

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 (the "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 has adopted, for the first time, the revised Statement of Standard Accounting Practice ("SSAP") Number 12 "Income Taxes" issued by the HKSA:

The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax.

In prior year, deferred taxation was 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 was expected to be payable or recoverable in the foreseeable future.

Under the revised SSAP 12, deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

The adoption of the revised SSAP 12 represents a change in accounting policy, which has been applied retrospectively. The adoption of revised SSAP 12 has had no material impact on the results for the current and prior accounting periods.

Notes to the Accounts

1. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(b) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31 December.

A subsidiary is an enterprise in which the Company has the power, directly or indirectly, to govern the financial and operating policies, so as to obtain benefits from their activities.

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 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.

Notes to the Accounts

1. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(c) Fixed assets *(Continued)*

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.

(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.

Notes to the Accounts

1. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(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 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.

Notes to the Accounts

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 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 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.

Notes to the Accounts

1. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(m) Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred taxation is provided for on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

(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 sheet date. Revenue and expenses are translated at an average rate. Any resulting exchange difference arising on consolidation is dealt with in reserves.

(o) Employees' benefits

(i) Pension obligations

The Group contributes to various defined contribution retirement schemes for its employees. Contributions to the schemes by the Group and employees are calculated as a percentage of employees' basic salaries. The retirement benefit scheme costs charged to the profit and loss account represent contributions payable by the Group to the schemes.

Notes to the Accounts

1. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(o) Employees' benefits *(Continued)*

(i) Pension obligations *(Continued)*

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

(ii) Employee leave entitlements

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

(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.

(q) Related parties

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

Notes to the Accounts

1. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(r) 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 other investment and certain fixed assets. Segment liabilities primarily comprise operating liabilities. 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 customers are 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 were as follows:—

	2003 HK\$'000	2002 HK\$'000
Turnover		
Fabric processing	75,469	41,130
Sale of fabrics	86,601	130,749
Sale of garments and accessories	76,473	151,328
	<u>238,543</u>	<u>323,207</u>
Other revenues		
Interest income	333	803
Others	1,816	806
	<u>2,149</u>	<u>1,609</u>
Total revenues	<u>240,692</u>	<u>324,816</u>

Notes to the Accounts

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 fabrics — manufacture, wholesale and distribution of fabrics
- Sale of garments and accessories — manufacture, wholesale and distribution of garments and accessories

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

Notes to the Accounts

2. TURNOVER, REVENUE AND SEGMENT INFORMATION (Continued)

Primary report format — business segments

For the year ended 31 December 2003				
	Fabric processing HK\$'000	Sale of fabrics HK\$'000	Sale of garments and accessories HK\$'000	Total HK\$'000
Turnover	<u>75,469</u>	<u>86,601</u>	<u>76,473</u>	<u>238,543</u>
Segment results	<u>(5,815)</u>	<u>(3,333)</u>	<u>(15,945)</u>	(25,093)
Unallocated revenue				17
Unallocated costs				<u>(13,043)</u>
Operating loss				(38,119)
Finance costs				<u>(5,497)</u>
Loss before taxation				(43,616)
Taxation				<u>(825)</u>
Loss after taxation				(44,441)
Minority interests				<u>1,122</u>
Loss attributable to shareholders				<u>(43,319)</u>
Segment assets	116,182	48,848	5,106	170,136
Unallocated assets				<u>47,211</u>
Total assets				<u>217,347</u>
Segment liabilities	21,231	12,149	6,505	39,885
Unallocated liabilities				<u>73,567</u>
Total liabilities				<u>113,452</u>
Capital expenditure	2,785	1,083	157	4,025
Depreciation and amortisation	10,990	1,765	1,578	14,333
Impairment charge	—	—	7,805	7,805

Notes to the Accounts

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

Primary report format — business segments *(Continued)*

	For the year ended 31 December 2002			
	Fabric processing HK\$'000	Sale of fabrics HK\$'000	Sale of garments and accessories HK\$'000	Total HK\$'000
Turnover	<u>41,130</u>	<u>130,749</u>	<u>151,328</u>	<u>323,207</u>
Segment results	<u>(9,953)</u>	<u>16,272</u>	<u>(1,658)</u>	4,661
Unallocated revenue				—
Unallocated costs				<u>(3,948)</u>
Operating profit				713
Finance costs				<u>(7,592)</u>
Loss before taxation				(6,879)
Taxation				<u>(422)</u>
Loss after taxation				(7,301)
Minority interests				<u>625</u>
Loss attributable to shareholders				<u>(6,676)</u>
Segment assets	129,287	46,008	44,870	220,165
Unallocated assets				<u>72,865</u>
Total assets				<u>293,030</u>
Segment liabilities	21,979	8,626	15,621	46,226
Unallocated liabilities				<u>98,468</u>
Total liabilities				<u>144,694</u>
Capital expenditure	915	416	510	1,841
Depreciation and amortisation	12,847	2,147	1,828	16,822
Impairment charge	—	116	—	116

Notes to the Accounts

2. TURNOVER, REVENUE AND SEGMENT INFORMATION (Continued)

Secondary report format — geographical segments

For the year ended 31 December 2003				
	Turnover	Segment	Segment	Capital
	HK\$'000	results	assets	expenditure
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	121,227	(11,870)	87,674	1,071
United States	63,639	(7,430)	2,691	—
The PRC	30,900	(5,672)	121,401	2,954
Other countries	22,777	(121)	5,581	—
	<u>238,543</u>	<u>(25,093)</u>	<u>217,347</u>	<u>4,025</u>
Unallocated revenue		17		
Unallocated costs		<u>(13,043)</u>		
Operating loss		<u>(38,119)</u>		
Total assets			<u>217,347</u>	

For the year ended 31 December 2002				
	Turnover	Segment	Segment	Capital
	HK\$'000	results	assets	expenditure
	HK\$'000	HK\$'000	HK\$'000	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	—
	<u>323,207</u>	<u>4,661</u>	<u>293,030</u>	<u>1,841</u>
Unallocated revenue		—		
Unallocated costs		<u>(3,948)</u>		
Operating profit		<u>713</u>		
Total assets			<u>293,030</u>	

Notes to the Accounts

3. OPERATING (LOSS)/PROFIT

Operating (loss)/profit is stated after charging the following:

	2003 HK\$'000	2002 HK\$'000
Amortisation of goodwill	1,419	1,419
Impairment loss on goodwill	7,805	—
Auditors' remuneration:		
Current year	483	410
Prior year	53	—
Provision for slow-moving and obsolete inventories	14,245	1,775
Cost of inventories sold	140,920	190,692
Depreciation	12,914	15,403
Impairment of fixed assets	—	116
Loss on write off and disposal of fixed assets	1,247	170
Operating lease rentals in respect of land and buildings	1,725	1,639
Directors' remuneration (note 9(a))	2,754	3,230
Staff costs (excluding directors' remuneration):		
Salaries and allowances	20,638	23,039
Retirement benefit costs (excluding contributions to directors) (note 8)	753	713

4. FINANCE COSTS

	2003 HK\$'000	2002 HK\$'000
Interest on bank loans and overdrafts	3,774	5,424
Bank charges	1,296	1,914
Interest on finance lease	35	—
Interest on other loans	25	38
Others	367	216
	5,497	7,592

Notes to the Accounts

5. TAXATION

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

	2003 HK\$'000	2002 HK\$'000
Hong Kong profits tax	—	(271)
PRC taxation	825	693
	<u>825</u>	<u>422</u>

- (i) No Hong Kong profits tax has been provided (2002 : HK\$Nil) as the Group sustained a loss during 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 subjected 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 its first profit-making year of operations (being the year ended 31 December 1997 and 2001) followed by a 50% reduction in income tax (i.e. 12%) for the next three years.

Notes to the Accounts

5. TAXATION (Continued)

- (b) The taxation charge for the year can be reconciled to the profit as stated in the financial statements as follows:

	2003 HK\$'000	2002 HK\$'000
Loss before taxation	<u>(43,616)</u>	<u>(6,879)</u>
Taxation calculated at Hong Kong profits tax of 17.5% (2002 : 16%)	(7,633)	(1,101)
Tax effect of expenses not deductible for taxation purpose	2,564	1,164
Tax effect of non-taxable items	(6)	(12)
Utilisation of previously unrecognised tax losses	(132)	(172)
Tax effect of preferential tax treatment	577	(77)
Deferred tax assets not recognised	5,493	791
Effect of different tax rates of subsidiaries operating in other jurisdictions	(38)	100
Overprovision in prior year	<u>—</u>	<u>(271)</u>
Taxation charge for the year	<u>825</u>	<u>422</u>

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\$63,490,000 (2002: loss of HK\$4,425,000).

7. LOSS PER SHARE

The calculation of basic loss per share is based on the Group's loss attributable to shareholders of HK\$43,319,000 (2002: HK\$6,676,000) and on the weighted average number of 320,349,468 (2002: 320,349,468) ordinary shares in issue during the year.

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

Notes to the Accounts

8. RETIREMENT BENEFIT COSTS

The Group contributes to defined contribution retirement schemes (including the Occupational Retirement Scheme ("ORSO Scheme") and Mandatory Provident Fund Scheme ("MPF Scheme")) 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 schemes by the Group and employees are calculated as a percentage of employees' basic salaries.

The Group's contributions to the ORSO Scheme is available to certain Hong Kong employees and reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions. Forfeited contributions totaling HK\$252,000 (2002: HK\$106,000) were utilised during the year and there was no outstanding forfeited contribution at 31 December 2003.

For the MPF Scheme, the Group and its Hong Kong employees each make monthly contribution at 5% of the employee's relevant income, with the maximum contribution by each of the Group and the employees limited to HK\$1,000 per month, as defined in the Hong Kong Mandatory Provident Fund Schemes Ordinance. Such contributions are fully and immediately vested in the employees as accrued benefits once they are paid.

9. DIRECTORS' AND SENIOR MANAGEMENT'S REMUNERATION

(a) Directors' remuneration

The aggregate amounts of remuneration payable to directors of the Company during the year were as follows:

	2003 HK\$'000	2002 HK\$'000
Fees	180	120
Other emoluments:		
Salaries and allowances	2,478	3,000
Contributions to pension schemes	96	110
	<u>2,754</u>	<u>3,230</u>

Directors' fees of HK\$180,000 (2002: HK\$120,000) were payable to independent non-executive directors during the year. During the year, three (2002: three) non-executive directors have each waived their fees of HK\$20,000 each (2002: HK\$20,000 each).

Notes to the Accounts

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

(a) Directors' remuneration *(Continued)*

The remuneration of the directors fell within the following bands:

	Number of individuals	
	2003	2002
HK\$Nil — HK\$1,000,000	6	5
HK\$1,000,000 — HK\$1,500,000	1	2
	<u>7</u>	<u>7</u>

In addition to the directors' remuneration disclosed above, during the year, no (2002: Nil) options were granted to four executive directors under the share option schemes as disclosed in note 20 to the accounts. During the year, no (2002 : Nil) options had been exercised by the directors.

(b) Five highest paid individuals

The five individuals whose remuneration were the highest in the Group for the year include two (2002: two) directors whose remuneration are reflected in the analysis presented above. The remuneration payable to the remaining three (2002: three) individuals during the year were as follows:

	2003 HK\$'000	2002 HK\$'000
Salaries and allowances	2,014	1,898
Discretionary bonuses	103	192
Contributions to pension schemes	36	48
	<u>2,153</u>	<u>2,138</u>

Notes to the Accounts

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

(b) Five highest paid individuals *(Continued)*

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

	Number of individuals	
	2003	2002
HK\$Nil — HK\$1,000,000	<u>3</u>	<u>3</u>

During the year, no remuneration 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

	2003 HK\$'000	2002 HK\$'000
At 1 January	12,224	16,567
Amortisation for the year	(1,419)	(1,419)
Impairment loss	(7,805)	—
Amount written down	<u>(3,000)</u>	<u>(2,924)</u>
At 31 December	<u>—</u>	<u>12,224</u>

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 2003	—	6,045	31,892	454	9,495	121,146	6,784	5,035	180,851
Additions, at cost	1,113	—	—	—	13	1,129	158	1,612	4,025
Disposals	—	—	—	—	—	(6,180)	(206)	(438)	(6,824)
At 31 December 2003	1,113	6,045	31,892	454	9,508	116,095	6,736	6,209	178,052
Accumulated depreciation:									
At 1 January 2003	—	—	—	17	2,227	67,931	4,885	4,633	79,693
Charge for the year	—	121	1,673	89	319	9,509	624	579	12,914
Disposals	—	—	—	—	—	(4,159)	(54)	(359)	(4,572)
At 31 December 2003	—	121	1,673	106	2,546	73,281	5,455	4,853	88,035
Net book value:									
At 31 December 2003	1,113	5,924	30,219	348	6,962	42,814	1,281	1,356	90,017
At 31 December 2002	—	6,045	31,892	437	7,268	53,215	1,899	402	101,158
The analysis of the cost or valuation at 31 December 2003 of the above assets is as follows:									
At cost	1,113	—	—	454	9,508	116,095	6,736	6,209	140,115
At 2002 valuation	—	6,045	31,892	—	—	—	—	—	37,937
	1,113	6,045	31,892	454	9,508	116,095	6,736	6,209	178,052
The analysis of the cost or valuation at 31 December 2002 of the above assets is 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

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 land and buildings are under lease terms of between 10 to 50 years.
- (c) Land use rights and leasehold land and buildings 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 land and buildings outside Hong Kong would have amounted to HK\$20,511,000 (2002: HK\$22,004,000) had they been stated at historical cost less accumulated depreciation.
- (e) At 31 December 2003, the net book value of fixed assets pledged as security for the Group's bank loans amounted to HK\$40,916,000 (2002: HK\$42,978,000).
- (f) At 31 December 2003, the net book value of fixed assets held by the Group under a finance lease amounted to HK\$712,000 (2002: HK\$Nil).

12. INVESTMENTS IN SUBSIDIARIES

	Company	
	2003	2002
	HK\$'000	HK\$'000
Unlisted shares, at cost	126,627	126,627
Less : Provision	(32,000)	—
	<u>94,627</u>	<u>126,627</u>
Amounts due from subsidiaries	50,080	59,451
Less : Provisions	(28,000)	—
	<u>22,080</u>	<u>59,451</u>
	<u><u>116,707</u></u>	<u><u>186,078</u></u>

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)*

At 31 December 2003, 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, ceased operation during the year	10,000 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
Held directly: (Continued)				
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.	Hong Kong	Sale of garments 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)	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)	The PRC	Sale of garments in the PRC, deregistered during the year	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, ceased operating during the year	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, deregistered during the year	300,000 ordinary shares of HK\$1 each	31%

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
Held directly: (Continued)				
South Field International, Inc.	United States	Provision of garments processing services and sale of garments and accessories in the United States, deregistered during the year	50,000 shares of US\$1 each	39%
Gold Base International Limited	The British Virgin Islands	Investment holding	1 ordinary shares of US\$1 each	56%
Gold Base Inc.	United States	Dormant	10,000 ordinary shares of US\$1 each	100%
Huge Victory Management Limited	Samoa	Property holding	3 ordinary shares of US\$1 each	100%
Glamour International Limited	Samoa	Investment holding	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%

13. INVENTORIES

	Group	
	2003	2002
	HK\$'000	HK\$'000
Raw materials	13,769	16,076
Work in progress	1,463	12,144
Finished goods	8,010	11,626
	<u>23,242</u>	<u>39,846</u>

At 31 December 2003, obsolete inventories of HK\$14,596,000 (2002: HK\$1,775,000) have been fully provided for. Other inventories amounting to HK\$1,424,000 (2002: HK\$Nil) were stated at net realisable value.

Notes to the Accounts

14. TRADE RECEIVABLES

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

	Group	
	2003	2002
	HK\$'000	HK\$'000
Current	38,756	58,295
31-60 days	11,417	13,181
61-90 days	3,928	4,274
91-120 days	1,394	1,647
Over 120 days	13,259	3,272
	<hr/>	<hr/>
	68,754	80,669
Less: provision on doubtful debts	(11,451)	(1,073)
	<hr/>	<hr/>
	57,303	79,596
	<hr/>	<hr/>

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

15. DEPOSITS WITH BANKS, BANK BALANCES AND CASH — GROUP

At 31 December 2003, HK\$10,099,236 (2002: HK\$13,411,000) 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 2003, time deposits of HK\$23,238,000 (2002: HK\$36,800,000) were pledged to banks to secure banking facilities of the Group.

Notes to the Accounts

16. TRADE PAYABLES

At 31 December 2003, the aging analysis of trade payables was as follows:

	Group	
	2003	2002
	HK\$'000	HK\$'000
Current	19,536	27,347
31-60 days	12,914	9,416
61-90 days	2,320	2,690
Over 91 days	5,115	6,773
	<hr/>	<hr/>
	39,885	46,226
	<hr/>	<hr/>

17. AMOUNT DUE TO A RELATED COMPANY

The amount due to a related company is unsecured, interest bearing at a fixed rate of 6.75% p.a. (2002: 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.

19. SHARE CAPITAL

	Authorised Ordinary shares of HK\$0.05 each	
	<i>No. of shares</i>	<i>HK\$'000</i>
At 31 December 2002 and 2003	<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 31 December 2002 and 2003	<u>320,349,468</u>	<u>16,017</u>

Notes to the Accounts

20. SHARE OPTIONS

On 27 May 2002, the Company adopted a new share option scheme to replace the old one adopted on 29 December 1999. There are no significant changes on the aggregate of 23,800,000 share options granted by the Company on 13 June 2001 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.

At 31 December 2003, a total of 19,900,000 share options were outstanding. 1,600,000 share options had lapsed during the year ended 31 December 2003. No new options had been granted during the year ended 31 December 2003.

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 the 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 2002	51,574	123,754	(1,151)	174,177
Loss for the year (note 6)	—	—	(4,425)	(4,425)
At 31 December 2002	51,574	123,754	(5,576)	169,752
Loss for the year (note 6)	—	—	(63,490)	(63,490)
At 31 December 2003	51,574	123,754	(69,066)	106,262

Notes to the Accounts

21. RESERVES (Continued)

(b) Company (Continued)

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.

22. LONG-TERM LIABILITIES

	Group		Company	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Bank loans wholly repayable within five years, secured (note 23)	20,499	9,386	—	2,375
	20,499	9,386	—	2,375
Current portion repayable within one year	(1,258)	(6,678)	—	(2,375)
	19,241	2,708	—	—

At 31 December 2003, the Group's and the Company's bank loans, bank overdrafts including trust receipt loans were repayable as follows:

	Group		Company	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Within one year	42,610	78,790	—	2,375
In the second to fifth years inclusive	19,241	2,708	—	—
	61,851	81,498	—	2,375

Notes to the Accounts

23. BANKING FACILITIES

At 31 December 2003, the Group's banking facilities amounting to HK\$109,127,000 (2002: HK\$168,103,000) granted by banks and a credit company are secured by the following:

- (a) legal charges over the Group's properties (note 11(e));
- (b) guarantees given by the Company and the minority shareholders of subsidiaries for HK\$129,000,000 (2002: HK\$146,000,000) and HK\$68,330,000 (2002: HK\$73,330,000) respectively;
- (c) charges over bank deposits of the Group (note 15); and
- (d) personal guarantees of HK\$6,280,000 and HK\$1,280,000 (2002: HK\$6,280,000 and HK\$1,280,000) given by the directors, Mr. Yiu Ching On and Mr. Yiu Kwok Yung respectively.

24. OBLIGATION UNDER A FINANCE LEASE

	Group			
	Minimum lease payments		Present value of minimum lease payments	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Amounts payable under a finance lease:				
Within one year	251	—	218	—
In the second to fifth years inclusive	481	—	418	—
	<u>732</u>	<u>—</u>	<u>636</u>	<u>—</u>
Less:				
Future finance charges	96	—	—	—
Present value of lease obligation	<u>636</u>	<u>—</u>		
Less:				
Amount due for settlement within 12 months (shown under current liabilities)			218	—
Amount due for settlement after 12 months			<u>418</u>	<u>—</u>

It is the Group's policy to lease certain of its motor vehicles under finance leases. The average lease term is 3.5 years. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

Notes to the Accounts

25. DEFERRED TAXATION

At 31 December 2003, the Group has unused tax losses of HK\$97,571,000 (2002: HK\$70,011,000) available for offset against future profits. No deferred tax asset has been recognised in respect of such losses due to the unpredictability of future profit streams. Such losses may be carried forward indefinitely.

26. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of loss before taxation to net cash generated from/(used in) operating activities

	2003 HK\$'000	2002 HK\$'000
Loss before taxation	(43,616)	(6,879)
Adjustments for:		
Interest income	(333)	(803)
Loss on disposal of fixed assets	1,247	170
Impairment of fixed assets	—	116
Depreciation charges	12,914	15,403
Amortisation of goodwill	1,419	1,419
Impairment loss on goodwill	7,805	—
Interest expenses	4,160	5,424
Finance lease charges	35	—
Operating (loss)/profit before working capital changes	(16,369)	14,850
Decrease/(increase) in inventories	16,604	(1,788)
Decrease/(increase) in trade receivables, prepayments, deposits and other receivables	22,197	(33,867)
(Decrease)/increase in trade payables, other payables and accrued charges	(8,767)	18,309
Decrease in amount due to a director	(1,929)	(753)
Net cash generated from/(used in) operations	11,736	(3,249)
Hong Kong profits tax paid	(24)	(115)
Overseas taxation paid	(667)	(2,697)
Interests paid	(4,160)	(5,424)
Finance lease charges paid	(35)	—
Net cash generated from/(used in) operating activities	6,850	(11,485)

Notes to the Accounts

26. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(b) Analysis of changes in financing during the year

	Share capital including premium <i>HK\$'000</i>	Bank loans <i>HK\$'000</i>	Obligation under a finance lease <i>HK\$'000</i>
At 1 January 2002	67,591	45,482	—
Bank loans raised	—	55,458	—
Repayment of bank loans	—	(51,186)	—
At 31 December 2002	<u>67,591</u>	<u>49,754</u>	<u>—</u>
At 1 January 2003	67,591	49,754	—
Bank loans raised	—	38,444	—
Repayment of bank loans	—	(47,277)	—
Obligation under a finance lease raised	—	—	873
Repayment of finance lease	—	—	(237)
At 31 December 2003	<u>67,591</u>	<u>40,921</u>	<u>636</u>

27. CONTINGENT LIABILITIES

At 31 December 2003, the Company had given guarantees of approximately HK\$129,000,000 (2002: HK\$146,000,000) to certain banks in respect of banking facilities granted to certain subsidiaries of the Company.

Notes to the Accounts

28. COMMITMENTS

(a) Capital commitments

At 31 December 2003, the Group had the following capital commitments:

	2003 HK\$'000	2002 HK\$'000
Purchase of plant and machinery	1,075	—
Construction in progress	43	—
	<u>1,118</u>	<u>—</u>

(b) Operating lease commitments

At 31 December 2003, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	2003 HK\$'000	2002 HK\$'000
Within one year	1,132	1,033
In the second to fifth years inclusive	1,752	205
	<u>2,884</u>	<u>1,238</u>

Notes to the Accounts

29. 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:

	2003 HK\$'000	2002 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
Interest paid to a related company (<i>note (c)</i>)	352	—
Purchase of a motor vehicle from Mr. Yiu Kwok Ming, Tommy, an executive director of the Company	—	159
	<u> </u>	<u> </u>

Notes:

- (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) The related company is beneficially owned by Ms. Wong Kai Chun, Mr. Yiu Ching On, Mr. Yiu Kwok Ming, Tommy and Mr. Yiu Kwok Yung, executive directors of the Company.

30. COMPARATIVE FIGURES

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