Notes To Financial Statements

31 December 2002

1. CORPORATE INFORMATION

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

In the opinion of the directors, the ultimate holding company is High Fashion, which is incorporated in Bermuda and listed on The Stock Exchange of Hong Kong Limited.

2. BASIS OF PRESENTATION

The financial statements have been prepared on the going concern basis because the immediate holding company, Navigation Limited, a subsidiary of High Fashion, has provided loans facilities in aggregate of HK$100 million for the Company to meet its liabilities as and when they fall due. As at 31 December 2002, HK$64 million of the loan facilities was drawn, and is not repayable earlier than 30 April 2004.

3. CHANGE OF FINANCIAL YEAR END DATE

In order to be coterminous with the financial year end date of the Company's ultimate holding company, the financial year end date of the Company was changed from 30 September to 31 December with effect from 1 October 2001. These financial statements cover a period of fifteen months from 1 October 2001 to 31 December 2002. Accordingly, the comparative amounts presented for the profit and loss account, statement of changes in equity, cash flow statement and related notes in respect of the financial period from 1 April 2000 to 30 September 2001 are not for a comparable time period.

4. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPs") AND THOSE ADOPTED BEFORE THEIR EFFECTIVE DATES

The following recently-issued and revised SSAPs and Interpretation are effective for the first time for the current period's financial statements:

- SSAP 1 (Revised): "Presentation of financial statements"
- SSAP 9 (Revised): "Events after the balance sheet date"
- SSAP 11 (Revised): "Foreign currency translation"
- SSAP 14 (Revised): "Leases"
- SSAP 15 (Revised): "Cash flow statements"
- SSAP 18 (Revised): "Revenue"
- SSAP 26: "Segment reporting"
- SSAP 28: "Provisions, contingent liabilities and contingent assets"
- SSAP 29: "Intangible assets"
- SSAP 30: "Business combinations"
- SSAP 31: "Impairment of assets"
- SSAP 32: "Consolidated financial statements and accounting for investments in subsidiaries"
- SSAP 34: "Employee benefits"
- Interpretation 13: "Goodwill – continuing requirements for goodwill and negative goodwill previously eliminated against/credited to reserves"

These SSAPs prescribe new accounting measurement and disclosure practices. The major effects on the Group's accounting policies and on the amounts disclosed in these financial statements of those SSAPs and Interpretation which have had a significant effect on the financial statements, are summarised as follows:

SSAP 1 (Revised) prescribes the basis for the presentation of financial statements and sets out guidelines for their structure and minimum requirements for the content thereof. The principal impact of the revision to this SSAP is that a consolidated statement of changes in equity is now presented on page 22 of the financial statements in place of the consolidated statement of recognised gains and losses that was previously required and in place of the Group reserves note.

4. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPs") AND THOSE ADOPTED BEFORE THEIR EFFECTIVE DATES – continued

SSAP 11 (Revised) prescribes the basis for the translation of foreign currency transactions and financial statements. The principal impact of the revision of this SSAP on the consolidated financial statements is that the profit and loss accounts of overseas subsidiaries and associates are now translated to Hong Kong dollars at the weighted average exchange rates for the period, whereas previously they were translated at the exchange rates at the balance sheet date. The adoption of the revised SSAP 11 has had no material effect on the financial statements. Further details of this change that has resulted from it are included in the accounting policy for "Foreign currencies" in note 5 to the financial statements.

SSAP 14 (Revised) prescribes the basis for lessor and lessee accounting for finance and operating leases, and the required disclosures in respect thereof. Certain amendments have been made to the previous accounting measurement treatments, which may be accounted for retrospectively or prospectively, in accordance with the requirements of the SSAP. The disclosure changes under this SSAP have resulted in changes to the detailed information disclosed for operating leases, which are further detailed in note 37 to the financial statements.

SSAP 15 (Revised) prescribes the revised format for the cash flow statement. The principal impact of the revision of this SSAP is that the consolidated cash flow statement now presents cash flows under three headings, cash flows from operating, investing and financing activities, rather than the five headings previously required. In addition, cash flows from overseas subsidiaries arising during the period are now translated to Hong Kong dollars at the exchange rates at the dates of the transactions, or at an approximation thereto, whereas previously they were translated at the exchange rates at the balance sheet date, and the definition of cash equivalents for the purpose of the cash flow statement has been revised. Further details of these changes and the prior period adjustments that have resulted from them are included in the accounting policy for "Cash and cash equivalents" and "Foreign currencies" in note 5 and in note 34(a) to the financial statements.

SSAP 26 prescribes the principles to be applied for reporting financial information by segment. It requires that management assesses whether the Group's predominant risks or returns are based on business segments or geographical segments and determines one of these bases to be the primary segment information reporting format, with the other as the secondary segment information reporting format. The impact of this SSAP is the inclusion of significant additional segment reporting disclosures which are set out in note 6 to the financial statements.

4. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPs") AND THOSE ADOPTED BEFORE THEIR EFFECTIVE DATES – continued

SSAP 30 prescribes the accounting treatment for business combinations, including the determination of the date of acquisition, the method for determining the fair values of the assets and liabilities acquired, and the treatment of goodwill or negative goodwill arising on acquisition. The SSAP requires the disclosure of goodwill in the non-current assets section of the consolidated balance sheet. It requires that goodwill is amortised to the consolidated profit and loss account over its estimated useful life. Interpretation 13 prescribes the application of SSAP 30 to goodwill arising from acquisitions in previous years which remains eliminated against consolidated reserves. The adoption of the SSAP and Interpretation has not resulted in a prior period adjustment, for the reasons detailed in note 17 to the financial statements. The required new additional disclosures are included in note 17 to the financial statements.

SSAP 31 prescribes the recognition and measurement criteria for impairments of assets. The SSAP is required to be applied prospectively and therefore, has had no effect on amounts previously reported in prior period financial statements.

SSAP 34 prescribes the recognition and measurement criteria to apply to employee benefits, together with the required disclosures in respect thereof. The adoption of this SSAP has resulted in no change to the previously adopted accounting treatments for employee benefits as at the balance sheet date. In addition, disclosures are now required in respect of the Company's share option scheme, as detailed in note 31 to the financial statements. These share option scheme disclosures are similar to the Listing Rules disclosures previously included in the Report of the Directors, which are now required to be included in the notes to the financial statements as a consequence of the SSAP.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with 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.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the period from 1 October 2001 to 31 December 2002 except for subsidiaries under severe restrictions which are not consolidated. The results of subsidiaries acquired or disposed of during the period 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.

Minority interests represent the interests of outside shareholders in the results and net assets of the Company's subsidiaries.

Subsidiaries

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's profit and loss account to the extent of dividend received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

Associates

An associate is a company, not being a subsidiary or a jointly-controlled entity, 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 impairment losses.

Goodwill

Goodwill arising on the acquisition of subsidiaries represents the excess of the cost of the acquisition over the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Goodwill – continued

SSAP 30 "Business combinations" was adopted as at 1 October 2001. Prior to that date, goodwill arising on acquisitions was eliminated against consolidated reserves in the year of acquisition. On the adoption of SSAP 30, the Group applied the transitional provision of SSAP 30 that permitted such goodwill to remain eliminated against consolidated reserves. Goodwill on acquisitions subsequent to 1 October 2001 is treated according to the SSAP 30 goodwill accounting policy above.

On disposal of subsidiaries, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate. Any attributable goodwill previously eliminated against consolidated reserves at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.

The carrying amount of goodwill, including goodwill remaining eliminated against consolidated reserves, is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

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.

Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Impairment of assets – continued

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years.

A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises.

Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation and any impairment losses. 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 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 and buildings	Over the lease terms or 50 years, whichever is less
Plant and equipment	15%
Furniture and fixtures at:	
(i) Shops	Over the lease terms
(ii) Sales counter and office	20%
Office equipment	20%
Motor vehicles	20%

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.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets and rentals receivable under the operating leases are credited to the profit and loss account on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

Long term investments

Long term investments are non-trading investment in unlisted equity securities intended to be held on a long term basis. Such long term investments are stated at cost less any impairment losses.

When the security is determined to be impaired, the amount of impairment is charged to the profit and loss account in the period in which the impairment arises. Where the circumstances and events which led to an impairment cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the amount of the impairment previously charged and any appreciation in fair value is credited to the profit and loss account to the extent of the amount previously charged.

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.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Cash and cash equivalents – continued

Prior to the adoption of the revised SSAP 15 during the period, as explained in note 4 to the financial statements, cash equivalents in the consolidated cash flow statement also included advances from banks repayable within three months from the date of the advance, in addition to bank overdrafts. This change in definition has resulted in a prior period adjustment relating to trust receipt loans, further details of which are included in note 34(a) to the financial statements.

For the purpose of the balance sheet, cash and bank balances comprise cash on hand and at banks, including term deposits which are not restricted as to use.

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.

Employee benefits

Paid leave carried forward

The Group provides paid annual leave to its employees under their employment contracts on a calendar year basis. Under certain circumstances, such leave which remains untaken as at the balance sheet date is permitted to be carried forward and utilised by the respective employees in the following year. An accrual is made at the balance sheet date for the expected future cost of such paid leave earned during the period by the employees and carried forward.

Employment Ordinance long service payments

Certain of the Group's employees have completed the required number of years of service to the Group in order to be eligible for long service payments under the Hong Kong Employment Ordinance in the event of the termination of their employment. The Group is liable to make such payments in the event that such a termination of employment meets the circumstances specified in the Employment Ordinance.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Employee benefits – continued

Employment Ordinance long service payments – continued

A provision is recognised in respect of the probable future long service payments expected to be made. The provision is based on the best estimate of the probable future payments which have been earned by the employees from their service to the Group to the balance sheet date.

Retirement benefits scheme

The Group operates defined contribution retirement benefits schemes (the "Schemes") under the Mandatory Provident Fund Schemes Ordinance, for those employees in Hong Kong who are eligible to participate. The Schemes include a Mandatory Provident Fund Exempted ORSO scheme, and a Mandatory Provident Fund retirement benefits scheme. 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 Schemes. The assets of the Schemes are held separately from those of the Group in independently administered funds. When an employee leaves the Mandatory Provident Fund Exempted ORSO retirement benefits 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. In respect to the Mandatory Provident Fund retirement benefits scheme the Group's employer contributions vest fully with the employees when contributed into the scheme except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the scheme.

The Group's subsidiary which operates in Singapore are required to make contributions to the state pension scheme, the Central Provident Fund, as required by Singapore law. The contributions are charged to the profit and loss account as they become payable in accordance with the rules of the state pension scheme.

5. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued**

Employee benefits – continued

Share options scheme

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The financial impact of share options granted under the share option scheme is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

Foreign currencies

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

On consolidation, the financial statements of overseas subsidiaries and associates are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries and associates are translated to Hong Kong dollars at the weighted average exchange rates for the period, and their balance sheets are translated to Hong Kong dollars at the exchange rates at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated to Hong Kong dollars at the exchange rates at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the period are translated to Hong Kong dollars at the weighted average exchange rates for the period.

Prior to the adoption of the revised SSAPs 11 and 15 during the period, as explained in note 4 to the financial statements, the profit and loss accounts of overseas subsidiaries and associates and the cash flows of overseas subsidiaries were translated to Hong Kong dollars at the exchange rates at the balance sheet date. These changes have had no material effect on the financial statements.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

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) commission income, when services are rendered to the customers;

(c) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable; and

(d) rental income, on a time proportion basis over the lease terms.

6. SEGMENT INFORMATION

SSAP 26 was adopted during the period, as detailed in note 4 to the financial statements. Segment information is presented on a primary segment reporting basis, by geographical segment. Since the Group's operating businesses are derived from the manufacturing, retailing and trading of garments, no separate analysis of financial information by business segment is presented in the financial statements.

In determining the Group's geographical segments, revenues and results are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of assets.

6. SEGMENT INFORMATION – continued

The following tables present revenue, loss and certain asset and expenditure information for the Group's geographical segments.

Group

	Hong Kong & Macau		PRC		Taiwan		Singapore		Consolidated	
	1 October 2001 to 31 December 2002	1 April 2000 to 30 September 2001	**1 October 2001 to 31 December 2002**	1 April 2000 to 30 September 2001	**1 October 2001 to 31 December 2002**	1 April 2000 to 30 September 2001	**1 October 2001 to 31 December 2002**	1 April 2000 to 30 September 2001	**1 October 2001 to 31 December 2002**	1 April 2000 to 30 September 2001
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue:										
Sales to external customers	**54,814**	74,661	**80,040**	110,438	**105,266**	123,629	**10,613**	–	**250,733**	308,728
Segments results	**(10,895)**	(9,595)	**(5,905)**	(1,708)	**(3,102)**	(3,860)	**(4,155)**	–	**(24,057)**	(15,163)
Interest income									**145**	486
Loss from operating activities									**(23,912)**	(14,677)
Finance costs									**(3,963)**	(3,264)
Non-operating income									**–**	4,031
Share of profits and losses of associates	**–**	–	**–**	–	**–**	–	**–**	1,304	**–**	1,304
Loss before tax									**(27,875)**	(12,606)
Tax									**(57)**	(118)
Net loss from ordinary activities attributable to shareholders									**(27,932)**	(12,724)

6. SEGMENT INFORMATION – continued

Group

	Hong Kong & Macau		PRC		Taiwan		Singapore		Consolidated	
	31 December 2002	30 September 2001	**31 December 2002**	30 September 2001	**31 December 2002**	30 September 2001	**31 December 2002**	30 September 2001	**31 December 2002**	30 September 2001
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment assets	**20,648**	19,604	**38,935**	34,226	**31,565**	25,442	**4,578**	–	**95,726**	79,272
Interests in associates	**(608)**	(494)	**–**	–	**–**	–	**–**	3,206	**(608)**	2,712
Long term investment	**675**	675	**–**	–	**–**	–	**–**	–	**675**	675
Total assets	**20,715**	19,785	**38,935**	34,226	**31,565**	25,442	**4,578**	3,206	**95,793**	82,659
Segment liabilities	**30,149**	34,208	**25,683**	16,934	**5,018**	4,668	**288**	–	**61,138**	55,810
Unallocated liabilities									**64,000**	28,000
Total liabilities									**125,138**	83,810

	1 October 2001 to 31 December 2002	1 April 2000 to 30 September 2001	**1 October 2001 to 31 December 2002**	1 April 2000 to 30 September 2001	**1 October 2001 to 31 December 2002**	1 April 2000 to 30 September 2001	**1 October 2001 to 31 December 2002**	1 April 2000 to 30 September 2001	**1 October 2001 to 31 December 2002**	1 April 2000 to 30 September 2001
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Other segment information:										
Depreciation	**1,904**	3,843	**2,872**	5,568	**2,684**	2,972	**140**	–	**7,600**	12,383
Other non-cash expense/ (income)	**100**	478	**(6)**	(42)	**354**	1,448	**–**	–	**448**	1,884
Capital expenditure	**1,120**	3,301	**1,684**	3,953	**3,245**	3,294	**724**	–	**6,773**	10,548
Write-back of provision for impairment in value of long term investment	**–**	(675)	**–**	–	**–**	–	**–**	–	**–**	(675)
Write-back of provision for impairment in value of associates	**–**	(1,902)	**–**	–	**–**	–	**–**	–	**–**	(1,902)

7. TURNOVER

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

8. LOSS FROM OPERATING ACTIVITIES

The Group's loss from operating activities is arrived at after charging/(crediting):

	Period from 1 October 2001 to 31 December 2002	Period from 1 April 2000 to 30 September 2001
	HK$'000	*HK$'000*
Cost of inventories sold	**109,143**	108,339
Charge/(write-back) of provision for inventories (included in the above cost of inventories sold)	**4,534**	(10,847)
Depreciation	**7,600**	12,383
Auditors' remuneration:		
Current period	**543**	832
Prior period's under/(over) provision	**(149)**	46
	394	878
Operating lease rental of land and buildings:		
Minimum lease payments	**47,247**	64,838
Contingent rents	**19,984**	27,614
	67,231	92,452
Loss on disposal of fixed assets, net	**448**	1,884
Exchange losses, net	**107**	2,022
Staff costs (including directors' remuneration – *note 11*):		
Retirement benefits contributions	**1,320**	1,857
Less: Forfeited contributions	**(743)**	(883)
Net retirement benefits contributions *	**577**	974
Wages, salaries and bonuses	**50,305**	78,850
	50,882	79,824
Bank interest income	**(145)**	(486)
Sub-letting rental income, net (included in selling and distribution costs)	**(5,672)**	(7,715)
Commission income	**(47)**	(786)
Write back of provision for bad and doubtful debts	**–**	(4,492)
Write back of provision for impairment in value of long term investment	**–**	(675)
Write back of provision for impairment in value of associates	**–**	(1,902)

* *At 31 December 2002, the Group had no forfeited contributions available to reduce its contributions to the retirement benefits scheme in future years (30 September 2001: Nil).*

9. FINANCE COSTS

	Group	
	Period from 1 October 2001 to 31 December 2002	Period from 1 April 2000 to 30 September 2001
	HK$'000	*HK$'000*
Interest on bank loans, overdrafts and other loans wholly repayable within five years	**3,572**	2,843
Interest on finance leases	**–**	3
Bank charges	**391**	418
	3,963	3,264

10. NON-OPERATING INCOME

The prior period's non-operating income represented debts waived by the holding company.

11. DIRECTORS' REMUNERATION

Directors' remuneration, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Group	
	Period from 1 October 2001 to 31 December 2002	Period from 1 April 2000 to 30 September 2001
	HK$'000	*HK$'000*
Fees	**200**	370
Other emoluments:		
Salaries, allowances and benefits in kind	**780**	4,547
Pension scheme contribution	**40**	162
	820	4,709
	1,020	5,079

Fees include HK$200,000 (Period ended 30 September 2001: HK$370,000) payable to the independent non-executive directors. There were no other emoluments payable to the independent non-executive directors during the period (Period ended 30 September 2001: Nil).

The number of directors whose remuneration fell within the following bands is as follows:

	Number of directors	
	Period from 1 October 2001 to 31 December 2002	Period from 1 April 2000 to 30 September 2001
Nil to HK$1,000,000	**7**	11
HK$1,500,001 to HK$2,000,000	**–**	1
HK$2,500,001 to HK$3,000,000	**–**	1
	7	13

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

12. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the period included one (Period ended 30 September 2001: two) director, details of whose remuneration are set out in note 11 above. Details of the remuneration of the remaining four (Period ended 30 September 2001: three) non-director, highest paid employees are as follows:

	Group	
	Period from 1 October 2001 to 31 December 2002	Period from 1 April 2000 to 30 September 2001
	HK$'000	*HK$'000*
Salaries, allowances and benefits in kind	**2,256**	2,340
Pension scheme contribution	**89**	126
	2,345	2,466

The number of non-director, highest paid employees whose remuneration fell within the following band is as follows:

	Number of employees	
	Period from 1 October 2001 to 31 December 2002	Period from 1 April 2000 to 30 September 2001
Nil to HK$1,000,000	**4**	3

13. TAX

No Hong Kong profits tax has been provided for the periods from 1 October 2001 to 31 December 2002 and from 1 April 2000 to 30 September 2001 as the Group had no assessable profit arising in Hong Kong during the period.

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.

	Period from 1 October 2001 to 31 December 2002	Period from 1 April 2000 to 30 September 2001
	HK$'000	*HK$'000*
Group:		
Mainland PRC	**57**	118

14. NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders for the period from 1 October 2001 to 31 December 2002 dealt with in the financial statements of the Company, is HK$45,252,000 (Period ended 30 September 2001: HK$14,416,000).

15. LOSS PER SHARE

The calculation of basic loss per share is based on the net loss attributable to shareholders for the period of HK$27,932,000 (Period ended 30 September 2001: HK$12,724,000) and the number of 2,508,329,402 (Period ended 30 September 2001: weighted average of 1,983,090,718) ordinary shares in issue during the period. weighted average of

The diluted loss per share for the periods from 1 October 2001 to 31 December 2002 and from 1 April 2000 to 30 September 2001 have not been calculated as the Company's convertible notes would have had an anti-dilutive effect.

16. FIXED ASSETS

Group

	Land and buildings	Plant and equipment	Furniture, fixtures and office equipment	Motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cost or valuation:					
At 1 October 2001	2,878	6,632	36,314	2,579	48,403
Additions	–	128	6,600	45	6,773
Disposals	–	(219)	(4,147)	(845)	(5,211)
Exchange realignment	–	(1)	(211)	(2)	(214)
At 31 December 2002	**2,878**	**6,540**	**38,556**	**1,777**	**49,751**
Accumulated depreciation:					
At 1 October 2001	536	4,730	26,705	2,060	34,031
Provided during the period	132	731	6,517	220	7,600
Disposals	–	(219)	(3,547)	(845)	(4,611)
Exchange realignment	–	(1)	(173)	(2)	(176)
At 31 December 2002	**668**	**5,241**	**29,502**	**1,433**	**36,844**
Net book value:					
At 31 December 2002	**2,210**	**1,299**	**9,054**	**344**	**12,907**
At 30 September 2001	2,342	1,902	9,609	519	14,372

The Group's land and buildings included above are situated in the PRC and held under a long term lease.

At 31 December 2002, the Group's land and buildings with a net book value of approximately HK$2,210,000 (30 September 2001: HK$2,342,000) were pledged to secure banking facilities granted to the Group (note 27).

16. FIXED ASSETS – continued

Company

	Furniture, fixtures and office equipment	Motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*
Cost:			
At 1 October 2001	7,378	1,684	9,062
Additions	79	–	79
Disposals	–	(845)	(845)
At 31 December 2002	**7,457**	**839**	**8,296**
Accumulated depreciation:			
At 1 October 2001	5,580	1,642	7,222
Provided during the period	687	42	729
Disposals	–	(845)	(845)
At 31 December 2002	**6,267**	**839**	**7,106**
Net book value:			
At 31 December 2002	**1,190**	**–**	**1,190**
At 30 September 2001	1,798	42	1,840

17. GOODWILL

As detailed in note 5 to the financial statements, on the adoption of SSAP 30, the Group applied the transitional provision of SSAP 30 that permitted goodwill in respect of acquisitions which occurred prior to 1 October 2001, to remain eliminated against consolidated reserves.

The amount of goodwill remaining in consolidated reserves, arising from the acquisition of a subsidiary prior to 1 October 2001, was HK$2,007,000 as at 1 October 2001 and 31 December 2002. The amount of goodwill is stated at its cost which arose in prior periods.

18. INTERESTS IN SUBSIDIARIES

	Company	
	31 December 2002	30 September 2001
	HK$'000	*HK$'000*
Unlisted shares, at cost	**122,700**	122,700
Due from subsidiaries	**867,096**	832,953
Due to subsidiaries	**(18,755)**	(10,222)
	971,041	945,431
Provision for impairment	**(989,796)**	(955,653)
	(18,755)	(10,222)

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

18. 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 **31 December 2002**	30 September 2001	Principal activities
Angel Star Investment Limited	Hong Kong	HK$2 ordinary HK$2 non-voting deferred	100	100	Holding of trademarks
Dong Guan Sanyue Fashions Ltd. *(note i)*	PRC	HK$10,000,000	92	92	Manufacturing of garments
Granwick International Limited	Hong Kong	HK$2	100	100	Investment holding
Guangdong Theme-Huayu Fashion Company Limited *(note ii)*	PRC	RMB5,000,000	49	49	Retailing of garments
Quality Control Agency Inc.	British Virgin Island/PRC	US$1,000	100	–	Manufacturing of garments
Shanghai Theme Fashion Company *(note ii)*	PRC	RMB3,000,000	49	49	Retailing of garments
Stage II Limited	Hong Kong	HK$800,000	100	100	Retailing of garments
Super Base (China) Limited	Hong Kong	HK$2	100	100	Property holding
Taiwan Vision Company Limited	Taiwan	NTD80,000,000	100	100	Retailing of garments

18. 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 31 December 2002	30 September 2001	Principal activities
Theme (China) Limited	Hong Kong	HK$2	100	100	Investment holding
Theme Fashion (Singapore) Pte. Ltd.*	Singapore	S$100,000	100	–	Retailing of garments
Theme International Holdings (B.V.I.) Limited	British Virgin Islands/ Hong Kong	US$10,001	100	100	Investment holding
Theme International Limited	Hong Kong	HK$2 ordinary HK$1,000,000 non-voting deferred	100	100	Trading of garments
Wescorp Limited	Hong Kong	HK$82,208,893	56	56	Investment holding
Wortheme Investment Limited	Hong Kong	HK$12	100	100	Investment holding

* *Not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.*

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

Notes:

(i) The Group has a 92% beneficial interest in Dong Guan Sanyue Fashions Ltd. ("Dongguan Sanyue"). By virtue of an arrangement between the Group and the joint venture partner holding the remaining 8% beneficial interest in Dongguan Sanyue, the Group is entitled to all of Dongguan Sanyue's profits and is liable for all its losses. The PRC joint venture partner receives a monthly management fee of HK$30,000.

(ii) The Group has a 49% beneficial interest in Guangdong Theme-Huayu Fashion Company Limited ("Guangdong Theme-Huayu"). By virtue of an arrangement between the Group and the joint venture partner holding the remaining 51% beneficial interest in Guangdong Theme-Huayu, the Group is entitled to all of Guangdong Theme-Huayu's profits and is liable for all its losses. The PRC joint venture partner receives a monthly management fee of RMB60,000. Accordingly, Guangdong Theme-Huayu and its wholly-owned subsidiary, Shanghai Theme Fashion Company, has been consolidated into the Group's accounts.

18. INTERESTS IN SUBSIDIARIES – continued

All the subsidiaries listed above are indirectly held by the Company with the exception of Theme International Holdings (B.V.I.) Limited and Stage II Limited.

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

19. SUBSIDIARIES OPERATING UNDER SEVERE RESTRICTIONS

The Group acquired a 56% equity interest in Wescorp Limited, the sole asset of which is a 99.6% equity interest in the Emporium Group, on 22 August 1997. On 9 July 1998, the Emporium Group was placed under judicial management, an event which significantly impaired the Group's ability to control the Emporium Group's assets and operations. Accordingly, the Emporium Group has not been consolidated into the Group's accounts for the years ended 31 March 1999 and 2000 and for the periods from 1 April 2000 to 30 September 2001 and from 1 October 2001 to 31 December 2002. The individual assets and liabilities of the Emporium Group are not included in the Group's consolidated balance sheet.

The Group's interest in the Emporium Group included in the consolidated balance sheet as at 31 December 2002 and 30 September 2001 is as follows:

	31 December 2002	30 September 2001
	HK$'000	*HK$'000*
Share of net assets as at 31 March 1998	**184,100**	184,100
Amount due from the Emporium Group	**3,774**	3,774
	187,874	187,874
Provision for impairment	**(187,874)**	(187,874)
	–	–

19. SUBSIDIARIES OPERATING UNDER SEVERE RESTRICTIONS – continued

No information is available in respect of the Emporium Group's operating results for the periods from 1 October 2001 to 31 December 2002 and from 1 April 2000 to 30 September 2001 and its net assets as at 31 December 2002 and 30 September 2001.

Particulars of the principal subsidiaries operating under severe restrictions, none of which are audited by Ernst & Young, are as follows:

Name	**Place of incorporation/ registration and operations**	**Nominal value of issued/ paid-up capital**	**Percentage of equity interest attributable to Wescorp Limited**		**Principal activities**
			31 December 2002	30 September 2001	
Emporium Holdings (Singapore) Limited *	Singapore	S$2,507,519 (Class A) S$16,800,000 (Class B)	96.9 100	96.9 100	Property investment and investment holding
Chao Phaya Thai Restaurant Pte. Limited	Singapore	S$300,000	99.6	99.6	Restaurant operations
EH Distribution Pte. Limited	Singapore	S$250,000	99.6	99.6	Trading and distribution
Emporium Department Store Pte. Limited	Singapore	S$2,000,000	99.6	99.6	Department store and supermarket operations
Katong Emporium & Supermarket Pte. Limited	Singapore	S$280,000	99.6	99.6	Property investment
Oriental Restaurant Pte. Limited	Singapore	S$250,000	99.6	99.6	Restaurant operations
Sports Stop Boutique Pte. Limited	Singapore	S$400,000	99.6	99.6	Sports goods retailing

* *The class "B" shares issued by Emporium Holdings (Singapore) Limited carry the rights to four times the dividend, bonus and right issue compared with the class "A" shares. The Group's effective interest in Emporium Holdings (Singapore) Limited and all of its wholly-owned subsidiaries at 31 December 2002 is 56%.*

20. INTERESTS IN ASSOCIATES

	Group	
	31 December 2002	30 September 2001
	HK$'000	*HK$'000*
Share of net liabilities	**–**	(5,179)
Due from associates	**–**	13,543
Due to associates	**(608)**	(494)
	(608)	7,870
Provision for impairment	**–**	(5,158)
	(608)	2,712

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

20. INTERESTS IN ASSOCIATES – continued

Particulars of the associates are as follows:

Name	Business structure	Place of registration and operations	Percentage of ownership interest attributable to the Group		Principal activities
			31 December 2002	30 September 2001	
Favourite Point Trading Sdn. Bhd.	Corporate	Malaysia	–	49	Dormant
Strait Approach Pte. Limited	Corporate	Singapore	–	49	Retailing and trading of garments
Strait Approach Sdn. Bhd.	Corporate	Malaysia	–	49	Dormant
Sherman-Theme (China) Limited	Corporate	Hong Kong	50	50	Investment holding
Shenyang Sherman – Theme Fashion Limited	Corporate	PRC	30	30	Dormant

None of the associates are audited by Ernst & Young with the exception of Sherman-Theme (China) Limited.

21. LONG TERM INVESTMENT

	Group and Company	
	31 December	30 September
	2002	2001
	HK$'000	*HK$'000*
Unlisted equity investment, at cost	**1,000**	1,000
Provision for impairment	**(325)**	(325)
	675	675

22. INVENTORIES

	Group	
	31 December	30 September
	2002	2001
	HK$'000	*HK$'000*
Raw materials	**7,220**	4,605
Finished goods	**34,940**	23,285
	42,160	27,890

The carrying amount of inventories included in the above that are carried at net realisable value at the balance sheet date was HK$Nil (30 September 2001: HK$903,000).

23. TRADE RECEIVABLES

An aged analysis of the trade receivables as at the balance sheet date, is as follows:

	Group	
	31 December	30 September
	2002	2001
	HK$'000	*HK$'000*
Current to 90 days	**12,213**	13,164
91 to 180 days	**544**	205
181 to 360 days	**72**	23
Over 360 days	**–**	11
	12,829	13,403

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

24. AMOUNTS DUE FROM/TO FELLOW SUBSIDIARIES

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

25. PLEDGED TIME DEPOSITS

The Group has pledged time deposits of HK$1,293,000 (30 September 2001: HK$1,241,000) to secure bank guarantees to landlords of the retail shops.

26. TRADE PAYABLES AND ACCRUED PURCHASES

An aged analysis of the trade payables and accrued purchases as at the balance sheet date, is as follows:

	Group	
	31 December 2002	30 September 2001
	HK$'000	*HK$'000*
Current to 90 days	**10,581**	16,438
91 to 180 days	**3,402**	5,346
181 to 360 days	**1,546**	1,179
Over 360 days	**5,045**	3,080
	20,574	26,043

27. BANK LOANS AND OVERDRAFTS

	Group	
	31 December 2002	30 September 2001
	HK$'000	*HK$'000*
Bank overdrafts, unsecured	**1,003**	7
Bank loans, secured	**1,524**	1,952
Trust receipt loans, unsecured	**8,620**	6,260
	11,147	8,219

At 31 December 2002, the bank loans were secured by mortgages over certain of the Group's land and buildings which had an aggregate net book value at the balance sheet date of approximately HK$2,210,000 (30 September 2001: HK$2,342,000) (note 16).

28. AMOUNT DUE TO HOLDING COMPANY

		Group and Company	
		31 December	30 September
		2002	2001
	Notes	***HK$'000***	*HK$'000*
Non-interest bearing current account	*(a)*	**649**	–
Loan repayable within two to five years	*(b)*	**64,000**	28,000
		64,649	28,000
Portion classified as current liabilities		**(649)**	–
Long term portion		**64,000**	28,000

Notes:

(a) The current account with holding company is unsecured, interest-free and has no fixed terms of repayment.

(b) As at 31 December 2002, HK$100 million loan facilities were granted by the holding company (30 September 2001: HK$30 million) which were unsecured, bore interest at Hong Kong Dollar Prime Rate, and is not repayable earlier than 30 April 2004. Out of the total outstanding loan of HK$64 million, HK$34 million is subject to a clause that it will become repayable on demand if the holding company ceased to be the controlling shareholder of the Company.

29. DEFERRED TAX

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

	Group	
	31 December	30 September
	2002	2001
	HK$'000	*HK$'000*
Accelerated depreciation allowances	**238**	88
Tax losses available for future relief	**120,174**	110,706
	120,412	110,794

The benefit of any future tax relief on past losses has not been included as an asset in the balance sheet because the directors consider it prudent not to recognise the benefit thereof until the utilisation of which is assured beyond reasonable doubt.

As at 31 December 2002, the Company had no significant potential deferred tax liabilities for which provision has not been made.

30. SHARE CAPITAL

Shares

	31 December 2002	30 September 2001
	HK$'000	*HK$'000*
Authorised:		
50,000,000,000 ordinary shares of HK$0.01 each	**500,000**	500,000
Issued and fully paid:		
2,508,329,402 ordinary shares of HK$0.01 each	**25,083**	25,083

During the period from 1 April 2000 to 30 September 2001, the following movements in the share capital were recorded:

(i) Pursuant to the special resolution passed on 28 August 2000, the share capital of the Company were cancelled to the extent of HK$0.09 per share so that each of the 627,082,352 shares in issue were treated as one fully paid up share of HK$0.01 instead of shares of HK$0.10 per share and every unissued share was sub-divided into ten shares of HK$0.01 each so that the authorised share capital of the Company comprised 50,000,000,000 new shares of HK$0.01 each consisting of 627,082,352 issued new shares and 49,372,917,648 unissued new shares.

(ii) Pursuant to the special resolution passed on 28 August 2000, the Company allotted and issued 1,881,247,050 new shares at HK$0.088 each to Navigation Limited to discharge the Group's indebtedness.

30. SHARE CAPITAL – continued

A summary of the transactions during the period with reference to the above movements of the Company's share capital is as follows:

		Number of shares	Par value	Total values
			HK$	*HK$'000*
Balance at 31 March 2000		627,082,352	0.10	62,708
Cancellation of shares	*(i)*	(627,082,352)	0.10	(62,708)
New shares issued	*(i)*	627,082,352	0.01	6,271
New shares issued	*(ii)*	1,881,247,050	0.01	18,812
Balance at 30 September 2001 and 31 December 2002		**2,508,329,402**		**25,083**

31. SHARE OPTION SCHEME

SSAP 34 was adopted for the first time during the period. As a result, the detailed disclosures relating to the Company's share option scheme are now included in the notes to the financial statements. In the prior period, these disclosures were included in the Report of the Directors, as their disclosure is also a requirement of the Listing Rules.

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include any employee or executive or any non-executive directors of the Group, including any full-time or part-time employees or executives, executive directors, non-executive directors, independent non-executive directors and secretary of any member of the Group. The Scheme became effective on 26 March 2002 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. At 31 December 2002, no share options were granted under the Scheme. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period, is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

31. SHARE OPTION SCHEME – continued

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of the grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 28 days from the date of the offer with no consideration being payable by the grantee. The share option may be exercised at any time during the Scheme period.

The exercise price of the share options is determinable by the board of directors, but may not be less than the higher of (i) the Stock Exchange closing price of the Company's shares on the date of the offer of the share options; (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of the offer; and (iii) the par value of the Company's shares.

Share options do not confer rights on the holders to dividends or to vote at shareholder meetings.

32. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior periods are presented in the consolidated statement of changes in equity on page 22 of the financial statements.

The revised SSAP 11 as explained under the heading "Foreign currencies" in note 5 to the financial statements, was adopted for the first time during the period. As a result, the profit and loss accounts of overseas subsidiaries and associates are now translated to Hong Kong dollars at the weighted average exchange rates for the period, rather than at the exchange rates at the balance sheet date, as was previously the case. This change in accounting policy has had no material effect on the financial statements.

The Group's contributed surplus represents the difference between the nominal value of the shares and the share premium account of the subsidiaries acquired pursuant to the Group reorganisation prior to the listing of the Company's shares, over the nominal value of the Company's shares issued in exchange therefor.

Goodwill arising on the acquisition of a subsidiary in prior periods remain eliminated against consolidated reserves, as further explained in note 17 to the financial statements.

32. RESERVES – continued

(b) Company

	Share premium account HK$'000	Contributed surplus HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 April 2000	651,862	84,000	(1,052,488)	(316,626)
Capital reduction	–	–	56,437	56,437
Issue of shares	146,737	–	–	146,737
Loss for the period	–	–	(14,416)	(14,416)
At 30 September 2001 and beginning of period	798,599	84,000	(1,010,467)	(127,868)
Loss for the period	–	–	(45,252)	(45,252)
At 31 December 2002	**798,599**	**84,000**	**(1,055,719)**	**(173,120)**

The contributed surplus of the Company arose as a result of the Group's reorganisation in 1994 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.

33. CONVERTIBLE NOTES

20 non-interest bearing convertible notes of approximately HK$3.3 million each were issued to the holding Company. The convertible notes carry the right to convert into 752,498,000 new shares of the Company at the conversion price of HK$0.088 per share, subject to adjustment, representing 30% and 23% of the existing share capital and enlarged share capital after conversion, respectively.

The convertible notes are unsecured, interest free and are convertible in whole or in part by the noteholders into shares at any time on or before 30 August 2005. Any part of the convertible notes which are not converted will be immediately converted into shares on 30 August 2005. Such mandatory conversion will be automatically postponed until such time as the Company is satisfied that, at least 25% of the shares are held by the public as required under the Listing Rules.

34. NOTES TO THE CASH FLOW STATEMENT

(a) Prior period adjustments

SSAP 15 (Revised) was adopted during the current period, as detailed in note 4 to the financial statements, which has resulted in a change to the layout of the cash flow statement. The cash flow statement is now presented under three headings: cash flows from operating activities, investing activities and financing activities. Previously five headings were used, comprising the three headings listed above, together with cash flows from returns on investments and servicing of finance and from taxes paid. The significant reclassifications resulting from the change in presentation are that interest received and taxes paid are now included in cash flows from operating activities, dividends received are now included in cash flows from investing activities, and interest paid are now included in cash flows from financing activities. The presentation of the 2001 comparative cash flow statement has been changed to accord with the new layout.

The method of calculation of certain items in the consolidated cash flow statement has changed under the revised SSAP 15, as explained under the heading "Foreign currencies" in note 5 to the financial statements. Cash flows of overseas subsidiaries are now translated to Hong Kong dollars at the exchanges rates at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the period are translated to Hong Kong dollars at the weighted average exchange rates for the period. Previously, the cash flows of overseas subsidiaries were translated to Hong Kong dollars at the exchanges rates at the balance sheet date. This change in accounting policy has had no material effect on the financial statements.

Also, the definition of "cash equivalents" under the revised SSAP 15 has been revised from that under the previous SSAP 15, as explained under the heading "Cash and cash equivalents" in note 5 to the financial statements. This has resulted in trust receipt loans no longer qualifying as cash equivalents. The amount of cash equivalents in the consolidated cash flow statement at 30 September 2001 has been adjusted to remove trust receipt loans amounting to HK$3,200,000, previously included at that date. The period's movement in trust receipt loans is now included in cash flows from financing activities and the comparative cash flow statement has been changed accordingly.

(b) Restricted cash and cash equivalent balances

Certain of the Group's time deposits are pledged to a bank to secure bank guarantees granted to the Group, as further explained in note 25.

35. CONTINGENT LIABILITIES

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

	Group		Company	
	31 December 2002	30 September 2001	**31 December 2002**	30 September 2001
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Guarantees given to banks in connection with facilities granted to a subsidiary	**–**	–	**52,880**	42,880

As at 31 December 2002, the guarantees given by the Company to banks in connection with facilities granted to a subsidiary were utilised to the extent of approximately HK$11,147,000 (30 September 2001: HK$8,219,000).

36. PLEDGE OF ASSETS

At the balance sheet date, the Group had pledged land and buildings amounting to HK$2,210,000 (30 September 2001: HK$2,342,000) and time deposits amounting to HK$1,293,000 (30 September 2001: HK$1,241,000) to banks to secure bank facilities granted to the Group.

37. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group subleases its rented shops under operating lease arrangements, with leases negotiated for terms ranging from one to two years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At 31 December 2002, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	31 December 2002	30 September 2001
	HK$'000	*HK$'000*
Within one year	**2,485**	3,280
In the second to fifth years, inclusive	**625**	3,456
	3,110	6,736

37. OPERATING LEASE ARRANGEMENTS – continued

(b) As lessee

The Group leases certain of its office properties, retail shops and office equipment under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to three years.

At 31 December 2002, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	31 December 2002	30 September 2001	**31 December 2002**	30 September 2001
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
		(Restated)		*(Restated)*
Within one year	**22,641**	27,454	**464**	464
In the second to fifth years, inclusive	**12,566**	24,124	**77**	657
	35,207	51,578	**541**	1,121

SSAP 14 (Revised), which was adopted for the first time during the period, requires lessors under operating leases to disclose the total future minimum operating lease receivables under non-cancellable operating leases, as detailed in note (a) above. This disclosure was not previously required. SSAP 14 (Revised) also requires lessees under operating leases to disclose the total future minimum operating lease payments, rather than only the payments to be made during the next year as was previously required. Accordingly, the prior period comparative amounts for operating leases as lessee in note (b) above, have been restated to accord with the current period's presentation.

38. RELATED PARTY TRANSACTIONS

In addition to those transactions and balance disclosed elsewhere in the financial statements, the Group had the following transactions with related parties during the period:

		Group	
		Period from 1 October 2001 to 31 December 2002	Period from 1 April 2000 to 30 September 2001
	Notes	***HK$'000***	*HK$'000*
Interest expense payable to the holding company	*(i)*	**2,835**	2,046
Commission income received from fellow subsidiaries	*(ii)*	**47**	786
Rental expense to a fellow subsidiary	*(iii)*	**630**	1,260
Subcontracting fee received from subsidiaries, the processing operation in PRC controlled by and jointly-controlled entity of the ultimate holding company	*(iv)*	**1,982**	2,185
Debts waived by the holding company	*(v)*	**–**	4,031
Service fee payable to a fellow subsidiary	*(vi)*	**7,253**	–

Notes:

(i) Interest expense was payable to the holding company on the loan advance of HK$64 million (30 September 2001: HK$28 million) which bore interest at the Hong Kong Dollar Prime Rate.

(ii) Commission income was received from a subsidiary of the ultimate holding company for the provision of selling services, at 1% of the turnover of those products. The prior period's commission income was charged to certain subsidiaries of the ultimate holding company for the provision of computer and other services, at an appropriate allocation of costs incurred by the Group.

(iii) Rental charges were payable to a subsidiary of the ultimate holding company with reference to the prevailing market rate of the office premise.

(iv) Subcontracting fee income receivable from subsidiaries, the processing operation in the PRC controlled by, and a 51% jointly-controlled entity, of the ultimate holding company was charged in the normal course of business and at a consideration decided between parties with reference to the prevailing market price.

(v) The debt waived by the holding company arose from the debt restructuring in the period ended 30 September 2001.

(vi) Service fee for computer systems and data processing services, financial and management accounting services, human resources support, office administration services and company secretarial services, is calculated at an annual charge payable by the Group to HFGM at the lower of HK$6,000,000 or 2% of the annual turnover of the Group and service fee for warehousing and distribution services, is calculated at an annual charge payable by the Group to HFGM at the lower of HK$3,000,000 or 1% of the annual turnover of the Group.

39. COMPARATIVE AMOUNTS

As further explained in note 4 to the financial statements, due to the adoption of certain new and revised SSAPs during the current period, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain prior period adjustments have been made and certain comparative amounts have been reclassified to conform with the current period's presentation.

40. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 14 April 2003.