10 to 50 years.
- (c) Land use rights and leasehold properties outside Hong Kong were revalued at 31 December 1999 on the basis of open market value in existing use carried out by Chesterton Petty Limited, an independent firm of chartered surveyors. In the opinion of the directors, there was no material difference in respect of the fair value of such land use rights and leasehold properties as at 31 December 2001 if a professional valuation was made on that date.
- (d) The carrying amount of the land use rights and leasehold properties outside Hong Kong would have been HK\$23,495,000 (2000: HK\$24,989,000) had they been stated at historical cost less accumulated depreciation.
- (e) At 31 December 2001, the net book value of fixed assets pledged as security for the Group's bank loans amounted to HK\$40,256,000 (2000: HK\$40,509,000).

12 INVESTMENTS IN SUBSIDIARIES

	Company	
	2001	2000
	HK\$'000	HK\$'000
Unlisted shares, at cost	126,627	126,627
Amounts due from subsidiaries	71,421	44,934
	198,048	171,561

Notes to the Accounts

12 INVESTMENTS IN SUBSIDIARIES (continued)

As at 31 December 2001, the Company held interests in the following subsidiaries:—

Name	Country/place of incorporation/establishment	Principal activities and place of operation	Particulars of issued/registered capital	Interest held
Held directly:				
Ching Hing (BVI) Limited	British Virgins Islands	Investment holding in Hong Kong	57,457,238 ordinary shares of HK\$0.005 each	100%
Held indirectly:				
Ching Hing Weaving Dyeing & Printing Factory Limited	Hong Kong	Provision of fabric processing services and sales of fabric in Hong Kong	55,000,000 non-voting deferred shares of HK\$1 each 2 ordinary shares of HK\$1 each	100%
中山正興紡織廠有限公司 (Zhongshan Ching Hing Weaving Factory Limited)	The PRC	Provision of fabric processing services and sales of fabric in the PRC	US\$9,500,000	100%
Ching On Textiles Limited	Hong Kong	Sales of fabric in Hong Kong	2 ordinary shares of HK\$1 each	100%
Ching Fong Textiles Co. Ltd.	Hong Kong	Sales of fabric in Hong Kong	10,000 ordinary shares of HK\$1 each	100%
Yiutung Fashion Co. Ltd. ("Yiutung Fashion")	Hong Kong	Sales of garment in the PRC	15,001 ordinary shares of HK\$1 each	100%
中山市盈通服飾製衣有限公司 (Zhongshan Yiutung Clothing Manufacturing Co. Limited) ("Yiutung Clothing")	The PRC	Provision of manufacturing services and sales of garment in the PRC	US\$500,000	100%
中山市盈通紡織貿易有限公司 (Zhongshan Yiutung Textile Trading Co. Limited) ("Yiutung Textile") (Note (a))	The PRC	Sales of garment in the PRC	Rmb880,000	100%

12 INVESTMENTS IN SUBSIDIARIES (continued)

Name	Country/place of incorporation/ establishment	Principal activities and place of operation	Particulars of issued/registered capital	Interest held
Held indirectly: (continued)				
Huge Victory Management Limited	Samoa	Dormant	3 ordinary shares of US\$1 each	100%
Glamour International Limited	Samoa	Dormant	3 ordinary shares of US\$1 each	100%
Gold Base International Limited	British Virgin Islands	Dormant	1 ordinary share of HK\$1 each	56%
South Field (Pacific) Resources Limited	Hong Kong	Dormant	100,000 ordinary shares of HK\$1 each	56%
South Field (Pacific) Limited	Hong Kong	Sales of garment and accessories in the United States	1,000,001 ordinary shares of HK\$1 each	56%
South Field (Asia) Limited	Hong Kong	Provision of garment processing services and sales of garment and accessories in the United States	300,000 ordinary shares of HK\$1 each	31%
South Field International Inc.	United States	Provision of garment processing services and sales of garment and accessories in the United States	50,000 ordinary shares of US\$1 each	39%
Rich Tide (Ching Hing) International Ltd.	Hong Kong	Sales of fabric in Hong Kong	10,000 ordinary shares of HK\$1 each	51%

Note:

- (a) Yiutung Textile is a domestic enterprise in the PRC owned legally by Ms. Li Yan and Mr. Liu Yi Qing, staff of the Company. Due to various agreements in place (including co-operation agreement and pledged agreement entered into between Yiutung Clothing and each of the legal shareholders), in the opinion of the directors of the Company, the Company has effective control over the operational and financial policies of Yiutung Textile and therefore the latter has been included as a subsidiary of the Company.

Notes to the Accounts

13 INVENTORIES

	Group	
	2001	2000
	HK\$'000	HK\$'000
Raw materials	29,544	15,114
Work in progress	4,052	1,693
Finished goods	4,036	7,512
Stock in transit	426	219
	38,058	24,538

As at 31 December 2001, obsolete inventories of HK\$2,579,000 (2000: HK\$3,503,000) have been fully provided for. No other inventories were stated at net realisable value.

14 TRADE RECEIVABLES

Details of the ageing analysis of trade receivables were as follows:

	Group	
	2001	2000
	HK\$'000	HK\$'000
Current	18,018	11,076
31-60 days	12,202	8,761
61-90 days	5,367	5,827
91-120 days	5,510	5,022
Over 120 days	3,350	3,644
	44,447	34,330
Less: provision on doubtful debts	(2,719)	(3,186)
	41,728	31,144

The sales of fabric and processing of fabric are with credit terms of 45 days whereas the sales from trading of garment and accessories are with credit terms of 120 days. The Group had a defined credit policy and it varied with financial strength of individual customers. Sales from trading of garment and accessories are mostly covered by letter of credits.

15 DEPOSITS WITH BANK, BANK BALANCES AND CASH — GROUP

At 31 December 2001, HK\$6,955,000 (2000: HK\$5,023,000) of the Group's bank balances and cash were denominated in Renminbi and kept in the PRC. The conversion of these Renminbi denominated balances into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

At 31 December 2001, time deposits of HK\$33,800,000 (2000: HK\$12,480,000) was pledged in connection with banking facilities granted to the Group.

16 TRADE PAYABLES

At 31 December 2001, the ageing analysis of trade payables is as follows:

	Group	
	2001	2000
	HK\$'000	HK\$'000
Current	19,379	3,059
31-60 days	3,809	1,243
61-90 days	3,019	909
Over 91 days	3,361	16,318
	29,568	21,529

17 AMOUNTS DUE TO DIRECTORS

The amounts due to directors are unsecured, interest free and have no fixed term of repayments.

Notes to the Accounts

18 SHARE CAPITAL

	Authorised	
	Ordinary shares of HK\$0.05 each	
	<i>No. of shares</i>	<i>HK\$'000</i>
At 31 December 2000 and 2001	<u>1,000,000,000</u>	<u>50,000</u>
	Issued and fully paid	
	Ordinary shares of HK\$0.05 each	
	<i>No. of shares</i>	<i>HK\$'000</i>
At 1 January 2000	57,457,238	2,873
Issue of shares in 2000 (<i>notes (a) & (b)</i>)	<u>142,542,762</u>	<u>7,127</u>
At 31 December 2000	200,000,000	10,000
Issue of shares in 2001 (<i>notes (c), (d) & (e)</i>)	<u>120,349,468</u>	<u>6,017</u>
At 31 December 2001	<u>320,349,468</u>	<u>16,017</u>

- (a) On 19 January 2000, a new issue of 50,000,000 shares of HK\$0.05 each at HK\$1.10 per share was allotted and issued for cash to the public (the "New Issue") upon the listing of the Company's shares on the Stock Exchange. The net proceeds of the New Issue of approximately HK\$44,840,000 have been used to finance the expansion and for general working capital of the Group.
- (b) Immediately following the New Issue, the sum of HK\$4,627,000 credited to the share premium account as a result of the New Issue was capitalised and applied in paying up in full at par 92,542,762 shares of HK\$0.05 each for allotment and issued to holders of shares on the register of members of the Company at the close of business on 29 December 1999 in proportion to their then respective shareholdings in the Company.
- (c) On 3 April 2001, 9,302,326 shares of the Company were issued and allotted at HK\$0.43 per share as part of the consideration to acquire 56 per cent. shareholdings in South Field (Pacific) Limited, a subsidiary of the Company.
- (d) On 29 May 2001, 30,690,000 shares of the Company were placed and allotted to independent investors at HK\$0.26 per share. The proceeds of about HK\$7,979,000 was used as general working capital of the Company.
- (e) On 29 November 2001, 80,357,142 shares of the Company were issued and allotted at HK\$0.112 per share as the major part of the consideration to acquire the entire share capital in a subsidiary, Yiotung Fashion Company Limited.

19 SHARE OPTIONS

Pursuant to the share option scheme of the Company, on 13 June 2001, the Company granted an aggregate of 23,800,000 share options to certain employees including executive directors of the Company. The holders of the share options are entitled to subscribe for shares of HK\$0.05 each at an exercise price of HK\$0.36 per share. The options are exercisable at any time during the period from 13 June 2001 to 12 December 2004.

As at 31 December 2001, no options were waived or exercised.

20 RESERVES

(a) Group

	Share premium HK\$'000	Properties revaluation reserves HK\$'000	Statutory reserves HK\$'000	Capital reserves HK\$'000	Retained earnings HK\$'000	Total HK\$'000
At 1 January 2000	—	12,924	7,611	51,834	51,174	123,543
Premium on issue of shares (<i>note 18(a)</i>)	52,500	—	—	—	—	52,500
Share issue expenses	(10,163)	—	—	—	—	(10,163)
Capitalisation issue (<i>note 18(b)</i>)	(4,627)	—	—	—	—	(4,627)
Loss for the year	—	—	—	—	(15,402)	(15,402)
At 31 December 2000	<u>37,710</u>	<u>12,924</u>	<u>7,611</u>	<u>51,834</u>	<u>35,772</u>	<u>145,851</u>
At 1 January 2001	37,710	12,924	7,611	51,834	35,772	145,851
Premium on issue of shares (<i>notes 18(c), (d) and (e)</i>)	14,962	—	—	—	—	14,962
Share issue expenses	(1,098)	—	—	—	—	(1,098)
Loss for the year	—	—	—	—	(26,809)	(26,809)
At 31 December 2001	<u>51,574</u>	<u>12,924</u>	<u>7,611</u>	<u>51,834</u>	<u>8,963</u>	<u>132,906</u>

Notes to the Accounts

20 RESERVES (continued)

(a) Group (continued)

Statutory reserves represent the general reserve and enterprise expansion reserve fund set up by the PRC subsidiary by way of appropriation from the profit after taxation in accordance with the relevant laws and regulations in the PRC. Pursuant to the “Accounting Regulations of the People’s Republic of China for Enterprises with Foreign Investment”, if approvals are obtained from the relevant government authorities, the general reserve can be used in setting off accumulated losses or to increase capital and the enterprise expansion fund can be used to increase capital.

Capital reserves represent the amount of a subsidiary’s share capital converted into non-voting deferred shares in pursuant to the Group reorganisation on 1999 in preparation for a listing of the Company’s shares on The Stock Exchange of Hong Kong Limited.

(b) Company

	Share premium HK\$'000	Contributed surplus HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2000	—	123,754	(211)	123,543
Premium on issue of shares (note 18(a))	52,500	—	—	52,500
Shares issue expenses	(10,163)	—	—	(10,163)
Capitalisation issue (note 18(b))	(4,627)	—	—	(4,627)
Loss for the year (note 6)	—	—	(339)	(339)
At 31 December 2000	37,710	123,754	(550)	160,914
At 1 January 2001	37,710	123,754	(550)	160,914
Premium on issue of shares (notes 18(c), (d) and (e))	14,962	—	—	14,962
Shares issue expenses	(1,098)	—	—	(1,098)
Loss for the year (note 6)	—	—	(601)	(601)
At 31 December 2001	51,574	123,754	(1,151)	174,177

The contributed surplus of the Company represents the difference between the underlying net assets of the subsidiaries acquired by the Company and the nominal value of the shares issued by the Company at the time of the Group reorganisation. Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus is available for distribution to shareholders. However, a company cannot declare or pay a dividend, or make a distribution out of contributed surplus if (a) it is, or would after the payment be, unable to pay its liabilities as they become due; or (b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

21 LONG-TERM LIABILITIES

	Group		Company	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Bank loans wholly repayable within five years, secured (note 22)	<u>17,735</u>	<u>643</u>	<u>7,125</u>	<u>—</u>
	17,735	643	7,125	—
Current portion of long-term liabilities	<u>(8,947)</u>	<u>(643)</u>	<u>(4,750)</u>	<u>—</u>
	<u>8,788</u>	<u>—</u>	<u>2,375</u>	<u>—</u>

As at 31 December 2001, the Group's and the Company's bank loans, bank overdrafts including trust receipt loans were repayable as follows:

	Group		Company	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
— within one year	<u>61,180</u>	<u>37,939</u>	<u>4,750</u>	<u>—</u>
— in the second year	<u>8,788</u>	<u>—</u>	<u>2,375</u>	<u>—</u>
	<u>69,968</u>	<u>37,939</u>	<u>7,125</u>	<u>—</u>

Notes to the Accounts

22 BANKING FACILITIES

As at 31 December 2001, the Group's banking facilities amounting to HK\$132,621,000 (2000: HK\$66,316,000) granted by banks to the Group are secured by the followings:

- (a) legal charges over the Group's properties (note 11(e));
- (b) corporate guarantees by the Company for HK\$39,000,000 (2000: HK\$ 39,000,000);
- (c) guarantees given by the Company and the minority shareholder of a subsidiary for HK\$50,000,000 by each of them respectively;
- (d) guarantee given by another minority shareholder of a subsidiary for HK\$45,000,000;
- (e) charges over bank deposits of the Group (note 15);

23 DEFERRED TAXATION

	Group	
	2001	2000
	HK\$'000	HK\$'000
At 1 January	—	210
Transfer to profit and loss account (<i>note 5</i>)	—	(210)
At 31 December	—	—

The Group had no material unprovided deferred taxation as at 31 December 2001 and 2000.

24 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of operating loss to net cash (outflow)/inflow from operating activities

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Operating loss	(22,508)	(13,092)
Profit on dissolution of subsidiaries	—	(272)
Amortisation of goodwill	660	—
Depreciation charge	14,077	12,487
Impairment of fixed assets	230	—
(Gain)/loss on disposal of fixed assets	(270)	1,992
Increase in inventories	(9,939)	(1,074)
Decrease in trade receivables, prepayments, deposits and other receivables	5,644	16,096
Decrease in trade payables, other payables and accrued charges	(4,494)	(6,062)
Increase in amounts due to directors	363	—
Interest income	(1,764)	(2,679)
Net cash (outflow)/inflow from operating activities	<u>(18,001)</u>	<u>7,396</u>

Notes to the Accounts

24 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(continued)*

(b) Acquisition of subsidiaries

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Net assets acquired		
Fixed assets	1,372	—
Inventories	3,581	—
Trade receivables and other receivables	16,753	—
Bank balances and cash	11,132	—
Trade and other payables	(13,202)	—
Trust receipt loans — secured	(8,396)	—
Amounts due to directors	(2,507)	—
Short-term bank loan	(1,004)	—
Bank overdrafts	(1,231)	—
Minority interests	(2,509)	—
	<u>3,989</u>	<u>—</u>
Goodwill arising from acquisition <i>(note 10)</i>	17,227	—
	<u>21,216</u>	<u>—</u>
Satisfied by:		
Allotment of shares	13,000	—
Cash	8,216	—
	<u>21,216</u>	<u>—</u>

24 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(continued)*

- (c) Analysis of the net cash outflow in respect of the acquisition of subsidiaries:

	2001 HK\$'000	2000 <i>HK\$'000</i>
Cash consideration	8,216	—
Bank balances and cash acquired	(11,132)	—
Trust receipt loans acquired	8,396	—
Bank loan and overdrafts acquired	2,235	—
	<hr/>	<hr/>
Net cash outflow in respect of the acquisition of subsidiaries	7,715	—
	<hr/>	<hr/>

The subsidiaries acquired during the year contributed HK\$13,317,000 (2000: nil) to the Group's net operating cash outflows, paid HK\$884,000 (2000: nil) in respect of the net returns on investments and servicing of finance, paid HK\$nil (2000: nil) in respect of taxation and utilised HK\$1,094,000 (2000: nil) for investing activities.

- (d) Analysis of changes in financing during the year

	Share capital including premium HK\$'000	Bank loans HK\$'000	Other loans HK\$'000
As at 1 January 2000	2,873	17,227	2,312
Net proceeds arising from shares issued (<i>note 18(a)</i>)	44,837	—	—
Bank loans raised	—	28,203	—
Repayment of bank loans	—	(16,584)	—
Repayment of other loans	—	—	(2,312)
	<hr/>	<hr/>	<hr/>
As at 31 December 2000	47,710	28,846	—
	<hr/>	<hr/>	<hr/>
As at 1 January 2001	47,710	28,846	—
Net proceeds arising from shares issued (<i>note 18(d)</i>)	6,881	—	—
Shares issued for acquisition of subsidiaries (<i>notes 18(c) & (e)</i>)	13,000	—	—
Bank loans raised	—	50,250	—
Repayment of bank loans	—	(33,614)	—
	<hr/>	<hr/>	<hr/>
As at 31 December 2001	67,591	45,482	—
	<hr/>	<hr/>	<hr/>

Notes to the Accounts

24 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(continued)*

(e) Major non-cash transactions

- (i) The consideration for the acquisition of a subsidiary during the year was satisfied by an issuance of 9,302,326 shares of the Company at HK\$0.43 each.
- (ii) Part of the consideration for the acquisition of another subsidiary during the year was satisfied by an issuance of 80,357,142 shares of the Company at HK\$0.112 each.

25 CONTINGENT LIABILITIES

At 31 December 2001, the Company had given guarantees of approximately HK\$89,000,000 (2000: HK\$39,000,000) to certain banks in respect of banking facilities granted to certain subsidiaries of the Company.

In connection with the acquisition of a subsidiary as referred to note 18(c) to the accounts, the vendor of the transaction has continuously issued a guarantee to certain banks up to HK\$45,000,000 in respect of banking facilities granted to this subsidiary (note 22(d)). The Company has executed a deed of indemnity ("Indemnity") in favour of the vendor for any loss in connection with the guarantee to a maximum amount of HK\$45,000,000. A minority shareholder has indemnified the Company for any loss arising from the Indemnity to the extent of HK\$18,000,000.

26 COMMITMENTS

(a) Capital commitments

As at 31 December 2001, the Group had the following capital commitments:

	2001 HK\$'000	2000 HK\$'000
Purchase of plant and machinery	530	5,054
Paid in capital of a subsidiary	1,408	—
	<u>1,938</u>	<u>5,054</u>

(b) Operating lease commitments

As at 31 December 2001, the Group had future aggregate minimum lease payments under non-cancelable operating lease in respect of land and buildings as follows:

	2001 HK\$'000	2000 HK\$'000
		Restated
Within one year	944	804
In the second to fifth year inclusive	127	—
	<u>1,071</u>	<u>804</u>

27 RELATED PARTY TRANSACTIONS

In addition to note 17 to the accounts, during the year the Group entered into the following material transactions with its related parties in the normal course of business:

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Rental paid to a related company (<i>note (a)</i>)	840	840
Purchase of subsidiaries from related companies (<i>note (b)</i>)	10,000	—
	10,840	840

- (a) The related company is beneficially owned by, Mr. Yiu Ching On, a director of the Company.
- (b) On 29 November 2001, the Group acquired from Modern Fashion Inc. ("Modern Fashion") and Cotton Row Limited ("Cotton Row") the entire issued capital of Yitung Fashion for a consideration of HK\$10,000,000. Yitung Fashion is a company incorporated in Hong Kong with limited liability and owned as to 80 per cent. by Modern Fashion and as to 20 per cent. by Cotton Row. Modern Fashion and Cotton Row is respectively wholly-owned by Mr. Yiu Kwok Yung and Mr. Yiu Kwok Ming, Tommy, both of them are executive directors of the Company.

The aggregate consideration payable by the Company was HK\$10,000,000, of which HK\$8,000,000 payable to Modern Fashion was settled as to HK\$1,000,000 in cash and the balance by way of issue of 62,500,000 new shares at HK\$0.112 per share and the HK\$2,000,000 payable to Cotton Row was settled by way of issue of 17,857,142 new shares at HK\$0.112 per share.

28 APPROVAL OF ACCOUNTS

The accounts were approved by the board of directors on 25 April 2002.