

Notes to financial statements

31 March 2000

1. Basis of presentation and summary of significant accounting policies

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice ("SSAPs"), 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, except for the remeasurement of investment properties, as further explained below.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and all of its subsidiaries for the year ended 31 March 2001. The results of the subsidiaries acquired or disposed of during the year are consolidated from or to their effective date of acquisition or disposal, respectively.

The prior year comparative consolidated financial statements have been prepared using the merger basis of accounting. Under this basis, the Company has been treated as the holding company of its subsidiaries prior to the date of their acquisition pursuant to a group reorganisation on 14 March 2000. Accordingly, the consolidated results of the Group for the year ended 31 March 2000 include the results of the Company and its subsidiaries with effect from 1 April 1999 or since their respective dates of incorporation, where this is a shorter period, as if the current Group structure had been in existence throughout the year ended 31 March 2000.

In the opinion of the directors, the consolidated financial statements prepared on the above basis present more fairly the results of the Group as a whole.

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

Subsidiaries

A subsidiary is a company in which the Company, directly or indirectly, controls more than 50% 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 diminutions in values, other than those considered to be temporary in nature, when they are written down to values determined by the directors.

Co-operative joint ventures established in the People's Republic of China

A co-operative joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity of which the joint venture parties' profit sharing ratios and the share of net assets upon the expiration of the joint venture terms are not in proportion to their equity ratios but are defined in the joint venture contracts.

1. Basis of presentation and summary of significant accounting policies (continued)

Co-operative joint ventures established in the People's Republic of China (continued)

A co-operative joint venture is treated as a subsidiary if, under the joint venture contract, the Group controls the composition of the board of directors and has control over the financial and operating policies of the co-operative joint venture.

Fixed assets and depreciation

Fixed assets, other than investment properties 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.

Depreciation is calculated to write off the cost of each of the following assets over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold land	Over the lease terms, on straight-line basis
Buildings	2% to 2.5%, on straight-line basis
Leasehold improvements	Over the lease terms, on reducing balance basis
Plant and machinery	20%, on reducing balance basis
Furniture and fixtures	20%, on reducing balance basis
Motor vehicles	25%, on reducing balance basis

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.

Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed, and which are intended to be held on a long term basis for their investment potential. Such properties are not depreciated and are stated at open market values on the basis of annual professional valuations. Changes in the values of investment properties are dealt with as movements in the investment property revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on a portfolio basis, the excess of the deficit is charged to the profit and loss account.

Upon disposal of an investment property, the relevant portion of the investment property revaluation reserve realised in respect of previous valuations is released to the profit and loss account.

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 shorter of the lease terms and 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.

1. Basis of presentation and summary of significant accounting policies (continued)

Leased assets (continued)

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

Inventories

Inventories are stated at the lower of cost and net realisable value after making due allowances for obsolete or slow-moving items. 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 further costs expected to be incurred to completion and disposal.

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.

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.

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 denominated in foreign currencies are translated into Hong Kong dollars for inclusion in the Group's consolidated financial statements at the applicable rates of exchange ruling at the balance sheet date. The resulting translation differences are dealt with in the exchange fluctuation reserve.

Accounts receivable

Sales to customers are largely settled in cash and by credit cards, except for established customers, where credit terms are given. Invoices to customers on credit are normally payable within 90 days from the date of issuance. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are regularly reviewed by senior management.

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.

1. Basis of presentation and summary of significant accounting policies (continued)

Pension scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the Scheme. The Scheme became effective from 1 December 2000. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the Scheme. The assets of the Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the Scheme.

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) from 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) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable; and
- (c) rental income, on a straight-line basis over the lease terms.

2. Corporate information and related party transactions

The principal activity of the Company is investment holding. During the year, the Group was principally involved in the manufacturing, retailing and wholesaling of fashion apparel and complementary accessories.

The Company is a subsidiary of Gay Giano (BVI) Group Limited, a company incorporated in the British Virgin Islands, which is considered by the directors to be the Company's ultimate holding company.

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

	Notes	2001 HK\$'000	2000 HK\$'000
Rental expenses paid to Boldsmore International Limited ("Boldsmore")	(a)	2,184	2,184
Rental income from Cheung Sing Chi	(b)	130	180
Rental income from certain relatives of certain directors of the Company	(b)	499	406
Net interest income on current accounts with Cheung Sing Chi	(c)	—	2,137

Notes:

- (a) The rental expenses paid to Boldsmore, a fellow subsidiary of the Company, were determined by the directors with reference to the then market conditions.
- (b) The rental income from Cheung Sing Chi, a director of the Company, and certain relatives of certain directors of the Company was determined by the directors with reference to the then market conditions.
- (c) The net interest income from Cheung Sing Chi arose from current accounts with him, which bore interest at the Hong Kong dollar prime rate plus 1% per annum.

2. Corporate information and related party transactions (continued)

Further details of the above-mentioned transactions are included under the heading "Connected transactions" in the Report of the Directors.

Details of certain guarantees and other security arrangements entered into for the benefit of the Group by various related parties are set out in notes 14 and 17 to the financial statements.

3. Turnover and revenue

Turnover represents the aggregate of the net invoiced value of goods sold, after allowances for goods returned and trade discounts, and after elimination of intra-group transactions. The Group's revenue is derived predominantly from retail and wholesale sales of ladies' and men's fashion apparel and complementary accessories.

4. Profit before tax

The Group's profit before tax is arrived at after charging/(crediting):

	2001	2000
	HK\$'000	HK\$'000
Cost of inventories sold	90,286	61,135
Provision for inventory obsolescence*	4,690	1,481
Depreciation:*		
Owned assets	3,346	4,223
Leased assets	446	263
Operating lease rentals on land and buildings*	51,579	46,223
Interest expense on:		
Bank loans and overdrafts	3,302	2,679
Finance leases	132	138
Other loans wholly repayable within five years	1,274	2,399
	4,708	5,216
Staff costs (excluding directors' remuneration, note 5)*	54,034	43,259
Pension scheme contributions	653	—
Auditors' remuneration	760	730
Loss on disposal/write off of fixed assets	565	195
Exchange losses/(gains), net	26	(229)
Net rental income	(984)	(767)
Interest income on:		
Cash and bank balances	(1,094)	(38)
Amount due from a director	—	(2,137)

* Cost of inventories sold includes HK\$13,792,000 (2000: HK\$11,650,000) relating to direct staff costs, operating lease rentals on land and buildings, provision for inventory obsolescence and depreciation of the manufacturing activities, which are also included in the respective total amounts disclosed separately above for each of these types of expenses.

During the year, share options to subscribe for 12,680,000 (2000: Nil) ordinary shares of the Company were granted to certain employees of the Company. In the absence of a readily available market value for options on the ordinary shares of the Company, the directors are unable to arrive at an accurate assessment of the value of these options.

5. Directors' remuneration and five highest paid employees

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

	Group	
	2001	2000
	HK\$'000	HK\$'000
Fees:		
Executive directors	—	—
Independent non-executive directors	156	—
Other emoluments of executive directors:		
Basic salaries, housing benefits, other allowances and benefits in kind	2,615	1,588
Pension scheme contributions	10	—
	2,781	1,588

The remuneration of the directors during the year fell within the band of Nil – HK\$1,000,000 (2000: Nil – HK\$1,000,000).

During the year, share options to subscribe for 6,600,000 (2000: Nil) ordinary shares of the Company were granted to certain directors of the Company. In the absence of a readily available market value for options on the ordinary shares of the Company, the directors are unable to arrive at an accurate assessment of the value of these options. Details of the options granted to the directors during the year are set out in the section "Directors' rights to acquire shares" in the Report of the Directors.

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2000: Nil).

The five highest paid individuals included two (2000: two) directors, details of whose remuneration are set out above. The details of the emoluments and designated bands of the remaining three (2000: three) highest paid, non-director individuals are set out below:

	Group	
	2001	2000
	HK\$'000	HK\$'000
Basic salaries, housing benefits, other allowances and benefits in kind	2,362	1,147

The emoluments of the highest paid, non-director employees fell within the following bands:

	Number of employees	
	2001	2000
Nil – HK\$1,000,000	2	3
HK\$1,000,001 – HK\$1,500,000	1	—
	3	3

During the year, share options to subscribe for 5,000,000 (2000: Nil) ordinary shares of the Company were granted to the two highest paid, non-director individuals of the Company. In the absence of a readily available market value for options on the ordinary shares of the Company, the directors are unable to arrive at an accurate assessment of the value of these options.

5. Directors' remuneration and five highest paid employees (continued)

During the year, no emoluments were paid by the Group to the directors, or any of the three (2000: three) highest paid non-director individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

6. Tax

	Group	
	2001	2000
	HK\$'000	HK\$'000
Current:		
Hong Kong	280	3,216
Overseas	509	—
Overprovision in the prior year	(290)	—
Deferred tax charge/(credit) — note 18	259	(117)
	<hr/>	<hr/>
Tax charge for the year	758	3,099

Hong Kong profits tax has been provided at the rate of 16% (2000: 16%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates applicable in the respective jurisdictions, based on the existing legislation, interpretations and practices in respect thereof.

Shenzhen Longwei Fashion Mfg. Co., Ltd. ("SLFM") was exempted from its standard income tax rate of 15% for two years from its first profit-making year of operations and thereafter is eligible for a 50% relief from income tax for the following three years under the Income Tax Law of the PRC. SLFM was entitled to a 50% relief from the PRC income tax for the year ended 31 December 2000, which was its third profitable year.

7. 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\$749,000 (2000: HK\$12,070,000).

8. Dividends

	Group	
	2001	2000
	HK\$'000	HK\$'000
Interim	—	13,000
Special dividend	—	22,000
Proposed final dividend	—	11,600
	<hr/>	<hr/>
	—	46,600

An interim dividend of HK\$13,000,000 and a special dividend of HK\$22,000,000 were paid by a subsidiary of the Group to its then shareholders prior to the reorganisation and listing of the Group.

The directors recommended the payment of a final dividend of HK5.8 cents per share in respect of the year ended 31 March 2000. The directors do not recommend the payment of any dividend in respect of the current year.

9. Earnings per share

The calculation of earnings per share is based on the net profit attributable to shareholders for the year of HK\$8,359,000 (2000: HK\$35,666,000) and the weighted average of 198,356,000 (2000: 150,000,000) shares in issue during the year.

The calculation of diluted earnings per share for the year ended 31 March 2001 is based on the net profit from ordinary activities attributable to shareholders for the year of HK\$8,359,000 and 199,110,387 ordinary shares, being the weighted average number of ordinary shares outstanding during the year, adjusted for the effects of dilutive potential ordinary shares outstanding during the year.

The reconciliation of the weighted average number of shares used in the basic and diluted earnings per share calculations is as follows:

	2001
Weighted average number of ordinary shares used in calculating basic earnings per share	198,356,000
Weighted average number of shares assumed issued at no consideration on deemed exercise of all options outstanding during the year	754,387
<hr/>	
Weighted average number of ordinary shares used in calculating diluted earnings per share	199,110,387

The weighted average number of shares used to calculate the earnings per share for the year ended 31 March 2000 included the pro forma issued share capital of the Company, comprising 1,000,000 shares issued nil paid on incorporation of the Company, 1,000,000 shares issued for the acquisition of Gay Giano Holdings Limited ("GGHL"), a wholly-owned subsidiary of the Company, and the capitalisation issue of 148,000,000 shares, as set out in note 19 to the financial statements.

Diluted earnings per share for the year ended 31 March 2000 has not been calculated as no diluting events existed during the year then ended.

10. Interests in subsidiaries

	Company	
	2001	2000
	HK\$'000	HK\$'000
Unlisted shares, at cost	32,251	32,251
Due from/(to) subsidiaries	47,184	(2,211)
<hr/>		
	79,435	30,040

The balances with subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

Particulars of the principal subsidiaries are set out in note 24 to the financial statements.

11. Fixed assets

Group

	Investment properties HK\$'000	Medium term leasehold land and buildings in Hong Kong HK\$'000	Leasehold improvements HK\$'000	Plant and machinery HK\$'000	Furniture and fixtures HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Cost or valuation:							
At 1 April 2000	26,600	—	22,440	3,459	13,879	3,095	69,473
Additions	—	8,160	3,318	259	1,244	2,150	15,131
Disposals	—	—	(1,312)	—	(476)	(959)	(2,747)
Revaluation deficit	(3,100)	—	—	—	—	—	(3,100)
At 31 March 2001	23,500	8,160	24,446	3,718	14,647	4,286	78,757
Accumulated depreciation:							
At 1 April 2000	—	—	12,517	2,296	9,323	1,927	26,063
Provided during the year	—	14	2,034	255	938	551	3,792
Disposals	—	—	(819)	—	(442)	(670)	(1,931)
At 31 March 2001	—	14	13,732	2,551	9,819	1,808	27,924
Net book value:							
At 31 March 2001	23,500	8,146	10,714	1,167	4,828	2,478	50,833
At 31 March 2000	26,600	—	9,923	1,163	4,556	1,168	43,410

All of the investment properties of the Group were revalued on 31 March 2001 by FPD Savills (Hong Kong) Limited, an independent firm of professional valuers, on an open market value existing use basis, at HK\$23,500,000 (2000: HK\$26,600,000).

The investment properties are situated in Hong Kong, held under medium term leases and are pledged to secure banking facilities granted to the Group (notes 14).

The net book value of the fixed assets of the Group held under finance leases included in the total amount of fixed assets at 31 March 2001 amounted to HK\$1,730,000 (2000: HK\$982,000). The depreciation charge for the year in respect of such assets amounted to HK\$446,000 (2000: HK\$263,000).

12. Inventories

	Group	
	2001 HK\$'000	2000 HK\$'000
Raw materials	15,089	11,132
Work in progress	1,601	5,164
Finished goods	42,929	24,053
	59,619	40,349

At the balance sheet date, no inventories (2000: Nil) were stated at net realisable value.

13. Accounts receivable

The aged analysis of the Group's accounts receivable is as follows:

	Group	
	2001	2000
	HK\$'000	HK\$'000
0-30 days	2,063	1,335
31-60 days	1,187	644
Over 60 days	487	1,135
	3,737	3,114

14. Banking facilities

	Group	
	2001	2000
	HK\$'000	HK\$'000
Secured bank loans repayable:		
Within one year	1,604	600
In the second year	1,531	600
In the third to fifth years, inclusive	2,822	500
After five years	3,193	—
	9,150	1,700
Portion classified as current liabilities	(1,604)	(600)
	7,546	1,100

At 31 March 2001, the banking facilities of the Group were supported by:

- (i) legal charges over the investment properties and medium term leasehold land and buildings of the Group (note 11);
- (ii) the pledge of certain fixed deposits of the Group of HK\$2,000,000; and
- (iii) corporate guarantees executed by the Company and certain subsidiaries of the Group.

14. Banking facilities (continued)

At 31 March 2000, the banking facilities of the Group were supported by:

- (a) legal charges over the investment properties of the Group;
- (b) a legal charge over a property owned by two relatives of certain directors of the Company;
- (c) legal charges over certain properties owned by a director of the Company;
- (d) legal charges over certain properties owned by a fellow subsidiary of the Group;
- (e) the pledges of certain fixed deposits of the Group of HK\$742,000;
- (f) personal guarantees executed by certain directors of the Company and certain of their relatives;
- (g) corporate guarantees executed by the ultimate holding company of the Company, certain subsidiaries and a fellow subsidiary of the Group; and
- (h) corporate guarantees executed by an unrelated party.

As at 31 March 2000, certain subsidiaries of the Company had provided corporate guarantees in respect of a bank loan (the "Bank Loan") of HK\$22,610,000 utilised by Boldsmore, which was secured by legal charges over properties owned by Boldsmore.

During the year, except for the legal charges over the investment properties owned by the Group and corporate guarantees executed by certain subsidiaries of the Group as detailed in (a) and (g) above, respectively, all of the other securities and guarantees were released and replaced by corporate guarantees from the Company. The corporate guarantees provided by certain subsidiaries of the Company in respect of the Bank Loan were also released during the year.

15. Accounts payable

The aged analysis of the Group's accounts payable is as follows:

	Group	
	2001 HK\$'000	2000 HK\$'000
0-30 days	5,129	4,529
31-60 days	1,639	2,778
Over 60 days	3,741	2,188
	<hr/> 10,509	<hr/> 9,495

16. Finance lease payables

There were commitments under finance leases at the balance sheet date as follows:

	Group	
	2001	2000
	HK\$'000	HK\$'000
Amounts payable:		
Within one year	876	456
In the second year	497	108
In the third to fifth years, inclusive	165	25
	<hr/>	<hr/>
Total minimum finance lease payments	1,538	589
Future finance charges	(219)	(117)
	<hr/>	<hr/>
Total net finance lease payables	1,319	472
Portion classified as current liabilities	(764)	(367)
	<hr/>	<hr/>
Long term portion of finance lease payables	555	105

17. Other loans

	Group	
	2001	2000
	HK\$'000	HK\$'000
Other loans repayable:		
Within one year	220	5,465
In the second year	—	8,516
In the third to fifth years, inclusive	—	1,099
After five years	—	6,001
	<hr/>	<hr/>
	220	21,081
Portion classified as current liabilities	(220)	(5,465)
	<hr/>	<hr/>
Long term portion	—	15,616

Other loan of HK\$220,000 (2000: HK\$568,000) is unsecured, bears interest at the Hong Kong dollar prime rate plus 2% per annum and is repayable by monthly instalments from 1996 to 2001.

As at 31 March 2000, other loans of HK\$7,663,000 were supported by legal charges over certain investment properties owned by the Group and personal guarantees executed by a director of the Company and his relatives and bore interest at commercial rates. These other loans were settled during the year.

As at 31 March 2000, other loans of HK\$8,000,000 were supported by guarantees from certain directors of the Company and their relatives, and a corporate guarantee from a wholly-owned subsidiary of the Company, and bore interest at commercial rates. These other loans were also settled during the year.

As at 31 March 2000, other loans of HK\$4,000,000 were supported by personal guarantees executed by a director of the Company and his relatives and bore interest at commercial rates. These other loans were also settled during the year.

17. Other loans (continued)

During the year, the personal guarantees from certain directors of the Company and their relatives, and a corporate guarantee from a subsidiary of the Company were released and replaced by corporate guarantees of the Company.

18. Deferred tax

	Group	
	2001 HK\$'000	2000 HK\$'000
At beginning of year	255	372
Charge/(credit) for the year — note 6	259	(117)
At balance sheet date	514	255

The principal components of the Group's deferred tax liabilities provided for mainly represent accelerated depreciation allowances.

The revaluation surplus of the Group's investment properties held under medium term leases does not constitute a timing difference and, therefore, the amount of potential deferred tax thereon has not been quantified.

19. Share capital

	2001 HK\$'000	2000 HK\$'000
Authorised:		
1,000,000,000 ordinary shares of HK\$0.10 each	100,000	100,000
Issued and fully paid:		
200,000,000 (2000: 2,000,000) ordinary shares of HK\$0.10 each	20,000	200

The following changes in the Company's authorised and issued share capital took place during the period from 3 February 2000 (date of incorporation) to 31 March 2001:

- (i) On incorporation, the authorised share capital of the Company was HK\$100,000 divided into 1,000,000 shares of HK\$0.10 each. On 9 February 2000, 1,000,000 shares were allotted and issued nil paid to Gay Giano (BVI) Group Limited.
- (ii) Pursuant to a resolution in writing passed on 14 March 2000, the authorised share capital of the Company was increased to HK\$200,000 by the creation of a further 1,000,000 shares of HK\$0.10 each.
- (iii) On 14 March 2000, as part of the Group reorganisation, the Company issued an aggregate of 1,000,000 shares credited as fully paid, 600,000 shares and 400,000 shares of which were allotted to Gay Giano (BVI) Group Limited and K&E Industries Limited, respectively, as consideration for the acquisition of the entire issued share capital of GGHL. The excess of the fair value of the shares of GGHL, determined on the basis of the consolidated net assets at that date over the nominal value of the Company's shares issued in exchange therefor, amounting to HK\$32,151,000, was credited to the Company's contributed surplus as set out in note 20.

19. Share capital (continued)

- (iv) On 14 March 2000, an amount of HK\$100,000, being a portion of the amount credited to the contributed surplus of the Company on the issue of shares in exchange for the shares of GGHL as set out in (iii) above, was applied to pay up, in full at par value, the 1,000,000 shares allotted and issued nil paid on 9 February 2000.
- (v) On 14 March 2000, the authorised share capital of the Company was increased from HK\$200,000 to HK\$100,000,000 by the creation of a further 998,000,000 shares of HK\$0.10 each. The Company then issued 148,000,000 shares to the holders of the shares whose names appeared on the register of members of the Company at the close of business on 14 March 2000, in proportion to their then holdings, by way of the capitalisation of the sum of HK\$14,800,000 standing to the credit of the share premium account of the Company, conditional on the share premium account being credited as a result of the new shares to be issued to the public. For the purpose of preparing the consolidated financial statements for the year ended 31 March 2000, these shares were deemed to have been in issue, nil paid, since 1 April 1998.
- (vi) On 13 April 2000, 50,000,000 shares of HK\$0.10 each were issued to the public at HK\$1.20 each for a total cash consideration, before related issuing expenses, of HK\$60,000,000.

A summary of the above movements in the authorised and issued share capital of the Company is as follows:

	Authorised		Issued	
	Number of HK\$0.10 ordinary shares '000	Nominal amount HK\$'000	Number of HK\$0.10 ordinary shares '000	Paid-up amount HK\$'000
Shares authorised on incorporation	1,000	100	—	—
Shares issued nil paid on 9 February 2000	—	—	1,000	—
Increase in authorised share capital	1,000	100	—	—
Shares issued as consideration for the acquisition of the entire issued share capital of GGHL	—	—	1,000	100
Application of contributed surplus to pay up nil paid shares issued on incorporation	—	—	—	100
Increase in authorised share capital	998,000	99,800	—	—
Shares issued and credited as fully paid conditional on the share premium account of the Company being credited as a result of the share offer to the public	—	—	148,000	—
Balance at 31 March 2000 and 1 April 2000	1,000,000	100,000	150,000	200
New issue on public listing	—	—	50,000	5,000
Capitalisation of the share premium account as set out above	—	—	—	14,800
Balance at 31 March 2001	1,000,000	100,000	200,000	20,000

19. Share capital (continued)

Share options

Pursuant to the Company's share option scheme adopted on 14 March 2000, the board of directors of the Company may, at their discretion, invite any director (other than independent non-executive directors of the Company appointed from time to time) or employee of the Group, to take up options to subscribe for the Company's shares. The subscription price is determined by the directors and notified to each relevant person. The subscription price determined may not be less than the higher of 80% of the average closing price of the Company's shares on the Stock Exchange for the five trading days immediately preceding the date of the grant of the options or the nominal value of the Company's shares. A nominal consideration of HK\$1.00 is payable upon the acceptance of the grant of an option. The maximum number of shares issued and issuable under the scheme may not (when aggregated with the Company's shares subject to any other employee share option) exceed in nominal value 10% of the issued share capital of the Company from time to time, excluding for this purpose shares issued upon the exercise of any options granted under the scheme (or any other employee share option scheme).

No option may be granted to any person which, if exercised in full, will result in the total number of shares already issued and which may fall to be issued to him under all the options previously granted to him pursuant to the scheme, exceeding 25% of the maximum aggregate number of shares for the time being issued and which may fall to be issued under the scheme.

The scheme became effective upon the listing of the Company's shares on 13 April 2000.

Options granted on 1 June 2000

On 1 June 2000, the Company granted 3,280,000 options to the staff of the Group at a total consideration of HK\$69 which entitle the holders to subscribe for the Company's ordinary shares at any time during the period from 1 June 2000 to 31 December 2002. The subscription price per share payable upon the exercise of the option is HK\$1.5792 per share, subject to adjustment.

The exercise in full of such options would, under the present capital structure of the Company, result in the issue of 3,280,000 additional shares of HK\$0.10 each. As at the date of this report, except for 270,000 share options which had been cancelled upon termination of an employment, all of these share options remained outstanding.

Options granted on 5 February 2001

On 5 February 2001, the Company granted a total of 16,000,000 share options to certain directors of the Company and certain employees of the Group at a total consideration of HK\$86 which entitle the holders to subscribe for the Company's ordinary shares at any time during the period from 5 February 2001 to 4 February 2011. The subscription price per share payable upon the exercise of the option is HK\$0.2528 per share, subject to adjustment.

The exercise in full of such options would, under the present capital structure of the Company, result in the issue of 16,000,000 shares of HK\$0.10 each. As at the date of this report, all of these share options remained outstanding.

20. Reserves

Group	Share premium HK\$'000	Exchange fluctuation reserve HK\$'000	Investment property revaluation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 April 1999	—	86	5,752	30,480	36,318
Arising on consolidation	—	30	—	—	30
Revaluation deficit	—	—	(1,150)	—	(1,150)
Net profit for the year	—	—	—	35,666	35,666
Dividend (note 8)	—	—	—	(46,600)	(46,600)
At 31 March 2000 and 1 April 2000	—	116	4,602	19,546	24,264
Issue of shares to public	55,000	—	—	—	55,000
Capitalisation on issue of shares (note 19)	(14,800)	—	—	—	(14,800)
Share issue expenses	(14,083)	—	—	—	(14,083)
Revaluation deficit	—	—	(3,100)	—	(3,100)
Net profit for the year	—	—	—	8,359	8,359
At 31 March 2001	26,117	116	1,502	27,905	55,640

Company	Share premium HK\$'000	Contributed surplus HK\$'000	Retained profits HK\$'000	Total HK\$'000
Arising on acquisition of subsidiaries	—	32,151	—	32,151
Contributed surplus applied to pay up 1,000,000 nil paid shares (note 19)	—	(100)	—	(100)
Net profit for the year	—	—	12,070	12,070
Dividend (note 8)	—	—	(11,600)	(11,600)
At 31 March 2000 and 1 April 2000	—	32,051	470	32,521
Issue of shares to public	55,000	—	—	55,000
Capitalisation on issue of shares	(14,800)	—	—	(14,800)
Share issue expenses	(14,083)	—	—	(14,083)
Net profit for the year	—	—	749	749
At 31 March 2001	26,117	32,051	1,219	59,387

The contributed surplus of the Company arose as a result of the Group reorganisation and represents the excess of the then combined net assets of the subsidiaries acquired over the nominal value of the shares of the Company issued in exchange therefor.

21. Notes to consolidated cash flow statement

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

	2001	2000
	HK\$'000	HK\$'000
Profit from operating activities	13,825	43,981
Interest income	(1,094)	(2,175)
Depreciation	3,792	4,486
Loss on disposal of fixed assets	565	195
Increase in inventories	(19,270)	(8,778)
Increase in accounts receivable	(623)	(1,572)
Increase in prepayments, deposits and other receivables	(399)	(7,354)
Increase in accounts payable	1,014	2,407
Increase/(decrease) in accrued liabilities and other payables	295	(974)
Increase/(decrease) in trust receipt loans with original maturity of over three months	8,938	(1,726)
	<hr/> 7,043	<hr/> 28,490

(b) Analysis of changes in financing during the years

	Share capital and share premium	Bank and other loans	Finance lease obligations	Loans from a shareholder
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance at 1 April 1999	200	35,762	828	26,280
Bank loan settled through loan receivable from a fellow subsidiary	—	(23,260)	—	—
Loan from shareholder settled through amount due from a director	—	—	—	(26,280)
Inception of a finance lease	—	—	240	—
Net cash inflow/(outflow) from financing	—	10,279	(596)	—
	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 31 March 2000 and 1 April 2000	200	22,781	472	—
Inception of a finance lease	—	—	1,536	—
Net cash inflow/(outflow) from financing	45,917	(13,411)	(689)	—
	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 31 March 2001	46,117	9,370	1,319	—

21. Notes to consolidated cash flow statement (continued)

(c) Major non-cash transactions

- (i) During the 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\$1,536,000 (2000: HK\$240,000).
- (ii) During the year ended 31 March 2000, interim and special dividends totalling HK\$35,000,000 were settled through the current accounts with a director.
- (iii) During the year ended 31 March 2000, the Group transferred a bank loan of HK\$23,260,000 to a fellow subsidiary by netting it off against the loan receivable from a fellow subsidiary.
- (iv) During the year ended 31 March 2000, loans from a shareholder of HK\$26,280,000 were settled through the current accounts with a director.

22. Contingent liabilities

At 31 March 2001, the Company had provided guarantees in respect of banking facilities utilised by certain of its subsidiaries to the extent of approximately HK\$47,808,000 (2000: Nil).

At 31 March 2001, the Group had no significant contingent liabilities (2000: Nil).

23. Commitments

Commitments payable in the following year under non-cancellable operating leases in respect of land and buildings expiring:

	Group	
	2001	2000
	HK\$'000	HK\$'000
Within one year	10,793	12,316
In the second to fifth years, inclusive	31,269	32,729
Beyond five years	408	408
	<hr/> 42,470	<hr/> 45,453

24. Particulars of subsidiaries

The table below 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.

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of paid-up ordinary share/ registered capital	Percentage of equity attributable to the Company	Principal activities
<i>Directly held:</i>				
Gay Giano Holdings Limited	British Virgin Islands	US\$1,000	100%	Investment holding
<i>Indirectly held:</i>				
Belarus Limited	Hong Kong	HK\$3,000	100%	Sourcing of materials and investment holding
Cour Carré (Asia) Limited	British Virgin Islands	US\$1	100%	Investment holding
Cour Carré Company Limited	Hong Kong	HK\$1,000	100%	Retail of fashion apparel and complementary accessories
Cour Carré World Limited	British Virgin Islands/ People's Republic of China	US\$1	100%	Wholesale of fashion apparel and complementary accessories
Due G Company Limited	Hong Kong	HK\$10,000	100%	Retail of fashion apparel and complementary accessories
Gay Giano Asia Limited	British Virgin Islands/ People's Republic of China	US\$1	100%	Wholesale of fashion apparel and complementary accessories
Gay Giano Company Limited	Hong Kong	HK\$1,000,000	100%	Retail of fashion apparel and complementary accessories

24. Particulars of subsidiaries (continued)

Name	Place of incorporation/ registration and operations	Nominal value of paid-up ordinary share/ registered capital	Percentage of equity attributable to the Company	Principal activities
<i>Indirectly held: (continued)</i>				
Gay Giano Decoration Limited	Hong Kong	HK\$2	100%	Provision of decoration services
Gay Giano International Limited	Hong Kong	HK\$1,000	100%	Investment holding and provision of administrative services
Gay Giano Technology Limited	British Virgin Islands/ Hong Kong	US\$1	100%	Provision of information technology services
Maxrola Limited	Hong Kong	HK\$2	100%	Property investment
Sarchio Limited	Hong Kong	HK\$10,000	100%	Property investment
Shenzhen Longwei Fashion Mfg. Co., Ltd. ("SLFM")*	People's Republic of China	HK\$12,000,000	100%	Manufacture and distribution of fashion apparel

* SLFM is a co-operative joint venture established by the Group and a partner in the PRC for a period of ten years commencing from the date of the issuance of its business licence on 3 May 1996. Subject to the payment of a fixed sum of RMB436,320 per annum to the PRC partner, the Group is entitled to all of the profits and shall bear all of the losses of SLFM.

25. Approval of the financial statements

The financial statements were approved by the board of directors on 23 July 2001.