

NOTES TO FINANCIAL STATEMENTS

30 September 2000

1. CORPORATE INFORMATION

During the year, the principal activities of the Group were the manufacture and trading of garments.

2. IMPACT OF A REVISED STATEMENT OF STANDARD ACCOUNTING PRACTICE (“SSAP”)

Revised SSAP 1 “Presentation of Financial Statements” has been adopted for the first time in the preparation of the current year’s consolidated financial statements. SSAP 1 prescribes the basis for the presentation of financial statements and sets out guidelines for their structure and minimum requirements for the content thereof. The formats of the profit and loss account and balance sheets, as set out on pages 31, 33, 34 and 37 respectively, have been revised in accordance with the SSAP, and a statement of recognised gains and losses, not previously required, is included on page 32. Additional disclosures as required are included in the supporting notes.

The adoption of the revised SSAP 1 has had no effect on the previously reported net profit attributable to shareholders, earnings per share or the net assets of the Group.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with the Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 30 September 2000. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

NOTES TO FINANCIAL STATEMENTS

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Subsidiaries

A subsidiary is a company, other than a jointly-controlled entity, in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors.

Interests in subsidiaries are stated at cost unless, in the opinion of the directors, there have been permanent diminutions in values, when they are written down to values determined by the directors.

Joint ventures

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity.

Joint venture arrangements which involve the establishment of a separate entity in which the Group and other parties have an interest are referred to as jointly-controlled entities.

The Group's share of the post-acquisition results and reserves of jointly-controlled entities is included in the consolidated profit and loss account and consolidated reserves, respectively. Where the profit sharing ratio is different to the Group's equity interest, the share of post-acquisition results of the jointly-controlled entities is determined based on the agreed profit sharing ratio. The Group's interests in jointly-controlled entities are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting less any provisions for diminutions in values, other than those considered to be temporary in nature, deemed necessary by the directors.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Associates

An associate is a company, not being a subsidiary or a joint venture, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting less any provisions for diminutions in values, other than those considered to be temporary in nature, deemed necessary by the directors.

Goodwill and capital reserve

Goodwill arising on the consolidation of subsidiaries and on the acquisition of associates and jointly-controlled entities represents the excess of purchase consideration paid over the fair values ascribed to the net underlying assets acquired and is eliminated against reserves in the year of acquisition. The capital reserve arising on the consolidation of subsidiaries and on the acquisition of associates and jointly-controlled entities represents the excess of the fair values ascribed to the net underlying assets acquired over the purchase consideration paid. On disposal of subsidiaries, associates or jointly-controlled entities, the relevant portion of the attributable goodwill or capital reserve previously dealt with in reserves is realised and included in the calculation of the gain or loss on disposal.

Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

NOTES TO FINANCIAL STATEMENTS

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Fixed assets and depreciation *(Continued)*

Depreciation is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold land	Over the lease terms
Buildings	2% to 5%
Leasehold improvements	Over the lease terms
Plant and equipment	9% to 20%
Furniture and fixtures	9% to 25%
Motor vehicles	9% to 25%

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Leased assets

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in fixed assets and depreciated over the estimated useful lives of the assets. The finance costs of such leases are charged to the profit and loss account so as to provide a constant periodic rate of charge over the lease terms. Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals applicable to such operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Trademarks

Trademarks are stated at cost and are not amortised. Provisions are made for any diminutions in values, other than those considered to be temporary in nature, deemed necessary by the directors.

Long term investments

Long term investments represent non-trading investments in unlisted equity securities intended to be held for long term purposes. Such long term investments are stated at cost less any provisions for diminutions in values, other than those considered to be temporary in nature, deemed necessary by the directors.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Textile quotas

The cost of permanent textile quotas is charged to the profit and loss account in the year of acquisition. Permanent textile quotas allocated by government authorities are not capitalised and, therefore, not reflected as assets in the balance sheet.

Temporary textile quotas are capitalised at cost within current assets and are amortised to the profit and loss account on the basis of their utilisation or upon expiry, whichever is earlier.

Deferred tax

Deferred tax is provided, using the liability method, on all significant timing differences to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

NOTES TO FINANCIAL STATEMENTS

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies

Foreign currency transactions are recorded at the applicable rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable rates of exchange ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of overseas subsidiaries, jointly-controlled entities and associates are translated into Hong Kong dollars at the applicable rates of exchange ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

Retirement benefits scheme

Certain subsidiaries operate a defined contribution retirement benefits scheme for those employees who are eligible and have elected to participate in the scheme. The assets of the scheme are held separately from those of the Group in an independently administered fund. Contributions are made based on a percentage of the participating employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the scheme. When an employee leaves the scheme prior to his/her interest in the Group's employer contributions vesting fully, the ongoing contributions payable by the Group may be reduced by the relevant amount of forfeited contributions.

Cash equivalents

For the purpose of the consolidated cash flow statement, cash equivalents represent short term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance. For the purpose of balance sheet classification, cash and bank balances represent assets which are not restricted as to use.

NOTES TO FINANCIAL STATEMENTS

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Related parties

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. Related parties may be individuals or corporate entities.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) dividends, when the shareholders' right to receive payment is established;
- (c) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable;
- (d) rental income, on a time proportion basis over the lease terms; and
- (e) management fee income, on an accrual basis.

NOTES TO FINANCIAL STATEMENTS

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4. SEGMENT INFORMATION

The Group's turnover and contribution to profit from operating activities were all derived from the manufacture and trading of garments.

An analysis of the Group's turnover and contribution to profit from operating activities by geographical area of operations is as follows:

	Turnover		Contribution to profit from operating activities	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
United States of America	1,632,976	1,468,910	126,969	105,647
Europe	160,831	145,260	9,655	7,970
Greater China	41,082	15,079	20,097	6,732
Others	18,018	14,719	2,334	1,738
	1,852,907	1,643,968	159,055	122,087

5. TURNOVER

Turnover represents the net invoiced value of goods sold, after allowance for returns and trade discounts.

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6. PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities is arrived at after charging:

	2000 HK\$'000	1999 HK\$'000
Cost of inventories sold	1,346,723	1,208,095
Depreciation:		
Owned fixed assets	15,412	14,129
Leased fixed assets	187	206
	15,599	14,335
Auditors' remuneration:		
Current year	2,641	3,080
Prior years' overprovision	(251)	(398)
	2,390	2,682
Foreign exchange losses, net	2,911	–
Temporary textile quota expenses	15,651	8,292
Operating lease rentals:		
Land and buildings	14,092	11,320
Equipment	282	302
	14,374	11,622
Provision for a long term investment	3,000	–
Loss on disposal of fixed assets	44	713
Staff costs (including directors' remuneration – note 5):		
Retirement benefits contributions	679	615
Less: Forfeited contributions	–	–
Net retirement benefits contributions *	679	615
Wages, salaries and bonuses	206,651	175,645
	207,330	176,260
and after crediting:		
Foreign exchange gains, net	–	3,311
Interest income	18,101	14,051
Dividend income from a long term unlisted investment	–	865
Net rental income from the letting of machinery	687	687
Management fee income from jointly-controlled entities	2,489	2,489

* At 30 September 2000, there were no forfeited contributions available to the Group to reduce its contributions to the retirement benefits scheme in future years (1999: Nil).

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7. FINANCE COSTS

	Group	
	2000 HK\$'000	1999 HK\$'000
Interest on bank loans, overdrafts and other loans wholly repayable within five years	14,863	11,688
Interest on finance leases and hire purchase contracts	44	58
Factoring expenses	5,522	6,512
Bank charges	7,131	6,578
	27,560	24,836

8. DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and Section 161 of the Hong Kong Companies Ordinance is as follows:

	Group	
	2000 HK\$'000	1999 HK\$'000
Fees	640	640
Salaries, allowances and benefits in kind	11,113	11,383
Performance related bonuses	7,900	3,260
	19,653	15,283

Fees include HK\$160,000 (1999: HK\$160,000) payable to the independent non-executive directors. There were no other emoluments payable to the independent non-executive directors during the year (1999: Nil).

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8. DIRECTORS' REMUNERATION *(Continued)*

The remuneration of the directors fell within the following bands:

	Number of directors	
	2000	1999
Nil to HK\$1,000,000	5	4
HK\$2,000,001 to HK\$2,500,000	–	2
HK\$2,500,001 to HK\$3,000,000	2	–
HK\$3,000,001 to HK\$3,500,000	–	1
HK\$3,500,001 to HK\$4,000,000	1	–
HK\$6,500,001 to HK\$7,000,000	–	1
HK\$9,500,001 to HK\$10,000,000	1	–
	9	8

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

No value was included in directors' remuneration in respect of share options granted to the directors in the prior year because, in the absence of a readily available market value for the options on the Company's shares, the directors were unable to arrive at an accurate assessment of the value of the options granted. Details of the options granted to the directors are set out in the section "Directors' rights to acquire shares" in the Report of the Directors on page 26.

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9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included four (1999: four) directors, details of whose remuneration are set out in note 8 above. The details of the remuneration of the remaining one (1999: one) non-director, highest paid employee are as follows:

	Group	
	2000 HK\$'000	1999 HK\$'000
Salaries, allowances and benefits in kind	1,655	2,325
Performance related bonus	1,000	194
	2,655	2,519

10. TAX

Hong Kong profits tax has been provided at the rate of 16% (1999: 16%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	2000 HK\$'000	1999 HK\$'000
Group:		
Hong Kong	1,200	708
Elsewhere	433	1,522
Overprovision in prior year	(327)	–
Deferred – <i>note 25</i>	1,220	–
	2,526	2,230
Share of tax attributable to:		
Jointly-controlled entities	1,018	1,246
Associate	–	25
	1,018	1,271
Tax charge for the year	3,544	3,501

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11. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders dealt with in the financial statements of the Company is HK\$99,582,000 (1999: HK\$22,403,000).

12. DIVIDENDS

Interim – 7 (1999: 3.8) HK cents per ordinary share
Proposed final – 12.8 (1999: 11.8) HK cents
per ordinary share

	2000 HK\$'000	1999 HK\$'000
	21,348	12,674
	39,926	38,725
	61,274	51,399

13. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit attributable to shareholders for the year of HK\$133,883,000 (1999: HK\$103,312,000) and the weighted average of 320,971,615 (1999: 344,679,681) ordinary shares in issue during the year.

The calculation of diluted earnings per share is based on the net profit attributable to shareholders for the year of HK\$133,883,000 (1999: HK\$103,312,000). The weighted average number of ordinary shares used in the calculation is 320,971,615 (1999: 344,679,681) ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average of 8,838,850 (1999: 2,469,112) ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options during the year.

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14. FIXED ASSETS

Group

	Land and buildings (Hong Kong) HK\$'000	Land and buildings (Elsewhere) HK\$'000	Leasehold improve- ments HK\$'000	Plant and equipment HK\$'000	Furniture and fixtures HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Cost:							
At beginning of year	17,555	58,029	14,191	61,811	47,067	12,405	211,058
Acquisition of subsidiaries	-	2,879	27,846	24,273	7,472	2,732	65,202
Additions	-	2,793	1,309	13,877	2,377	497	20,853
Disposals	-	-	(24)	(622)	(62)	(788)	(1,496)
Exchange realignments	-	(139)	(86)	(180)	(246)	(90)	(741)
At 30 September 2000	17,555	63,562	43,236	99,159	56,608	14,756	294,876
Accumulated depreciation:							
At beginning of year	3,596	9,301	9,597	38,048	39,285	9,877	109,704
Acquisition of subsidiaries	-	422	19,719	18,731	4,987	1,710	45,569
Provided during the year	345	1,593	1,615	7,500	3,501	1,045	15,599
Disposals	-	-	(8)	(326)	(28)	(788)	(1,150)
Exchange realignments	-	(83)	(71)	(119)	(138)	(16)	(427)
At 30 September 2000	3,941	11,233	30,852	63,834	47,607	11,828	169,295
Net book value:							
At 30 September 2000	13,614	52,329	12,384	35,325	9,001	2,928	125,581
At 30 September 1999	13,959	48,728	4,594	23,763	7,782	2,528	101,354

The net book value of the fixed assets of the Group held under finance leases included in the total amount of motor vehicles at 30 September 2000 amounted to HK\$685,000 (1999: HK\$899,000).

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14. FIXED ASSETS *(Continued)*

The Group's land and buildings included above are held under the following lease terms:

	Hong Kong HK\$'000	Elsewhere HK\$'000	Total HK\$'000
Long term leases	–	2,879	2,879
Medium term leases	17,555	59,531	77,086
Short term leases	–	1,152	1,152
	17,555	63,562	81,117

15. INTERESTS IN SUBSIDIARIES

	Company	
	2000 HK\$'000	1999 HK\$'000
Unlisted shares, at cost	126,671	126,671
Due from subsidiaries	269,339	308,682
	396,010	435,353

The amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

NOTES TO FINANCIAL STATEMENTS

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15. INTERESTS IN SUBSIDIARIES *(Continued)*

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations@	Nominal value of issued/ paid-up capital	Percentage of equity interest attributable to the Company		Principal activities
			2000	1999	
Access Agents Limited	British Virgin Islands/ The People's Republic of China	US\$1	100	100	Garment retailing
Angel Star Investment Limited*	Hong Kong	HK\$2 Ordinary HK\$2 Deferred	75	–	Holding of trademarks
August Silk (BVI) Limited	British Virgin Islands	US\$1	100	–	Garment trading
August Silk (H.K.) Limited	Hong Kong	HK\$2	100	–	Garment trading
August Silk Inc.	USA	US\$10	100	100	Marketing and garment trading
Beijing Kangrui Theme Trading Company Limited*	The People's Republic of China	RMB3,000,000	36.75+	–	Garment retailing
Bramead International Inc.	British Virgin Islands/USA	US\$1	100	100	Development and holding of trademarks

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15. INTERESTS IN SUBSIDIARIES (Continued)

Name	Place of incorporation/ registration and operations@	Nominal value of issued/ paid-up capital	Percentage of equity interest attributable to the Company		Principal activities
			2000	1999	
Cantabian Limited	Hong Kong	HK\$2 Ordinary HK\$2 Deferred	100	100	Investment holding
Debra Michaels Inc.	USA	–	100	100	Garment trading
Dongguan Daliwai Fashion Co., Ltd.	The People's Republic of China	HK\$28,000,000	100	100	Garment manufacturing
Dongguan Sanyue Fashions Limited*	The People's Republic of China	HK\$10,000,000	69	–	Garment manufacturing
Fuli Garments (Hangzhou) Co., Ltd.	The People's Republic of China	HK\$1,000,000	60	–	Manufacturing and trading of garments and garment accessories
Go Shipping Inc.	USA	US\$100,000	100	100	Marketing and garment trading
Guangdong Theme-Huayu Fashion Company Limited*	The People's Republic of China	RMB5,000,000	36.75+	–	Garment retailing

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15. INTERESTS IN SUBSIDIARIES *(Continued)*

Name	Place of incorporation/ registration and operations@	Nominal value of issued/ paid-up capital	Percentage of equity interest attributable to the Company		Principal activities
			2000	1999	
Hangzhou OCT & High Fashion Textile Co., Ltd.δ	The People's Republic of China	RMB3,000,000	36+	–	Garment manufacturing
Hangzhou Westlake High Fashion Garments Co., Ltd.	The People's Republic of China	HK\$7,200,000	64	64	Garment manufacturing
High Fashion Garments, Inc.	USA	US\$5,000	100	100	Marketing and garment trading
High Fashion Apparel Limited	British Virgin Islands	US\$1,000	100	100	Investment holding
High Fashion Garments Company Limited	Hong Kong	HK\$2 Ordinary HK\$10,000,000 Deferred	100	100	Garment trading
High Fashion Garments Limited	British Virgin Islands	US\$1	100	100	Garment manufacturing and trading
High Fashion Garments Management Limited	Hong Kong	HK\$20 Ordinary HK\$20 Deferred	100	100	Provision of management services

NOTES TO FINANCIAL STATEMENTS

30 September 2000

15. INTERESTS IN SUBSIDIARIES (Continued)

Name	Place of incorporation/ registration and operations@	Nominal value of issued/ paid-up capital	Percentage of equity interest attributable to the Company		Principal activities
			2000	1999	
High Fashion International (USA) Inc.	USA	US\$1,800	100	100	Investment holding
High Fashion Knitwear (F.E.) Limited	British Virgin Islands	US\$1	100	100	Garment trading
High Fashion Knitwear Overseas Limited	Hong Kong	HK\$2 Ordinary HK\$10,000 Deferred	100	100	Garment trading
High Fashion Outerwear Limited (formerly "Highwell International Limited")	Hong Kong	HK\$2	100	–	Garment trading
High Fashion Overseas Limited	Hong Kong	HK\$2	100	100	Garment trading
High Fashion Trading Company Limited	Hong Kong	HK\$2	100	100	Garment trading
High Fashion (UK) Limited	United Kingdom	GB£20,000	70.5	70	Garment trading
Honghuali Garments Accessory (Shenzhen) Co., Ltd.	The People's Republic of China	RMB2,160,000	60	60	Garment accessories manufacturing
Honghuali Garments Accessory Co., Limited	Hong Kong	HK\$10	60	60	Investment holding

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15. INTERESTS IN SUBSIDIARIES *(Continued)*

Name	Place of incorporation/ registration and operations@	Nominal value of issued/ paid-up capital	Percentage of equity interest attributable to the Company		Principal activities
			2000	1999	
Mateland Limited	Hong Kong	HK\$2	100	100	Garment retailing
N & N Worldwide Limited	USA	–	100	100	Garment trading
Navigation Limited	British Virgin Islands	US\$1	100	–	Investment holding
Regent Trading Inc.	USA	US\$10	100	100	Marketing and garment trading
Shanghai Theme Fashion Company*	The People's Republic of China	RMB3,000,000	36.75+	–	Garment retailing
Stage II Limited*	Hong Kong	HK\$800,000	75	–	Garment retailing
Super Base (China) Limited*	Hong Kong	HK\$2	75	–	Property holding
Super Topping Limited	Hong Kong	HK\$2	100	100	Investment holding
Taiwan Vision Company Limited*	Taiwan	NTD80,000,000	52.5	–	Garment retailing

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15. INTERESTS IN SUBSIDIARIES *(Continued)*

Name	Place of incorporation/ registration/ and operations@	Nominal value of issued/ paid-up capital	Percentage of equity interest attributable to the Company		Principal activities
			2000	1999	
Theme International Holdings (B.V.I.) Limited*	British Virgin Islands/ Hong Kong	US\$10,001	75	–	Investment holding
Theme International Holdings Limited*	Bermuda/ Hong Kong	HK\$25,083,294	75	–	Investment holding
Theme International Limited*	Hong Kong	HK\$2 Ordinary HK\$1,000,000 Deferred	75	–	Garment trading
U-campus e-enterprises Limited	Hong Kong	HK\$2	100	–	Portal business
U-campus Holdings Limited	Hong Kong	HK\$2	100	–	E-commerce

@ Unless otherwise stated, the place of operations is the place of incorporation or registration.

* Not audited by Ernst & Young.

+ These companies are subsidiaries of the non-wholly-owned subsidiaries of the Company and, accordingly, are accounted for as subsidiaries by virtue of control over the companies.

δ This company was reclassified from interests in jointly-controlled entities because of the change in the Group's voting power during the year.

All subsidiaries are indirectly held by the Company with the exception of High Fashion Apparel Limited.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

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16. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

	Group	
	2000 HK\$'000	1999 HK\$'000
Share of net assets	73,515	58,984
Due from jointly-controlled entities	11,412	11,635
Due to jointly-controlled entities	(5,441)	(16,236)
	79,486	54,383

The amounts due from/to jointly-controlled entities are unsecured, interest-free and have no fixed terms of repayment.

Particulars of the jointly-controlled entities are as follows:

Name	Business structure	Place of registration and operations	Percentage of			Principal activities
			Ownership interest	Voting power of the Board	Profit sharing	
Hangzhou Westlake High Fashion Industry Co., Ltd.	Corporate	The People's Republic of China	60	60	60	Garment manufacturing
High Fashion Garments (Zhong Shan) Limited *	Corporate	The People's Republic of China	51	50	100	Garment manufacturing
Zhejiang Xinchang High Fashion Silk Co., Ltd.	Corporate	The People's Republic of China	70	57	70	Silk weaving

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16. INTERESTS IN JOINTLY-CONTROLLED ENTITIES *(Continued)*

Name	Business structure	Place of registration and operations	Percentage of			Principal activities
			Ownership interest	Voting power of the Board	Profit sharing	
High Fashion Zhongshan Printing, Dyeing and Garments Manufacturing Ltd. *	Corporate	The People's Republic of China	51	50	100	Dyeing, printing and sandwashing of fabrics
Shenzhen Chengyi Trade Co., Ltd.	Corporate	The People's Republic of China	60	56	60	Dormant
Suzhou High Fashion Garments Co., Ltd.	Corporate	The People's Republic of China	51	60	51	Garment manufacturing

All of the above investments in jointly-controlled entities are indirectly held by the Company.

* *The Group has a 51% beneficial interest in these companies. By virtue of an arrangement between the Group and the joint venture partner holding the remaining 49% beneficial interest in the companies, the Group is entitled to all of the companies' profits and is liable for all their losses by paying a fixed fee to the joint venture partner annually.*

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17. INTERESTS IN ASSOCIATES

	Group	
	2000 HK\$'000	1999 HK\$'000
Share of net assets	13,233	12,233
Due to an associate	(7,234)	(7,327)
	5,999	4,906

The amount due to an associate is unsecured, interest-free and has no fixed terms of repayment.

Particulars of the principal associate are as follows:

Name	Business structure	Place of registration and operations	Percentage of ownership interest attributable to the Group	Principal activity
Shenzhen Fuli Garments Accessory Co., Ltd.	Corporate	The People's Republic of China	70	Garment accessories manufacturing

The proportion of the voting power of the associate's Board held by the Group and the Group's profit sharing ratio were 43% and 70%, respectively.

The investment in the associate is indirectly held by the Company.

The above details the associate of the Group which, in the opinion of the directors, affected the results of the year and the net assets of the Group.

NOTES TO FINANCIAL STATEMENTS

30 September 2000

18. LONG TERM INVESTMENTS

	Group	
	2000 HK\$'000	1999 HK\$'000
Unlisted equity investments, at cost	18,078	18,078
<i>Less:</i> Provision for permanent diminution in value	(3,000)	–
	15,078	18,078

Particulars of the Group's long term investments, all of which are registered in the People's Republic of China, are as follows:

Name	Percentage of equity interest attributable to the Group
Zhejiang Huajiali Silk Products Co., Ltd.	14.5
Zhoushan High Fashion Silk Spinning & Clothing Co., Ltd.	30.0#
Zhou Shan High Fashion Knitting Co., Ltd.	30.0#

The interests in these companies have not been accounted for as associates because the Group does not have significant influence over these companies.

NOTES TO FINANCIAL STATEMENTS

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19. TRADE RECEIVABLES

	Group	
	2000 HK\$'000	1999 HK\$'000
Current to 90 days	228,697	121,616
91 to 180 days	3,342	8,677
181 to 360 days	1,744	614
Over 360 days	790	14
	234,573	130,921
General provision	(3,000)	–
	231,573	130,921

The Group allows an average credit period of 30 to 60 days to its trade debtors.

20. INVENTORIES

	Group	
	2000 HK\$'000	1999 HK\$'000
Raw materials	55,842	48,659
Work in progress	20,850	28,360
Finished goods	120,931	74,381
	197,623	151,400

The carrying amount of inventories carried at net realisable value included in the above is HK\$44,459,000 (1999: HK\$49,646,000).

NOTES TO FINANCIAL STATEMENTS

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21. BANK LOANS AND OVERDRAFTS

	Group	
	2000 HK\$'000	1999 HK\$'000
Bank overdrafts, unsecured	4,805	1,458
Bank loans, secured	2,190	–
Bank loans, unsecured	–	1,402
Trust receipt loans, unsecured	82,243	58,652
	89,238	61,512

At 30 September 2000, the secured bank loans are secured by mortgages over certain of the Group's land and buildings which have an aggregate net book value at the balance sheet date of approximately HK\$2,448,000 (1999: Nil).

22. FINANCE LEASE AND HIRE PURCHASE CONTRACT PAYABLES

There were obligations under finance leases and hire purchase contracts at the balance sheet date as follows:

	Group	
	2000 HK\$'000	1999 HK\$'000
Amounts payable:		
Within one year	246	210
In the second year	214	256
In the third to fifth years, inclusive	–	184
	460	650
Portion classified as current liabilities	(246)	(210)
Long term portion	214	440

NOTES TO FINANCIAL STATEMENTS

30 September 2000

23. OTHER LOANS, SECURED

The other loans bear interest at 2% (1999: 2.5%) over the base rate in the United Kingdom and are repayable within one year of the balance sheet date. The other loans are secured by certain of the Group's trade receivables amounting to HK\$21,042,000 (1999: HK\$24,923,000) at the balance sheet date.

24. TRADE PAYABLES AND ACCRUED PURCHASES

	Group	
	2000	1999
	HK\$'000	HK\$'000
Trade payables:		
Current to 90 days	120,918	80,994
91 to 180 days	5,134	1,957
181 to 360 days	6,611	2,341
Over 360 days	11,643	3,054
	144,306	88,346
Accrued purchases	19,812	15,563
	164,118	103,909

25. DEFERRED TAX

	Group	
	2000	1999
	HK\$'000	HK\$'000
Balance at beginning of year	980	980
Charge for the year – <i>note 10</i>	1,220	–
At 30 September	2,200	980

NOTES TO FINANCIAL STATEMENTS

30 September 2000

25. DEFERRED TAX *(Continued)*

The principal components of the Group's provision for deferred tax, and the net deferred tax asset not recognised in the financial statements, are as follows:

	Provided		Not provided	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Accelerated depreciation allowances	3,000	980	(121)	765
Tax losses	(900)	–	(7,328)	(8,098)
Other	100	–	(138)	(556)
	2,200	980	(7,587)	(7,889)

The Company had no significant potential deferred tax liabilities for which provision has not been made.

26. SHARE CAPITAL

Shares

Authorised:

1,000,000,000 ordinary shares of HK\$0.10 each

Issued and fully paid:

312,335,630 (1999: 335,237,630)

ordinary shares of HK\$0.10 each

Group	
2000 HK\$'000	1999 HK\$'000
100,000	100,000
31,234	33,524

NOTES TO FINANCIAL STATEMENTS

30 September 2000

26. SHARE CAPITAL (Continued)

Shares (Continued)

During the year, the Company repurchased 22,902,000 (1999: 21,308,000) ordinary shares of HK\$0.10 each of the Company on The Stock Exchange of Hong Kong Limited as follows:

Month	Number of shares	Price per share		Total price paid HK\$'000
		Highest HK\$	Lowest HK\$	
October 1999	2,706,000	0.93	0.90	2,485
November 1999	1,878,000	0.93	0.92	1,756
December 1999	2,476,000	0.97	0.90	2,278
January 2000	2,400,000	1.39	1.27	3,256
February 2000	3,676,000	1.32	1.20	4,706
March 2000	2,852,000	1.28	1.24	3,639
April 2000	1,782,000	1.20	1.14	2,124
May 2000	2,256,000	1.33	1.20	2,867
June 2000	788,000	1.50	1.47	1,176
July 2000	1,240,000	1.41	1.34	1,730
August 2000	454,000	1.33	1.32	607
September 2000	394,000	1.40	1.39	553
	22,902,000			27,177

The repurchased shares were cancelled and the issued share capital of the Company was reduced by the par value thereof. The premium paid on the repurchase of the shares of HK\$24,887,000 (1999: HK\$10,068,000) has been charged to the retained profits. An amount equivalent to the par value of the shares cancelled has been transferred from the retained profits of the Company to the capital redemption reserve.

The repurchase of the Company's shares during the year was effected by the directors, pursuant to the mandate from shareholders, with a view to benefiting shareholders as a whole by enhancing the net asset value per share and earnings per share of the Group.

NOTES TO FINANCIAL STATEMENTS

30 September 2000

26. SHARE CAPITAL *(Continued)*

Share options

On 18 March 1994, the Company adopted a share option scheme (the "Scheme") under which the directors may, at their discretion, grant options to employees and executive directors of the Group to subscribe for shares in the Company. The maximum number of shares in respect of which options may be granted may not exceed 10% of the share capital of the Company in issue from time to time. The Scheme will remain in force for a period of ten years from the date of its adoption.

In the prior year, the Company granted a total of 15,200,000 share options which entitle the holders to subscribe for shares in the Company. 40% of the share options granted are exercisable during the period from 5 May 2002 to 4 May 2009, 30% of the share options granted are exercisable during the period from 5 May 2003 to 4 May 2009 and the remaining 30% of the share options granted are exercisable during the period from 5 May 2004 to 4 May 2009. The subscription price per share payable upon the exercise of each option is HK\$0.505, subject to adjustment. The exercise in full of the 15,200,000 share options outstanding at the balance sheet date would, under the present capital structure of the Company, result in the issue of 15,200,000 additional shares of HK\$0.10 each.

NOTES TO FINANCIAL STATEMENTS

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27. RESERVES

Group

	Share premium account HK\$'000	Exchange fluctuation reserve HK\$'000	Reserve funds* HK\$'000	Capital reserve/ (goodwill) HK\$'000	Capital redemption reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 October 1998	275,941	(4,231)	8,278	730	240	171,178	452,136
Transfer from retained profits	-	-	706	-	2,131	(2,837)	-
Write off of premium paid on repurchase of shares	-	-	-	-	-	(10,068)	(10,068)
Exchange realignments	-	(439)	-	-	-	-	(439)
Retained profit for the year	-	-	-	-	-	51,913	51,913
At 30 September 1999 and beginning of year	275,941	(4,670)	8,984	730	2,371	210,186	493,542
Transfer from retained profits	-	-	87	-	2,290	(2,377)	-
Write off of premium paid on repurchase of shares	-	-	-	-	-	(24,887)	(24,887)
Exchange realignments	-	1,642	-	-	-	-	1,642
Retained profit for the year	-	-	-	-	-	72,609	72,609
Goodwill on acquisition	-	-	-	(58,671)	-	-	(58,671)
At 30 September 2000	275,941	(3,028)	9,071	(57,941)	4,661	255,531	484,235
Reserves retained by:							
Company and subsidiaries	275,941	(3,170)	3,866	(58,671)	4,661	262,184	484,811
Jointly-controlled entities	-	17	3,528	730	-	(13,781)	(9,506)
Associates	-	125	1,677	-	-	7,128	8,930
At 30 September 2000	275,941	(3,028)	9,071	(57,941)	4,661	255,531	484,235
Company and subsidiaries	275,941	(4,762)	3,866	-	2,371	223,094	500,510
Jointly-controlled entities	-	29	3,441	730	-	(19,098)	(14,898)
Associate	-	63	1,677	-	-	6,190	7,930
At 30 September 1999	275,941	(4,670)	8,984	730	2,371	210,186	493,542

* Pursuant to the relevant laws and regulations for Sino-foreign joint venture enterprises, a portion of the profits of the Group's jointly-controlled entities and associates in the People's Republic of China has been transferred to reserve funds which are restricted as to use.

NOTES TO FINANCIAL STATEMENTS

30 September 2000

27. RESERVES (Continued)

Company

	Share premium account HK\$'000	Contributed surplus HK\$'000	Capital reserve HK\$'000	Capital redemption reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 October 1998	275,941	101,171	16,521	240	55,733	449,606
Transfer from retained profits	-	-	-	2,131	(2,131)	-
Write off of premium paid on repurchase of shares	-	-	-	-	(10,068)	(10,068)
Profit for the year	-	-	-	-	22,403	22,403
Dividends	-	-	-	-	(51,399)	(51,399)
At 30 September 1999 and beginning of year	275,941	101,171	16,521	2,371	14,538	410,542
Transfer from retained profits	-	-	-	2,290	(2,290)	-
Write off of premium paid on repurchase of shares	-	-	-	-	(24,887)	(24,887)
Profit for the year	-	-	-	-	99,582	99,582
Dividends	-	-	-	-	(61,274)	(61,274)
At 30 September 2000	275,941	101,171	16,521	4,661	25,669	423,963

The contributed surplus of the Company arose as a result of the Group's reorganisation in 1992 and represented the excess of the fair value of the subsidiaries' net assets acquired over the nominal value of the Company's shares issued in exchange therefor. Under The Companies Act 1981 of Bermuda (as amended), the contributed surplus is distributable to shareholders under certain circumstances.

**NOTES TO
FINANCIAL
STATEMENTS**

30 September 2000

28. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of profit from operating activities to net cash inflow from operating activities

	2000 HK\$'000	1999 HK\$'000
Profit from operating activities	159,055	122,087
Interest income	(18,101)	(14,051)
Provision for a long term investment	3,000	–
Dividend income from a long term unlisted investment	–	(865)
Depreciation	15,599	14,335
Loss on disposal of fixed assets	44	713
Increase in bills receivable	(10,100)	(1,712)
Decrease/(increase) in trade receivables	(84,493)	4,989
Decrease/(increase) in inventories	(20,066)	45,314
Decrease/(increase) in deposits, prepayments and other receivables	2,314	(7,346)
Increase in amounts due from jointly-controlled entities	(42,112)	–
Increase/(decrease) in trust receipt loans	23,591	(13,770)
Increase/(decrease) in bills payable	18,541	(3,715)
Increase in trade payables and accrued purchases	19,955	34,732
Increase in other payables and accruals	19,826	12,577
Increase in amounts due to associates	569	2,000
Increase in amounts due to jointly-controlled entities	1,486	60
Net cash inflow from operating activities	89,108	195,348

NOTES TO FINANCIAL STATEMENTS

30 September 2000

28. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

(b) Analysis of changes in financing during the year

	Bank and other loans HK\$'000	Finance lease and hire purchase contract payables HK\$'000	Minority interests HK\$'000	Share capital (including share premium) HK\$'000
At 1 October 1998	6,784	630	14,588	311,596
Cash inflow/(outflow) from financing activities, net	1,144	(168)	–	(12,199)
Write off of premium paid on repurchase of shares	–	–	–	10,068
Inception of finance lease contracts	–	204	–	–
Share of profit for the year	–	–	483	–
Exchange realignments	(194)	(16)	110	–
At 30 September 1999 and beginning of year	7,734	650	15,181	309,465
Cash outflow from financing activities, net	(4,674)	(189)	–	(27,177)
Write off of premium paid on repurchase of shares	–	–	–	24,887
Share of profit for the year	–	–	648	–
Exchange realignments	(620)	(49)	272	–
Acquisition of subsidiaries	3,265	48	2,799	–
At 30 September 2000	5,705	460	18,900	307,175

**NOTES TO
FINANCIAL
STATEMENTS**

30 September 2000

28. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

(c) Acquisition of subsidiaries

	2000 HK\$'000
Net assets acquired:	
Fixed assets	19,633
Cash and bank balances	13,980
Bills receivable	1,171
Trade receivables	16,159
Inventories	26,157
Deposits, prepayments and other receivables	19,737
Bank loans	(3,265)
Bank overdrafts	(2,143)
Hire purchase contract payables	(48)
Bills payable	(1,524)
Trade payables	(40,254)
Tax payable	(3,384)
Other payables and accruals	(25,398)
Amount due to an associate	(516)
Minority interests	(2,799)
Amount due to the Group	(10,000)
	7,506
Goodwill on acquisition	58,671
	66,177
Satisfied by:	
Cash consideration	65,275
Transfer of interest in a jointly-controlled entity to a subsidiary	902
	66,177

NOTES TO FINANCIAL STATEMENTS

30 September 2000

28. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

(c) Acquisition of subsidiaries *(Continued)*

Analysis of the net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries:

	2000 HK\$'000
Cash consideration	(65,275)
Cash and bank balances acquired	13,980
Bank overdrafts acquired	(2,143)
Amount due to the Group acquired	(10,000)
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	<u>(63,438)</u>

The subsidiaries acquired during the year paid HK\$8,030,000 and HK\$1,112,000 in respect of the Group's net operating cash flows and financing activities for the year, respectively.

They contributed HK\$26,673,000 to the Group's turnover and utilised HK\$458,000 in respect of the net profit attributable to shareholders for the year.

(d) Non-cash transactions

In the prior year, the Group entered into finance lease arrangements in respect of fixed assets with a total capital value at the inception of the leases of HK\$204,000.

29. PLEDGE OF ASSETS

At the balance sheet date, certain subsidiaries have pledged trade receivables amounting to HK\$114,533,000 (1999: HK\$76,484,000), inventories amounting to Nil (1999: HK\$70,896,000) and land and buildings amounting to HK\$2,448,000 (1999: Nil) to factoring houses and a bank to secure borrowing facilities granted to them.

NOTES TO FINANCIAL STATEMENTS

30 September 2000

30. CONTINGENT LIABILITIES

At the balance sheet date, contingent liabilities not provided for in the financial statements were as follows:

	Group		Company	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Bank guarantees given in lieu of utility, property rental and other service deposits	2,805	498	–	–
Bills discounted with recourse	31,434	29,573	–	–
Trade receivables factored with recourse	736	784	–	–
Guarantees given to banks in connection with facilities granted to:				
Subsidiaries	–	–	596,000	482,495
Jointly-controlled entities	37,383	–	–	–
	72,358	30,855	596,000	482,495

As at 30 September 2000, the guarantees given to banks in connection with facilities granted to subsidiaries by the Company were utilised to the extent of approximately HK\$86 million (1999: HK\$65 million).

In addition, the Group's share of contingent liabilities of a jointly-controlled entity not included in the above was as follows:

	Group	
	2000 HK\$'000	1999 HK\$'000
Guarantees given to banks in connection with facilities granted to a third party	27,073	62,217

NOTES TO FINANCIAL STATEMENTS

30 September 2000

31. COMMITMENTS

(a) Capital commitments:

Contracted, but not provided for

Group	
2000 HK\$'000	1999 HK\$'000
44,116	529

In addition, the Group's share of capital commitments of jointly-controlled entities not included in the above was as follows:

Contracted, but not provided for
Authorised, but not contracted for

Group	
2000 HK\$'000	1999 HK\$'000
-	812
1,682	3,074
1,682	3,886

NOTES TO FINANCIAL STATEMENTS

30 September 2000

31. COMMITMENTS *(Continued)*

- (b) At 30 September 2000, the Group had commitments under non-cancellable operating leases to make payments in the following year as follows:

	Group	
	2000 HK\$'000	1999 HK\$'000
Land and buildings expiring:		
Within one year	13,884	200
In the second to fifth years, inclusive	23,615	9,024
	37,499	9,224
Equipment expiring:		
Within one year	150	89
In the second to fifth years, inclusive	54	46
	204	135
	37,703	9,359

In addition, the Group's share of commitments under operating leases of jointly-controlled entities not included in the above was as follows:

	Group	
	2000 HK\$'000	1999 HK\$'000
Land and buildings expiring:		
Within one year	60	-
In the second to fifth years, inclusive	577	625
After five years	1,219	888
	1,856	1,513

NOTES TO FINANCIAL STATEMENTS

30 September 2000

31. COMMITMENTS *(Continued)*

- (c) At the balance sheet date, the Group had entered into agreements for forward sales of United States dollars equivalent to HK\$134,509,000 (1999: HK\$93,533,000) for the hedging of foreign currency trade debts in the ordinary course of business.

At the balance sheet date, the Company did not have any significant commitments.

32. RELATED PARTY TRANSACTIONS

The Group had the following transactions with related parties during the year:

	<i>Notes</i>	Group	
		2000 HK\$'000	1999 HK\$'000
Purchases of raw materials and finished goods from jointly-controlled entities	<i>(i)</i>	527,706	483,199
Purchases of raw materials and finished goods from an associate	<i>(i)</i>	3,057	2,643
Rental income from a jointly-controlled entity	<i>(ii)</i>	687	687
Management fee income from jointly-controlled entities	<i>(iii)</i>	2,489	2,489
Professional fees paid to Wilkinson & Grist	<i>(iv)</i>	1,488	359

Notes:

- (i) The purchases of raw materials and finished goods were made according to the published prices and conditions offered to the major customers of the supplier, except that a longer credit period was usually granted.
- (ii) The rental income related to machinery included in fixed assets which was rented to a jointly-controlled entity for production purposes. The rental was calculated with reference to the depreciation of the machinery.
- (iii) The management fee income was charged at an appropriate allocation of costs incurred by the Group.
- (iv) The professional fees related to the provision of secretarial and legal advisory services and were charged according to the fee rates and conditions similar to those offered to other customers of Wilkinson & Grist. Mr. Chan Wah Tip, Michael, a director of the Company, is a partner of Wilkinson & Grist.

NOTES TO FINANCIAL STATEMENTS

30 September 2000

33. POST BALANCE SHEET EVENTS

- (a) Subsequent to the balance sheet date, on 4 November 2000, the Group purchased from an independent third party the portion of the S. Megga Industrial Building, 1-11 Kwai Hei Street, New Territories, not already owned by the Group, representing a total gross floor area of 124,972 sq. ft., at an aggregate consideration of HK\$46,000,000.
- (b) Subsequent to the balance sheet date and up to the date of this report, the Company repurchased and cancelled a further 412,000 shares of HK\$0.10 each on The Stock Exchange of Hong Kong Limited for an aggregate consideration of HK\$559,000. As a result, the number of issued shares of the Company has decreased from 312,335,630 shares to 311,923,630 shares as at 10 January 2001.
- (c) Subsequent to the balance sheet date, on 8 December 2000, the Group entered into an agreement with a joint venture partner to acquire the remaining 40% equity interests in a jointly-controlled entity, Hangzhou Westlake High Fashion Industry Co., Ltd., at a total consideration of approximately HK\$21,640,000.

34. COMPARATIVE AMOUNTS

As further explained in note 2, due to the adoption of the revised SSAP 1 during the current year, the presentation of the profit and loss account, the balance sheets and certain supporting notes have been revised to comply with the new requirements. Accordingly, the relevant comparative amounts have been reclassified to conform with the current year's presentation.

35. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 10 January 2001.