

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 2002:

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

In accordance with SSAP 1 (revised), the statement of changes in equity has been presented in place of the statement of recognised gains and losses.

SSAP 11 (revised) prescribes the basis for the translation of foreign currency transactions and financial statements. This revised SSAP has had no material impact on the results of the current and prior years.

In accordance with SSAP 15 (revised), cash flows are classified by operating, investing and financing activities. The presentation of the cash flow statement has been changed to conform to the requirements of this revised SSAP.

SSAP 34 prescribes the accounting and disclosure for employee benefits. This new SSAP has had no material impact on the results of the current and prior years.

(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.

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.

NOTES TO THE ACCOUNTS

1 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(b) Consolidation *(Continued)*

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, 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.

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.

NOTES TO THE ACCOUNTS

1 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(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.

(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 ten 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.

NOTES TO THE ACCOUNTS

1 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(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.

(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 material 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 comprises 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 measure reliably.

A contingent liability is not 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.

NOTES TO THE ACCOUNTS

1 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(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.

(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.

On consolidation, the assets and liabilities of the accounts of a subsidiary expressed in foreign currencies are translated at the exchange rates ruling at the balance date. Revenue and expenses are translated at an average rate. Any resulting exchange difference arising on consolidation is dealt with in reserves.

(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 fabric 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 assets (note 10) and fixed assets (note 11), including additions resulting from acquisitions through purchases of subsidiaries (notes 11 and 12).

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 fabrics and garment manufacturing and trading. Revenues recognised during the year are as follows:

	2002 HK\$'000	2001 HK\$'000
Turnover		
Fabric processing	41,130	46,025
Sale of fabric	130,749	68,068
Sale of garments and accessories	151,328	78,327
	323,207	192,420
Other revenues		
Bank interest income	803	1,764
Total revenues	324,010	194,184

Primary report format — business segments

The Group is organised into three main business segments:

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

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

NOTES TO THE ACCOUNTS

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

Secondary report format — geographical segments

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

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

Primary report format — business segments

For the year ended 31 December 2002

	Fabric processing <i>HK\$'000</i>	Sale of fabrics <i>HK\$'000</i>	Sale of garments and accessories <i>HK\$'000</i>	Total <i>HK\$'000</i>
Turnover	41,130	130,749	151,328	323,207
Segment results	(9,953)	16,272	(1,658)	4,661
Unallocated costs				(5,862)
Operating loss				(1,201)
Finance costs				(5,678)
Loss before taxation				(6,879)
Taxation				(422)
Loss after taxation				(7,301)
Minority interests				625
Loss attributable to shareholders				(6,676)
Segment assets	129,287	46,008	44,870	220,165
Unallocated assets				72,865
Total assets				293,030
Segment liabilities	21,979	8,626	15,621	46,226
Unallocated liabilities				99,748
Total liabilities				145,974
Capital expenditure	915	416	510	1,841
Depreciation	12,847	2,147	409	15,403
Impairment charge	—	116	—	116

NOTES TO THE ACCOUNTS

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

Primary report format — business segments *(Continued)*

For the year ended 31 December 2001

	Fabric processing <i>HK\$'000</i>	Sale of fabrics <i>HK\$'000</i>	Sale of garments and accessories <i>HK\$'000</i>	Total <i>HK\$'000</i>
Turnover	46,025	68,068	78,327	192,420
Segment results	(17,003)	1,191	720	(15,092)
Unallocated costs				(7,416)
Operating loss				(22,508)
Finance costs				(4,381)
Loss before taxation				(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

NOTES TO THE ACCOUNTS

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

Secondary report format — geographical segments

For the year ended 31 December 2002

	Turnover HK\$'000	Segment results HK\$'000	Segment assets HK\$'000	Capital expenditure HK\$'000
Hong Kong	102,760	7,373	109,741	709
United States	141,014	3,013	34,783	114
The PRC	33,171	(6,838)	141,015	1,018
Other countries	46,262	1,113	7,491	—
	323,207	4,661	293,030	1,841

Unallocated costs	(5,862)
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Operating loss	(1,201)
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Total assets	293,030
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For the year ended 31 December 2001

	Turnover HK\$'000	Segment results HK\$'000	Segment assets HK\$'000	Capital expenditure HK\$'000
Hong Kong	94,321	(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
	192,420	(15,092)	264,994	30,499

Unallocated costs	(7,416)
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Operating loss	(22,508)
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Total assets	264,994
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NOTES TO THE ACCOUNTS

3 OPERATING LOSS

Operating loss is stated after crediting and charging the following:

	2002 HK\$'000	2001 HK\$'000
Crediting:		
Gain on disposal of fixed assets	—	270
Charging:		
Amortisation of goodwill	1,419	660
Auditors' remuneration	410	743
Cost of inventories sold	190,692	116,716
Depreciation	15,403	14,077
Impairments of fixed assets	116	230
Loss on disposal of fixed assets	170	—
Net exchange loss	—	238
Operating lease rentals in respect of land and buildings	1,639	1,405
Retirement benefit costs (excluding contribution to directors) (note 8)	277	377
Staff costs (excluding directors' emoluments)	20,015	16,509

4 FINANCE COSTS

	2002 HK\$'000	2001 HK\$'000
Interest on bank loans and overdrafts	5,424	4,307
Interest on other loans	38	74
Others	216	—
	5,678	4,381

NOTES TO THE ACCOUNTS

5 TAXATION

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

	2002 HK\$'000	2001 <i>HK\$'000</i>
Hong Kong profits tax	(271)	(400)
PRC taxation	693	(142)
	422	(542)

- (i) Hong Kong profits tax has been provided at the rates of 16% (2001: 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 other than PRC income tax has been made in the accounts as the Group has no assessable profit for the year.
- (iii) Two subsidiaries established and operated in Zhongshan City, Guangdong Province, the PRC, are subject to a preferential tax of 24% on their taxable income. The subsidiaries are granted full exemption from the PRC income tax for two years from their first profit-making year of operations (being the years ended 31 December 1997 and 2001) followed by a 50% reduction in income tax (i.e. 12%) for the next three years.
- (iv) Another subsidiary in the PRC is subject to the statutory income tax rate of 33% which has no assessable profit for the year.
- (v) 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\$4,425,000 (2001: HK\$601,000).

NOTES TO THE ACCOUNTS

7 LOSS PER SHARE

The calculation of the basic loss per share is based on the Group's loss attributable to shareholders of HK\$6,676,000 (2001: HK\$26,809,000) and on the weighted average number of 320,349,468 (2001: 232,468,632) 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 an 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\$106,000 (2001: HK\$213,000) were utilised during the year and there was no outstanding forfeited contribution as at 31 December 2002.

For the mandatory provident fund ("MPF Scheme"), the Group and its Hong Kong employees each make monthly contribution to the MPF Scheme at 5% of the employee's relevant income, with the maximum contribution by each of the Group and the employees limited to \$1,000 per month, as defined in the Hong Kong Mandatory Provident Fund Schemes Ordinance. 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 were as follows:

	2002 HK\$'000	2001 HK\$'000
Fees	120	180
Other emoluments:		
Basic salaries	3,000	3,000
Contributions to pension schemes	110	150
	3,230	3,330

NOTES TO THE ACCOUNTS

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

(a) Directors' emoluments *(Continued)*

Directors' fees of HK\$120,000 (2001: HK\$180,000) were payable to independent non-executive directors during the year. During the year, three (2001 : three) non-executive directors have each waived their emoluments by HK\$20,000 (2001 : HK\$20,000 each).

The emoluments of the directors fell within the following bands:

	Number of individuals	
	2002	2001
HK\$Nil — HK\$1,000,000	5	5
HK\$1,000,000 — HK\$1,500,000	2	2
	7	7

In addition to the directors' emoluments disclosed above, during the year, no (2001: 12,000,000) options were granted to four executive directors under the share option schemes as disclosed in note 20 to the accounts. During the year, no (2001: 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 (2001: two) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three (2001: three) individuals during the year are as follows:

	2002 HK\$'000	2001 HK\$'000
Basic salaries	1,898	1,314
Discretionary bonuses	192	464
Contributions to pension schemes	48	49
	2,138	1,827

NOTES TO THE ACCOUNTS

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	
	2002	2001
HK\$Nil — HK\$1,000,000	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

	2002 HK\$'000	2001 HK\$'000
At 1 January	16,567	—
Acquisition of subsidiaries	—	17,227
Amortisation for the year	(1,419)	(660)
Amount written down	(2,924)	—
At 31 December	12,224	16,567

NOTES TO THE ACCOUNTS

11 FIXED ASSETS

	Group								
	Construction in progress	Land use rights outside Hong Kong	Leasehold land and buildings outside Hong Kong	Leasehold land and buildings in Hong Kong	Leasehold improvements	Plant and machinery	Furniture, fixtures and office equipment	Motor vehicles	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost or valuation:									
At 1 January 2002	131	6,045	32,555	454	9,464	120,432	6,250	4,955	180,286
Additions, at cost	—	—	—	—	31	859	562	389	1,841
Transfers	(131)	—	—	—	—	131	—	—	—
Disposals	—	—	—	—	—	(276)	(28)	(309)	(613)
Revaluation	—	—	(663)	—	—	—	—	—	(663)
At 31 December 2002	—	6,045	31,892	454	9,495	121,146	6,784	5,035	180,851
Accumulated depreciation:									
At 1 January 2002	—	242	3,308	8	1,831	55,941	4,107	4,569	70,006
Charge for the year	—	121	1,685	9	396	12,045	783	364	15,403
Revaluation	—	(363)	(4,993)	—	—	—	—	—	(5,356)
Disposals	—	—	—	—	—	(55)	(5)	(300)	(360)
At 31 December 2002	—	—	—	17	2,227	67,931	4,885	4,633	79,693
Net book value:									
At 31 December 2002	—	6,045	31,892	437	7,268	53,215	1,899	402	101,158
At 31 December 2001	131	5,803	29,247	446	7,633	64,491	2,143	386	110,280
The analysis of the cost or valuation at 31 December 2002 of the above assets was as follows:									
At cost	—	—	—	454	9,495	121,146	6,784	5,035	142,914
At 2002 valuation	—	6,045	31,892	—	—	—	—	—	37,937
	—	6,045	31,892	454	9,495	121,146	6,784	5,035	180,851
The analysis of the cost or valuation at 31 December 2001 of the above assets was 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

NOTES TO THE ACCOUNTS

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 2002 on the basis of open market value in existing use carried out by RHL Appraisal Limited, an independent firm of chartered surveyors.
- (d) The carrying amount of the land use rights and leasehold properties outside Hong Kong would have amounted to HK\$22,004,000 (2001: HK\$22,495,000) had they been stated at historical cost less accumulated depreciation.
- (e) At 31 December 2002, the net book value of fixed assets pledged as security for the Group's bank loans amounted to HK\$42,978,000 (2001: HK\$40,256,000).

12 INVESTMENTS IN SUBSIDIARIES

	Company	
	2002 HK\$'000	2001 HK\$'000
Unlisted shares, at cost	126,627	126,627
Amounts due from subsidiaries	59,451	71,421
	186,078	198,048

The amounts due from subsidiaries are unsecured, non-interest bearing and not repayable within the next twelve months.

NOTES TO THE ACCOUNTS

12 INVESTMENTS IN SUBSIDIARIES *(Continued)*

As at 31 December 2002, 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
<i>Held directly:</i>				
Ching Hing (BVI) Limited	The British Virgin Islands	Investment holding in Hong Kong	57,457,238 ordinary shares of HK\$0.005 each	100%
<i>Held indirectly:</i>				
Ching Hing Weaving Dyeing & Printing Factory Limited	Hong Kong	Provision of fabric processing services and sale of fabrics 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 sale of fabrics in the PRC	US\$9,500,000	100%
Ching On Textiles Limited	Hong Kong	Sale of fabrics in Hong Kong	2 ordinary shares of HK\$1 each	100%
Ching Fong Textiles Co. Ltd.	Hong Kong	Sale of fabrics in Hong Kong	10,000 ordinary shares of HK\$1 each	100%
Rich Tide (Ching Hing) International Ltd.	Hong Kong	Sale of fabrics in Hong Kong	10,000 ordinary shares of HK\$1 each	51%
Yiutung Fashion Co. Ltd. ("Yiutung Fashion")	Hong Kong	Sale of garments in the PRC	15,001 ordinary shares of HK\$1 each	100%

NOTES TO THE ACCOUNTS

12 INVESTMENTS IN SUBSIDIARIES *(Continued)*

Name	Country/place of incorporation/ establishment	Principal activities and place of operation	Particulars of issued/registered capital	Interest held
<i>Held indirectly:</i>				
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 sale of garments 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") <i>(Note a)</i>	The PRC	Sale of garments in the PRC	RMB880,000	100%
South Field (Pacific) Limited	Hong Kong	Sale of garments and accessories in the United States	1,000,001 ordinary shares of HK\$1 each	56%
South Field (Asia) International Limited	Hong Kong	Sale of garments and accessories in the United States	100,000 ordinary shares of HK\$1 each	46%
South Field (Asia) Limited	Hong Kong	Provision of garments processing services and sale of garments and accessories in the United States	300,000 ordinary shares of HK\$1 each	31%
South Field International, Inc. <i>(Note b)</i>	United States	Provision of garments processing services and sale of garments and accessories in the United States	50,000 shares of US\$1 each	39%
Gold Base International Limited	The British Virgin Islands	Investment holding	1 ordinary share of HK\$1 each	56%

NOTES TO THE ACCOUNTS

12 INVESTMENTS IN SUBSIDIARIES *(Continued)*

Name	Country/place of incorporation/ establishment	Principal activities and place of operation	Particulars of issued/registered capital	Interest held
<i>Held indirectly:</i>				
Gold Base Inc.	United States	Dormant	10,000 shares of US\$1 each	100%
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%
Alpha Textiles International Limited	Hong Kong	Dormant	10,000 ordinary shares of HK\$1 each	100%
Ching Hing (International) Hong Kong Limited	Hong Kong	Dormant	2 ordinary shares of HK\$1 each	100%

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.
- (b) South Field International, Inc. ceased business in October 2002.

NOTES TO THE ACCOUNTS

13 INVENTORIES

	Group	
	2002 HK\$'000	2001 HK\$'000
Raw materials	16,076	29,544
Work in progress	12,144	4,052
Finished goods	11,626	4,036
Stock in transit	—	426
	39,846	38,058

At 31 December 2002, obsolete inventories of HK\$1,775,000 (2001: HK\$2,579,000) have been fully provided for. No other inventories were stated at net realisable value.

14 TRADE RECEIVABLES

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

	Group	
	2002 HK\$'000	2001 HK\$'000
Current	58,295	18,018
31-60 days	13,181	12,202
61-90 days	4,274	5,367
91-120 days	1,647	5,510
Over 120 days	3,272	3,350
	80,669	44,447
Less: provision on doubtful debts	(1,073)	(2,719)
	79,596	41,728

Sale of fabrics and processing of fabric are with credit terms of 45 days whereas sale from trading of garments and accessories are with credit terms of 120 days. The Group has a defined credit policy and it varies with financial strength of individual customers. Sale from trading of garments and accessories is mostly covered by letter of credits.

NOTES TO THE ACCOUNTS

15 DEPOSITS WITH BANKS, BANK BALANCES AND CASH — GROUP

At 31 December 2002, HK\$13,411,000 (2001: HK\$6,955,000) of the Group's bank balances and cash was 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 2002, time deposits of HK\$36,800,000 (2001: HK\$33,800,000) were pledged in connection with banking facilities granted to the Group.

16 TRADE PAYABLES

At 31 December 2002, the aging analysis of trade payables was as follows:

	Group	
	2002 HK\$'000	2001 HK\$'000
Current	27,347	19,379
31-60 days	9,416	3,809
61-90 days	2,690	3,019
Over 91 days	6,773	3,361
	46,226	29,568

17 AMOUNT DUE TO A RELATED COMPANY

The amount due to a related company is unsecured, interest bearing at prime rate plus 2% p.a. and has no fixed term of repayments.

18 AMOUNT DUE TO A DIRECTOR

The amount due to a director is unsecured, interest free and has no fixed term of repayments.

NOTES TO THE ACCOUNTS

19 SHARE CAPITAL

	Authorised	
	Ordinary shares of HK\$0.050 each	
	<i>No. of shares</i>	<i>HK\$'000</i>
At 31 December 2001 and 2002	1,000,000,000	50,000

	Issued and fully paid	
	Ordinary shares of HK\$0.050 each	
	<i>No. of shares</i>	<i>HK\$'000</i>
At 1 January 2001	200,000,000	10,000
Issue of shares in 2001 (<i>notes a, b & c</i>)	120,349,468	6,017
At 31 December 2001 and 2002	320,349,468	16,017

- (a) On 3 April 2001, 9,302,326 shares of the Company were issued and allotted at HK\$0.430 per share as part of the consideration to acquire the 56 per cent shareholdings in South Field (Pacific) Limited, a subsidiary of the Company.
- (b) On 29 May 2001, 30,690,000 shares of the Company were placed and allotted to independent investors at HK\$0.260 per share. The proceeds of about HK\$7,979,000 were used as general working capital of the Company.
- (c) 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, Yitutung Fashion Company Limited.

20 SHARE OPTIONS

Pursuant to the share option scheme of the Company ("Share Option Scheme"), 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\$0.050 each at an exercise price of HK\$0.360 per share. The options are exercisable at any time during the period from 13 June 2001 to 12 December 2004.

On 27 May 2002, the Company adopted a new share option scheme ("New Share Option Scheme") to replace the Share Option Scheme in order to comply with the recent changes to Chapter 17 of the Listing Rules. There are no significant changes on the aggregate of 23,800,000 share options granted under the Share Option Scheme to certain employees including executive directors of the Company. During the year ended 31 December 2002, no options had been granted under the New Share Option Scheme.

At 31 December 2002, no options were waived or exercised and 2,300,000 options had lapsed.

NOTES TO THE ACCOUNTS

21 RESERVES

(a) Group

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 in 1999 in preparation for a listing of the Company's shares on the Stock Exchange of Hong Kong Limited.

(b) Company

	Share premium <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2001	37,710	123,754	(550)	160,914
Premium on issue of shares <i>(notes 19(a), (b) & (c))</i>	14,962	—	—	14,962
Shares issue expenses	(1,098)	—	—	(1,098)
Loss for the year <i>(note 6)</i>	—	—	(601)	(601)
At 31 December 2001	51,574	123,754	(1,151)	174,177
Loss for the year <i>(note 6)</i>	—	—	(4,425)	(4,425)
At 31 December 2002	51,574	123,754	(5,576)	169,752

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.

NOTES TO THE ACCOUNTS

22 LONG-TERM LIABILITIES

	Group		Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Bank loans wholly repayable within five years, secured (note 23)	9,386	17,735	2,375	7,125
Current portion of long-term liabilities	9,386 (6,678)	17,735 (8,947)	2,375 (2,375)	7,125 (4,750)
	2,708	8,788	—	2,375

At 31 December 2002, the Group's and the Company's bank loans, bank overdrafts including trust receipt loans were repayable as follows:

	Group		Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Within one year	78,790	61,180	2,375	4,750
In the second year	2,708	8,788	—	2,375
	81,498	69,968	2,375	7,125

23 BANKING FACILITIES

At 31 December 2002, the Group's banking facilities of HK\$168,103,000 (2001: HK\$132,621,000) granted by banks and a credit company were secured by the following:

- legal charges over the Group's properties (note 11(e));
- corporate guarantees by the Company for HK\$64,000,000 (2001: HK\$ 39,000,000);
- guarantees given by the Company and the minority shareholders of subsidiaries for HK\$82,000,000 (2001 : HK\$50,000,000) and HK\$73,330,000 (2001 : HK\$50,000,000) respectively;
- guarantee given by another minority shareholder of a subsidiary for HK\$Nil (2001 : HK\$45,000,000); and
- charges over bank deposits of the Group (note 15).

NOTES TO THE ACCOUNTS

24 DEFERRED TAXATION

The Group had no material unprovided deferred taxation as at 31 December 2002 and 2001.

25 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	2002 HK\$'000	2001 HK\$'000
Loss before taxation	(6,879)	(26,889)
Adjustments for:		
Interest income	(803)	(1,764)
Loss/(gain) on disposal of fixed assets	170	(270)
Impairment of fixed assets	116	230
Depreciation charges	15,403	14,077
Amortisation of goodwill	1,419	660
Operating cash flow before working capital changes	9,426	(13,956)
Increase in inventories	(1,788)	(9,939)
(Increase)/decrease in trade receivables, prepayments, deposits and other receivables	(33,867)	5,644
Increase/(decrease) in trade payables, other payables and accrued charges	18,309	(4,494)
(Decrease)/increase in amount due to a director	(753)	363
Net cash used in operations	(8,673)	(22,382)
Hong Kong profits tax paid	(115)	(254)
Overseas taxation paid	(2,697)	(1,634)
Net cash outflow from operating activities	(11,485)	(24,270)

NOTES TO THE ACCOUNTS

25 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

(b) Acquisition of subsidiaries

	2002 HK\$'000	2001 HK\$'000
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)
	—	3,989
Goodwill arising from acquisition <i>(note 10)</i>	—	17,227
	—	21,216
Satisfied by:		
Allotment of shares	—	13,000
Cash	—	8,216
	—	21,216

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

	2002 HK\$'000	2001 HK\$'000
Cash consideration	—	8,216
Bank balances and cash acquired	—	(11,132)
Bank overdrafts	—	8,396
Minority interests	—	2,235
Net cash outflow in respect of the acquisition of subsidiaries	—	7,715

The subsidiaries acquired in 2001 contributed HK\$13,317,000 to the Group's net operating cash outflows, paid HK\$884,000 in respect of the net returns on investments and servicing of finance, paid HK\$nil in respect of taxation and utilised HK\$1,094,000 for investing activities.

NOTES TO THE ACCOUNTS

25 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

(d) Analysis of changes in financing during the year

	Share capital including premium HK\$'000	Bank loans HK\$'000
At 1 January 2001	47,710	28,846
Net proceeds arising from shares issued <i>(note 19(b))</i>	6,881	—
Shares issued for acquisition of subsidiaries <i>(note 19 (a) & (b))</i>	13,000	—
Bank loans raised	—	50,250
Repayment of bank loans	—	(33,614)
At 31 December 2001	67,591	45,482
At 1 January 2002	67,591	45,482
Bank loans raised	—	55,458
Repayment of bank loans	—	(51,186)
At 31 December 2002	67,591	49,754

(e) Major non-cash transactions

- (i) The consideration for the acquisition of a subsidiary during 2001 was satisfied by an issuance of 9,302,326 shares of the Company at HK\$0.430 each.
- (ii) Part of the consideration for the acquisition of another subsidiary during 2001 was satisfied by an issuance of 80,357,142 shares of the Company at HK\$0.112 each.

26 CONTINGENT LIABILITIES

At 31 December 2002, the Company had given guarantees of approximately HK\$146,000,000 (2001: HK\$89,000,000) to certain banks in respect of banking facilities granted to certain subsidiaries of the Company.

In connection with the acquisition of a subsidiary in 2001 as referred to note 19(a) 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 23(d)). The Company has executed a deed of indemnity ("Indemnity") in favor 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.

NOTES TO THE ACCOUNTS

27 COMMITMENTS

(a) Capital commitments

At 31 December 2002, the Group had the following capital commitments:

	2002 HK\$'000	2001 <i>HK\$'000</i>
Purchase of plant and machinery	—	530
Paid in capital of a subsidiary	—	1,408
	—	1,938

(b) Operating lease commitments

At 31 December 2002, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	2002 HK\$'000	2001 <i>HK\$'000</i>
Within one year	1,033	917
In the second to fifth year inclusive	205	521
	1,238	1,438

NOTES TO THE ACCOUNTS

28 RELATED PARTY TRANSACTIONS

In addition to notes 17 and 18 to the accounts, during the year, the Group entered into the following material transactions with its related parties in the normal course of business:

	2002 HK\$'000	2001 HK\$'000
Rental paid to a related company (<i>note a</i>)	840	840
Purchase of a motor vehicle from a related company (<i>note b</i>)	230	—
Purchase of subsidiaries from related companies (<i>note c</i>)	—	10,000
Purchase of a motor vehicle from Mr. Yiu Kwok Ming, Tommy, executive director of the Company	159	—
	1,229	10,840

- (a) The related company is beneficially owned by Mr. Yiu Ching On, an executive director of the Company.
- (b) The related company is beneficially owned by Ms. Wong Kai Chun, Mr. Yiu Ching On and Mr. Yiu Kwok Ming, Tommy, executive directors of the Company.
- (c) 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 was payable to Modern Fashion and 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.

29 COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified to conform with current year's presentation.