

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) Recently issued accounting standards

The Hong Kong Institute of Certified Public Accountants has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005.

The company has not early adopted these new HKFRSs in the financial statements for the year ended 31 December 2004. The company has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

(b) 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 Institute of Certified Public Accountants. The accounts are prepared under the historical cost convention except that land use rights and leasehold properties outside Hong Kong are stated at 2002 valuation.

(c) 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.

Notes to the Accounts

1 PRINCIPAL ACCOUNTING POLICIES (Continued)

(c) Consolidation (Continued)

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.

(d) 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.

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.

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.

Construction in progress represents buildings, plant and machinery and other property, plant and equipment under construction and is stated at costs. Cost comprises direct costs of construction as well as interest charges during the period of construction, installation and testing and certain exchange differences on any related borrowed funds. Capitalisation of interest charges ceases when substantially all the activities necessary to prepare the asset for its intended use are complete. Construction in progress is transferred to fixed assets when it is completed and ready for its intended use.

Notes to the Accounts

1 PRINCIPAL ACCOUNTING POLICIES (Continued)

(e) Impairment and gain or loss on sale

Fixed assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of one of these assets may not be recoverable. Whenever, the carrying amount of an asset exceeds its recoverable amount, an impairment loss representing the difference between the carrying amount and the recoverable amount of an asset, is 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 recoverable amount is the higher of an asset's net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction less the costs of disposal, while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life.

Reversal of impairment losses recognised in prior year is recorded when there is an indication that the losses recognised for the asset no longer exist or have decreased. The reversal is recorded in the profit and loss account.

(f) 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.

(g) 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 11 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.

Notes to the Accounts

1 PRINCIPAL ACCOUNTING POLICIES (Continued)

(h) 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.

(i) 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.

(j) 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.

(k) 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.

(l) 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.

(m) 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)*

(n) 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.

(o) 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 at 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.

(p) 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.

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.

Notes to the Accounts

1 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(q) 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.

(r) 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.

(s) 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 11) and fixed assets (note 12), including additions resulting from acquisitions through purchases of subsidiaries (note 13).

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.

Notes to the Accounts

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:—

	2004 HK\$'000	2003 HK\$'000
Turnover		
Fabric processing	78,910	75,469
Sale of fabrics	84,997	86,601
Sale of garments and accessories	45,194	76,473
	209,101	238,543
Other revenues		
Interest income	134	333
Others	194	1,816
	328	2,149
Total revenues	209,429	240,692

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; and
- 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 PRC — fabric processing, sale of fabrics and garments; and
- Other countries (principally Bangladesh, Macau and Indonesia) — 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 2004

	Fabric processing HK\$'000	Sale of fabrics HK\$'000	Sale of garments and accessories HK\$'000	Total HK\$'000
Turnover	78,910	84,997	45,194	209,101
Segment results	(5,178)	663	1,461	(3,054)
Unallocated revenue				—
Unallocated costs				(4,289)
Operating loss				(7,343)
Finance costs				(3,885)
Loss before taxation				(11,228)
Taxation credit				575
Loss after taxation				(10,653)
Minority interests				(950)
Loss for the year				(11,603)
Segment assets	111,050	27,643	5,737	144,430
Unallocated assets				41,555
Total assets				185,985
Segment liabilities	27,259	2,848	4,576	34,683
Unallocated liabilities				58,297
Total liabilities				92,980
Capital expenditure	1,745	146	51	1,942
Depreciation and amortisation	10,381	1,444	104	11,929

Notes to the Accounts

2 TURNOVER, REVENUE AND SEGMENT INFORMATION (Continued)

Primary report format — business segments (Continued)

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	75,469	86,601	76,473	238,543
Segment results	(5,815)	(3,333)	(15,945)	(25,093)
Unallocated revenue				17
Unallocated costs				(13,043)
Operating loss				(38,119)
Finance costs				(5,497)
Loss before taxation				(43,616)
Taxation charge				(825)
Loss after taxation				(44,441)
Minority interests				1,122
Loss for the year				(43,319)
Segment assets	116,182	48,848	5,106	170,136
Unallocated assets				48,302
Total assets				218,438
Segment liabilities	21,231	12,149	6,505	39,885
Unallocated liabilities				74,658
Total liabilities				114,543
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)

Secondary report format — geographical segments

For the year ended 31 December 2004

	Turnover HK\$'000	Segment results HK\$'000	Segment assets HK\$'000	Capital expenditure HK\$'000
Hong Kong	126,526	(4,174)	62,578	79
United States	43,971	640	5,458	—
The PRC	21,929	(74)	116,881	1,863
Other countries	16,675	554	1,068	—
	209,101	(3,054)	185,985	1,942
Unallocated revenue		—		
Unallocated costs		(4,289)		
Operating loss		(7,343)		
Total assets			185,985	

For the year ended 31 December 2003

	Turnover HK\$'000	Segment results HK\$'000	Segment assets HK\$'000	Capital expenditure 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)	122,492	2,954
Other countries	22,777	(121)	5,581	—
	238,543	(25,093)	218,438	4,025
Unallocated revenue		17		
Unallocated costs		(13,043)		
Operating loss		(38,119)		
Total assets			218,438	

Notes to the Accounts

3 OTHER OPERATING EXPENSES

	2004 HK\$'000	2003 HK\$'000
Bad debts written off and provision	999	9,967
Loss on write off and disposal of fixed assets	227	1,247
Others	261	804
Amortisation of goodwill	—	1,419
Impairment loss on goodwill	—	7,805
	1,487	21,242

4 OPERATING LOSS

Operating loss is stated after crediting and charging the following:

	2004 HK\$'000	2003 HK\$'000
Charging:		
Amortisation of goodwill	—	1,419
Impairment loss on goodwill	—	7,805
Auditors' remuneration:		
Current year	526	483
Prior year	—	53
Provision for slow-moving and obsolete inventories	—	14,245
Cost of inventories sold	96,461	140,920
Depreciation	11,929	12,914
Loss on write off and disposal of fixed assets	227	1,247
Operating lease rentals in respect of land and buildings	1,247	1,725
Staff costs (excluding directors' emoluments)		
Salaries and allowances	17,352	20,638
Retirement benefit costs (excluding contributions to directors) (note 9)	283	753
and after crediting:		
Write back of provision for slow moving and obsolete inventories	84	—

Notes to the Accounts

5 FINANCE COSTS

	2004 HK\$'000	2003 HK\$'000
Interest on bank loans and overdrafts	2,445	4,135
Bank charges	1,194	935
Interest on finance lease	33	35
Interest on other loans	108	25
Others	105	367
	3,885	5,497

6 TAXATION

(a) The amount of taxation credit/(charge) to the consolidated profit and loss account represents:

	2004 HK\$'000	2003 HK\$'000
Hong Kong profits tax	(11)	—
PRC taxation	586	(825)
	575	(825)

- (i) Provision for Hong Kong profits tax is calculated at 17.5% on the estimated assessable profits 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.
- (iii) Two subsidiaries established and operated in Zhongshan City, Guangdong Province, the PRC, are subjected to a preferential tax of 27% on their taxable income.

Notes to the Accounts

6 TAXATION (Continued)

(b) The taxation (credit)/charge for the year can be reconciled to the loss as stated in the financial statements as follows:—

	2004 HK\$'000	2003 HK\$'000
Loss before taxation	(11,228)	(43,616)
Taxation calculated at Hong Kong profits tax of 17.5%	(1,965)	(7,633)
Tax effect of expenses not deductible for taxation purpose	427	2,564
Tax effect of non-taxable items	(151)	(6)
Utilisation of previously unrecognised tax losses	(997)	(132)
Tax effect of preferential tax treatment	—	577
Deferred tax assets not recognised	2,735	5,493
Effect of different tax rates of subsidiaries operating in other jurisdictions	468	(38)
Overprovision in prior year	(1,092)	—
Taxation (credit)/charge for the year	(575)	825

7 LOSS FOR THE YEAR

Loss for the year is dealt with in the accounts of the Company to the extent of a loss of HK\$28,851,000 (2003: loss of HK\$63,490,000).

8 LOSS PER SHARE

The calculation of basic loss per share is based on the Group's loss attributable to shareholders of HK\$11,603,000 (2003: HK\$43,319,000) and on the weighted average number of 320,349,468 (2003: 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.

9 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 scheme by the Group and employees are calculated as a percentage of employees' basic salaries.

Notes to the Accounts

9 RETIREMENT BENEFIT COSTS (Continued)

The Group's contributions to the ORSO Scheme is available to certain 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\$Nil (2003: HK\$252,000) were utilised during the year and there was no outstanding forfeited contribution as at 31 December 2004.

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.

10 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:—

	2004 HK\$'000	2003 HK\$'000
Fees	180	180
Other emoluments:		
Salaries and allowances	2,725	2,478
Contributions to pension schemes	89	96
	2,994	2,754

Directors' fees of HK\$180,000 (2003: HK\$180,000) were payable to independent non-executive directors during the year. During the year, none (2003: three) of the independent non-executive directors have waived any fees (2003: HK\$20,000 each).

The emoluments of the directors fell within the following bands:

	Number of individuals	
	2004	2003
HK\$Nil — HK\$1,000,000	5	6
HK\$1,000,001 — HK\$1,500,000	2	1
	7	7

Notes to the Accounts

10 DIRECTORS' AND SENIOR MANAGEMENT'S REMUNERATION (Continued)

(a) Directors' remuneration (Continued)

In addition to the directors' remuneration disclosed above, during the year, no (2003: Nil) options were granted to the four executive directors under the share option schemes as disclosed in note 21 to the accounts. During the year, no (2003: 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 (2003: two) directors whose remuneration are reflected in the analysis presented above. The remuneration payable to the remaining three (2003: three) individuals during the year were as follows:—

	2004 HK\$'000	2003 HK\$'000
Salaries and allowances	1,689	2,014
Discretionary bonuses	57	103
Severance payment	40	—
Contributions to pension schemes	31	36
	1,817	2,153

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

	Number of individuals	
	2004	2003
HK\$Nil — HK\$1,000,000	3	3

During the year, HK\$40,000 (2003: HK\$Nil) has been paid by the Group to one of the five highest paid individuals as compensation for loss of office. No other payments have been paid by the Group to the directors or the five highest paid individuals as an inducement or upon joining the Group.

Notes to the Accounts

11 GOODWILL

	2004 HK\$'000	2003 HK\$'000
At 1 January	—	12,224
Amortisation for the year	—	(1,419)
Impairment loss	—	(7,805)
Amount written down	—	(3,000)
At 31 December	—	—

12 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 2004	1,113	6,045	31,892	454	9,508	116,095	6,736	6,209	178,052
Additions, at cost	1,803	—	—	—	—	—	79	60	1,942
Disposals	—	—	—	—	(324)	(103)	(789)	—	(1,216)
At 31 December 2004	2,916	6,045	31,892	454	9,184	115,992	6,026	6,269	178,778
Accumulated depreciation:									
At 1 January 2004	—	121	1,673	106	2,546	73,281	5,455	4,853	88,035
Charge for the year	—	121	1,673	9	384	8,730	409	603	11,929
Disposals	—	—	—	—	(78)	(41)	(476)	—	(595)
At 31 December 2004	—	242	3,346	115	2,852	81,970	5,388	5,456	99,369
Net book value:									
At 31 December 2004	2,916	5,803	28,546	339	6,332	34,022	638	813	79,409
At 31 December 2003	1,113	5,924	30,219	348	6,962	42,814	1,281	1,356	90,017

The analysis of the cost or valuation at 31 December 2004 of the above assets was as follows:—

At cost	2,916	—	—	454	9,184	115,992	6,026	6,269	140,841
At 2002 valuation	—	6,045	31,892	—	—	—	—	—	37,937
	2,916	6,045	31,892	454	9,184	115,992	6,026	6,269	178,778

The analysis of the cost or valuation at 31 December 2003 of the above assets was 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

Notes to the Accounts

12 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\$19,018,000 (2003: HK\$20,511,000) had they been stated at historical cost less accumulated depreciation.
- (e) At 31 December 2004, the net book value of fixed assets pledged as security for the Group's bank loans amounted to HK\$38,854,000 (2003: HK\$40,916,000).
- (f) At 31 December 2004, the net book value of fixed assets held by the Group under a finance lease amounted to HK\$407,000 (2003: HK\$712,000).

13 INVESTMENTS IN SUBSIDIARIES

	Company	
	2004 HK\$'000	2003 HK\$'000
Unlisted shares, at cost	126,627	126,627
Less: Provision	(60,000)	(32,000)
	66,627	94,627
Amounts due from subsidiaries	55,190	50,080
Less: Provisions	(28,000)	(28,000)
	27,190	22,080
	93,817	116,707

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

Notes to the Accounts

13 INVESTMENTS IN SUBSIDIARIES (Continued)

At 31 December 2004, 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 Virgins 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 and 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	10,000 ordinary shares of HK\$1 each	65%
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, ceased operation during the year	10,000 ordinary shares of HK\$1 each	51%
Yiutung Fashion Co. Ltd.	Hong Kong	Sale of garments in the PRC, ceased operation during the year	15,001 ordinary shares of HK\$1 each	100%

Notes to the Accounts

13 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: (Continued)</i>				
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, ceased operation during the year	US\$500,000	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	Dormant	100,000 ordinary shares of HK\$1 each	46%
Gold Base International Limited	The British Virgin Islands	Investment holding	1 ordinary share of US\$1 each	56%
Gold Base Inc.	United States	Dormant	10,000 ordinary shares of US\$1 each	56%
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 Textile International Limited	Hong Kong	Sale of fabrics in Hong Kong	10,000 ordinary shares of HK\$1 each	65%
Ching Hing (International) Limited	Hong Kong	Dormant	2 ordinary shares of HK\$1 each	100%
On Hing Weaving Factory Limited	Hong Kong	Dormant	10,000 ordinary shares of HK\$1 each	100%
中山安興紡織有限公司 (Zhongshan On Hing Weaving Limited)	The PRC	Dormant	Registered capital of HK\$5,000,000, which had not yet been paid up at 31 December 2004	100%

Notes to the Accounts

14 INVENTORIES

	Group	
	2004 HK\$'000	2003 HK\$'000
Raw materials	13,053	13,769
Work in progress	2,446	1,463
Finished goods	5,777	8,010
	21,276	23,242

At 31 December 2004, obsolete inventories of HK\$2,529,000 (2003: HK\$14,596,000) have been fully provided for. Other inventories amounting to HK\$1,358,000 (2003: HK\$1,424,000) were stated at net realisable value.

15 TRADE RECEIVABLES

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

	Group	
	2004 HK\$'000	2003 HK\$'000
Current	34,097	38,756
31-60 days	3,537	11,417
61-90 days	4,316	3,928
91-120 days	1,059	1,394
Over 120 days	4,762	13,259
	47,771	68,754
Less: provision on doubtful debts	(3,608)	(11,451)
	44,163	57,303

Sale of fabrics and processing of fabrics are with credit terms of 45 days whereas the 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 strengths of individual customers. Sales from trading of garments and accessories are mostly covered by letter of credits.

Notes to the Accounts

16 DEPOSITS WITH BANKS, BANK BALANCES AND CASH — GROUP

At 31 December 2004, HK\$10,800,000 (2003: HK\$10,099,000) 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 2004, time deposits of HK\$23,797,000 (2003: HK\$23,238,000) were pledged to banks to secure banking facilities of the Group.

17 TRADE PAYABLES

Details of the aging analysis of trade payables were as follows:—

	Group	
	2004 HK\$'000	2003 HK\$'000
Current	14,558	19,536
31-60 days	7,322	12,914
61-90 days	5,291	2,320
Over 90 days	7,512	5,115
	34,683	39,885

18 AMOUNT DUE TO A RELATED COMPANY

The amount due to a related company was unsecured and interest bearing at a fixed rate of 6.75% p.a.. It was fully repaid during 2004.

19 AMOUNTS DUE TO DIRECTORS

The amounts due to directors are unsecured, interest bearing at a fixed rate of 6% p.a. and have no fixed term of repayments.

20 SHARE CAPITAL

	Authorised Ordinary shares of HK\$0.05 each	
	No. of shares	HK\$'000
At 31 December 2003 and 2004	1,000,000,000	50,000
	Issued and fully paid Ordinary shares of HK\$0.05 each	
	No. of shares	HK\$'000
At 31 December 2003 and 2004	320,349,468	16,017

Notes to the Accounts

21 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 2004, all the remaining 19,900,000 share options had lapsed during the year ended 31 December 2004. No share option was exercised and no new options had been granted during the year ended 31 December 2004.

22 RESERVES

(a) Group

Statutory reserves represent the general reserve and enterprise expansion reserve fund set up by a 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 reserve 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 2003	51,574	123,754	(5,576)	169,752
Loss for the year (<i>note 7</i>)	—	—	(63,490)	(63,490)
At 31 December 2003	51,574	123,754	(69,066)	106,262
Loss for the year (<i>note 7</i>)	—	—	(28,851)	(28,851)
At 31 December 2004	51,574	123,754	(97,917)	77,411

Notes to the Accounts

22 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.

23 LONG-TERM LIABILITIES

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Bank loans wholly repayable within five years, secured (note 24)	14,450	20,499	—	—
	14,450	20,499	—	—
Current portion repayable within one year	(289)	(1,258)	—	—
	14,161	19,241	—	—

At 31 December 2004, the Group's and the Company's bank loans, bank overdrafts including trust receipt loans were repayable as follows:—

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Within one year	31,523	42,610	—	—
In the second to fifth years inclusive	14,161	19,241	—	—
	45,684	61,851	—	—

Notes to the Accounts

24 BANKING FACILITIES

At 31 December 2004, the Group's banking facilities amounting to HK\$98,142,000 (2003: HK\$109,127,000) granted by banks and a credit company were secured by the following:—

- (a) legal charges over the Group's properties (note 12(e));
- (b) guarantees given by the Company and minority shareholders of subsidiaries for HK\$124,000,000 (2003: HK\$129,000,000) and HK\$64,200,000 (2003: HK\$68,330,000) respectively;
- (c) charges over bank deposits of the Group (note 16); and
- (d) personal guarantees of HK\$10,280,000 (2003: HK\$7,560,000) by two directors of the Company.

25 OBLIGATION UNDER A FINANCE LEASE

	Group			
	Minimum lease payments		Present value of minimum lease payments	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Amounts payable under a finance lease:				
Within one year	251	251	218	218
In the second to fifth years inclusive	230	481	200	418
	481	732	418	636
Less:				
Future finance charges	63	96		
Present value of lease obligation	418	636		
Less:				
Amount due for settlement within 12 months (shown under current liabilities)			218	218
Amount due for settlement after 12 months			200	418

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.

26 DEFERRED TAXATION

At 31 December 2004, the Group has unused tax losses of HK\$94,187,000 (2003: HK\$97,571,000) 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.

Notes to the Accounts

27 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	2004 HK\$'000	2003 HK\$'000
Loss before taxation	(11,228)	(43,616)
Adjustments for:		
Interest income	(134)	(333)
Loss on disposal of fixed assets	227	1,247
Depreciation charge	11,929	12,914
Amortisation of goodwill	—	1,419
Impairment loss on goodwill	—	7,805
Interest expenses	2,553	4,160
Finance lease charges	33	35
Loss from partial deemed disposal of a subsidiary	249	—
Operating profit/(loss) before working capital changes	3,629	(16,369)
Decrease in inventories	1,966	16,604
Decrease in trade receivables, prepayments, deposits and other receivables	16,079	23,668
Increase in VAT and other tax recoverable	(1,390)	(1,471)
Decrease in trade payables, other payables and accrued charges	(6,116)	(8,767)
Increase/(decrease) in amounts due to directors	3,825	(1,929)
Net cash generated from operations	17,993	11,736
Hong Kong profits tax paid	—	(24)
Overseas taxation paid	—	(667)
Interest paid	(2,553)	(4,160)
Finance lease charges paid	(33)	(35)
Net cash generated from operating activities	15,407	6,850

28 CONTINGENT LIABILITIES

At 31 December 2004, the Company had given guarantees of approximately HK\$124,000,000 (2003: HK\$129,000,000) to certain banks in respect of banking facilities granted to certain subsidiaries of the Company.

Counter — indemnities in favour of the Company at an aggregate amount of HK\$10,800,000 (2003: HK\$6,600,000) were given by minority shareholders of subsidiaries in respect of certain guarantees given by the Company for the Group's banking facilities.

Notes to the Accounts

29 COMMITMENTS

(a) Capital commitments

At 31 December 2004, the Group had the following capital commitments:—

	2004 HK\$'000	2003 HK\$'000
Purchase of plant and machinery	—	1,075
Construction in progress	349	43
	349	1,118

(b) Operating lease commitments

At 31 December 2004, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:—

	2004 HK\$'000	2003 HK\$'000
Within one year	951	1,132
In the second to fifth years inclusive	700	1,752
	1,651	2,884

30 RELATED PARTY TRANSACTIONS

In addition to notes 18 and 19 to the accounts, during the year, the Group entered into the following material transactions with its related parties in the normal course of business:—

	2004 HK\$'000	2003 HK\$'000
Rental paid to a related company (<i>note (a)</i>)	840	840
Interest paid to directors	102	—
Interest paid to a related company (<i>note (b)</i>)	—	352

Notes:

- (a) Mr. Yiu Ching On, an executive director of the Company, beneficially owns the related company.
- (b) Ms. Wong Kai Chun, Mr. Yiu Ching On, Mr. Yiu Kwok Ming, Tommy and Mr. Yiu Kwok Yung (resigned on 1 January 2005), executive directors of the Company, beneficially own the related company.

31 COMPARATIVE FIGURES

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