

Notes to financial statements

March 31, 2003

1. General

The Company is an exempted limited company incorporated in Bermuda with its shares listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

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 Company acts as an investment holding company. The Group is principally involved in the manufacturing, retailing and wholesaling of fashion apparel and complementary accessories. The activities of its principal subsidiaries are set out in note 33.

2. Adoption of New and Revised Statements of Standard Accounting Practice

In the current year, the Group has adopted, for the first time, a number of new and revised Statements of Standard Accounting Practice ("SSAP(s)") issued by the Hong Kong Society of Accountants. The adoption of these SSAPs has resulted in a change in the format of presentation of the cash flow statement and the statement of changes in equity but has had no material effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment is required.

Cash flow statement

In the current year, the Group has adopted SSAP 15 (Revised) "Cash flow statements". Under SSAP 15 (Revised), cash flows are classified under three headings-operating, investing and financing, rather than the previous five headings. Interest received and interest and dividends paid, which were previously presented under a separate heading, are classified as investing or financing cash flows. Cash flows arising from taxes on income are classified as operating activities, unless they can be separately identified with investing or financing activities.

Employee benefits

In the current year, the Group has adopted SSAP 34 "Employee benefits", which introduces measurement rules for employee benefits, including retirement benefit plans. Because the Group participates only in defined contribution retirement benefit schemes, the adoption of SSAP 34 has not had any material impact on the financial statements.

3. Summary of Significant Accounting Policies

These financial statements comply with SSAPs issued by the Hong Kong Society of Accountants. The principal accounting policies which have been adopted in preparing these financial statements and which conform with accounting principles generally accepted in Hong Kong are as follows:

Measurement basis

These financial statements are prepared using the historical cost method, except for the periodic remeasurement of investment properties.

3. Summary of Significant Accounting Policies (continued)

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and all of its subsidiaries made up to March 31 each year.

The results of the subsidiaries acquired or disposed of during the year are included in the consolidated income statement from or to the date of their acquisition or disposal as appropriate.

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

Interests in subsidiaries

Interests in subsidiaries are valued in the Company's balance sheet at cost less any identified impairment loss.

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.

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.

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

At each balance sheet date, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognized as an expense immediately, unless the relevant asset is carried at a revalued amount under another SSAP, in which case the impairment loss is treated as revaluation decrease under that SSAP.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized as income immediately, unless the relevant asset is carried at a revalued amount under another SSAP, in which case the reversal of the impairment loss is treated as a revaluation increase under that SSAP.

Property, plant and equipment

Property, plant and equipment other than investment properties are stated at cost less depreciation and accumulated impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its present working condition and location for its intended use. Expenditure incurred after the asset has been put into operation, such as repairs and maintenance and overhaul costs, is charged to the income statement 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 asset, the expenditure is capitalised as an additional cost of the asset.

3. Summary of Significant Accounting Policies (continued)

Property, plant and equipment (continued)

The gain or loss arising on disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

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

Assets held under finance leases are depreciated over their estimated useful lives on the same basis as owned assets.

Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed, and which are held for their long term investment potential, any rental income being negotiated at arm's length.

No depreciation is provided for investment properties which are held on leases with an unexpired term of more than 20 years. Investment properties are stated at their open market value based on professional valuations at the balance sheet date.

Any surplus or deficit arising on the valuation of investment properties is credited or charged to the investment property revaluation reserve unless the balance of this reserve is insufficient to cover a deficit on a portfolio basis in which case the excess of the deficit over the balance of the investment property revaluation reserve is charged to the income statement. Where a deficit has previously been charged to the income statement and a revaluation surplus subsequently arises, this surplus is credited to the income statement to the extent of the deficit previously charged.

Upon the disposal of an investment property, the relevant portion of the revaluation reserve realised in respect of previous valuations is released from the investment property revaluation reserve to the income statement.

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 property, plant and equipment 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 income statement so as to provide a constant periodic rate of charge over the lease terms.

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 income statement 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 income statement 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, which comprises direct materials, direct labour and an appropriate proportion of overheads that have been incurred in bringing the inventories to its present location and condition, is calculated using the first-in, first-out method. Net realisable value is based on estimated selling prices less further costs expected to be incurred to completion and disposal.

3. Summary of Significant Accounting Policies (continued)

Cash equivalents

Cash equivalents represent short term, highly liquid investments which are readily convertible into known amounts of cash and which are within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance.

Employee benefits

Salaries, annual bonuses, paid annual leave and the cost to the Group of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

Taxation

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowed. Timing differences arise from the recognition for tax purposes of certain items of income and expenses in a different accounting period from that in which they are recognised in the financial statements. The tax effect of timing differences, computed using the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability will crystallize in the foreseeable future. A deferred tax asset is not recognised until its realization is assured beyond reasonable doubt.

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;
- (c) rental income, on a straight-line basis over the lease terms; and
- (d) royalty fee income, on accrual basis in accordance with the terms of the agreements.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within capital and reserves in the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Foreign currencies

Transactions in foreign currencies are converted at the rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. Profit and losses arising on exchange are dealt with in the income statement.

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 included in the exchange fluctuation reserve.

3. Summary of Significant Accounting Policies (continued)

Retirement benefits scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. The MPF Scheme has operated since December 1, 2000. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF 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 MPF Scheme.

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.

4. 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 of ladies' and men's fashion apparel and complementary accessories.

5. Segment Information

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating business are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of other business segments. Summary details of the business segments are as follows:

- (a) the fashion apparel segment engages in the manufacturing, retailing and wholesaling of fashion apparel and complementary accessories under the brand names of Gay Giano, Cour Carré and Due G;
- (b) the property investment segment invests in residential properties for its rental income potential; and
- (c) the corporate and other segment comprises the Group's management services business.

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

5. Segment Information (continued)

(a) Business segments

The following table presents revenue, results and certain assets, liabilities and expenditure information for the business segments of the Group.

	Fashion apparel		Property investment		Corporate and other		Consolidated	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Segment revenue:								
Sales to external customers	150,981	244,918	—	—	—	—	150,981	244,918
Other revenue	206	1,189	7	840	871	979	1,084	3,008
Total	151,187	246,107	7	840	871	979	152,065	247,926
Segment results	(22,136)	3,815	(5,392)	384	(696)	(1,745)	(28,224)	2,454
Interest income							11	120
(Loss)/profit from operation							(28,213)	2,574
Finance costs							(1,019)	(3,014)
Loss before taxation							(29,232)	(440)
Taxation							293	(449)
Net loss for the year							(28,939)	(889)
	Fashion apparel		Property investment		Corporate and other		Consolidated	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Segment assets	63,000	96,615	16,559	24,513	—	—	79,559	121,128
Unallocated assets	—	—	—	—	1,814	2,360	1,814	2,360
Total assets	63,000	96,615	16,559	24,513	1,814	2,360	81,373	123,488
Segment liabilities	35,983	49,118	31	115	—	—	36,014	49,233
Unallocated liabilities	—	—	—	—	1,042	967	1,042	967
Total liabilities	35,983	49,118	31	115	1,042	967	37,056	50,200
Other segment information:								
Depreciation	3,318	4,129	64	73	236	268	3,618	4,470
Other non-cash items	7,189	1,869	1,113	—	17	—	8,319	1,869
Deficit on revaluation of investment properties recognised directly in equity	—	—	915	1,470	—	—	915	1,470
Capital expenditure	1,003	3,231	7	325	100	664	1,110	4,220

5. Segment Information (continued)

(b) Geographical segments

The following table presents certain revenue, results, assets and expenditure information for the geographical segments of the Group.

	Hong Kong		People's Republic of China		Consolidated	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Segment revenue:						
Sales to external customers	144,835	232,043	6,146	12,875	150,981	244,918
Segment results	(27,595)	2,087	(629)	367	(28,224)	2,454
Other segment information:						
Segment assets	68,337	89,948	13,036	33,540	81,373	123,488
Capital expenditure	1,088	3,911	22	309	1,110	4,220

6. (Loss)/Profit from Operation

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
(Loss)/profit from operation has been arrived at after charging:		
Staff costs (excluding directors' remuneration, note 8)*		
Wages and salaries	39,284	54,050
Provident fund contributions	2,099	2,643
	41,383	56,693
Cost of inventories sold	61,783	104,171
Provision for inventory obsolescence*	3,422	1,774
Depreciation of fixed assets		
Owned assets	3,342	3,927
Assets held under finance leases	276	543
Minimum lease payments under operating leases on land and buildings*	47,438	54,616
Auditors' remuneration	309	880
Loss on disposal of fixed assets	4,897	95
Deficit on revaluation of investment properties	3,955	—
Exchange losses, net	1,135	7
And after crediting:		
Royalty fee income	871	947
Net rental income	—	840
Interest income	11	120

* Cost of inventories sold includes HK\$8,777,000 (2002:HK\$8,907,000) relating to direct staff costs, operating lease rentals on land and buildings, provision for inventory obsolescence and depreciation of the manufacturing facilities, which are also included in the respective total amounts disclosed separately above for each of these types of expenses.

7. Finance Costs

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Interest expense on:		
Bank loans and overdrafts	654	2,870
Finance leases	85	138
Other loans not wholly repayable within five years	280	6
Total finance costs	1,019	3,014

8. Directors' Remuneration

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

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Fees:		
Executive directors	—	—
Independent non-executive directors	116	116
	116	116
Other emoluments of executive directors:		
Basic salaries, housing benefits, other allowances and benefits in kind	1,711	1,904
Provident fund contributions	37	36
	1,748	1,940
	1,864	2,056

The remuneration of the directors of the Company during the year fell within the band of Nil-HK\$1,000,000 (2002: Nil-HK\$1,000,000).

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2002: Nil).

During the year, no emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office.

9. Five Highest Paid Employees

The five highest paid employees during the year included three (2002: three) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining two (2002: two) highest paid, non-director employees are as follows:

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Basic salaries, housing benefits, other allowances and benefits in kind	1,645	1,679

9. Five Highest Paid Employees (continued)

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

	Number of employees	
	2003	2002
	HK\$'000	HK\$'000
Nil — HK\$1,000,000	2	1
HK\$1,000,001 — HK\$1,500,000	—	1
	<hr/>	<hr/>
	2	2

During the year, no emoluments were paid by the Group to any of the two (2002:two) highest paid, non-director employees as an inducement to join or upon joining the Group or as compensation for loss of office.

10. Taxation

	THE GROUP	
	2003	2002
	HK\$'000	HK\$'000
The charge comprises:		
Provision for the year	90	253
Overseas taxation	91	415
Under/(over) provision in the prior year	45	(224)
Deferred taxation — note 22	(519)	5
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Taxation (credit)/charge to the Group	(293)	449

Hong Kong profits tax is calculated at 16% (2002:16%) of 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 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 People's Republic of China (the "PRC"). SLMF was entitled to a 50% relief from the PRC income tax for the year ended December 31, 2002 which was its fifth profitable year.

11. Net Loss for the Year

The net loss for the year ended March 31, 2003 dealt with in the financial statements of the Company was HK\$473,000 (2002:HK\$6,106,000).

12. Loss Per Share

The calculation of basic loss per share is based on the net loss for the year of HK\$28,939,000 (2002:HK\$889,000) and the weighted average of 200,030,000 (2002:200,008,750) ordinary shares in issue during the year.

Diluted loss per share for the year ended March 31, 2002 and March 31, 2003 have not been disclosed as the potential ordinary shares outstanding during the years had an anti-dilutive effect on the basic loss per share for the years.

13. Fixed Assets

	Investment properties HK\$'000	Land and buildings HK\$'000	Leasehold improvements HK\$'000	Plant and machinery HK\$'000	Furniture and fixtures HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
THE GROUP							
COST OR VALUATION:							
At April 1, 2002	22,030	8,160	26,262	3,720	16,723	3,983	80,878
Additions	—	—	566	5	539	—	1,110
Disposals	(1,030)	—	(10,602)	(363)	(1,400)	—	(13,395)
Deficit on revaluation	(4,870)	—	—	—	—	—	(4,870)
At March 31, 2003	16,130	8,160	16,226	3,362	15,862	3,983	63,723
Analysis of cost or valuation:							
At cost	—	8,160	16,226	3,362	15,862	3,983	47,593
At valuation — 2003	16,130	—	—	—	—	—	16,130
	16,130	8,160	16,226	3,362	15,862	3,983	63,723
DEPRECIATION:							
At April 1, 2002	—	175	15,985	2,764	11,017	1,773	31,714
Charge for the year	—	158	1,699	164	1,104	493	3,618
Written back on disposals	—	—	(7,008)	(289)	(1,197)	—	(8,494)
At March 31, 2003	—	333	10,676	2,639	10,924	2,266	26,838
NET BOOK VALUE:							
At March 31, 2003	16,130	7,827	5,550	723	4,938	1,717	36,885
At March 31, 2002	22,030	7,985	10,277	956	5,706	2,210	49,164

The Group's net book value of fixed assets held under finance leases included in the total amount of motor vehicles at March 31, 2003 amounted to HK\$493,000 (2002:HK\$1,709,000).

All of the investment properties of the Group were revalued on March 31, 2003 by FPDSavills (Hong Kong) Limited, an independent firm of professional valuers, of HK\$16,130,000 (2002:HK\$22,030,000) on an open market, existing use basis.

This valuation gave rise to a revaluation decrease of HK\$4,870,000, in which, a deficit of HK\$915,000 (2002:HK\$1,470,000) was charged to the investment property revaluation reserve, and the remaining balance of HK\$3,955,000 (2002: Nil) was charged to income statement.

The Group's leasehold land and buildings and investment properties are situated in Hong Kong and are held under medium term leases. The leasehold land and buildings and investment properties of the Group with net book value of HK\$ 23,957,000 are pledged to secure banking facilities and other loans granted to the Group (note 18 and note 19).

Further particulars of the investment properties of the Group are included on page 15 to this annual report.

14. Interests in Subsidiaries

	THE COMPANY	
	2003 HK\$'000	2002 HK\$'000
Unlisted shares, at cost	32,251	32,251
Amounts due from subsidiaries	46,276	47,186
Provision for impairment	78,527 (5,518)	79,437 (5,518)
	73,009	73,919

Particulars of the principal subsidiaries of the Company at March 31, 2003 are set out in note 33.

The amounts due from subsidiaries are unsecured, interest bearing at Hong Kong dollar prime rate plus 0.5% per annum and have no fixed terms of repayment.

15. Inventories

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Raw materials	6,065	13,974
Work in progress	1,208	1,701
Finished goods	16,670	31,073
	23,943	46,748

At the balance sheet date, no inventories (2002:Nil) were stated at net realizable value.

16. Accounts Receivable

The following is an ageing analysis of accounts receivable at the balance sheet date, based on the invoice date:

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
0 — 30 days	1,225	1,690
31 — 60 days	233	174
Over 60 days	1,532	1,781
	2,990	3,645

17. Accounts Payable

The following is an ageing analysis of accounts payable at the balance sheet date:

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
0 — 30 days	1,535	3,434
31 — 60 days	239	560
Over 60 days	1,616	2,773
	3,390	6,767

18. Bank Loans

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Secured bank loans repayable:		
Within one year	818	1,583
In the second year	848	1,101
In the third to fifth years, inclusive	2,729	2,369
After five years	1,896	2,451
	<hr/>	<hr/>
	6,291	7,504
Less: Amount due within one year shown under current liabilities	(818)	(1,583)
	<hr/>	<hr/>
	5,473	5,921

At March 31, 2003 the banking facilities of the Group were secured by:

- (i) legal charges over leasehold land and buildings and certain investment properties of the Group (note 13); and
- (ii) corporate guarantees executed by the Company

19. Other Loans

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Secured other loans repayable:		
Within one year	991	162
In the second year	871	—
In the third to fifth years, inclusive	2,889	—
After five years	5,147	—
	<hr/>	<hr/>
	9,898	162
Less: Amount due within one year shown under current liabilities	(991)	(162)
	<hr/>	<hr/>
	8,907	—

At March 31, 2003 the other loans of the Group were secured by:

- (i) legal charges over certain investment properties of the Group (note 13); and
- (ii) corporate guarantees executed by the Company.

20. Finance Lease Payables

The Group conducted a portion of its operation by leasing certain motor vehicles. The leases are classified as finance leases and have remaining lease terms ranging from less than one year to three years.

The Group's obligations under finance leases are secured by the lessor's charge over the leased assets.

At March 31, 2003, the total future minimum lease payments under finance leases and their present values, were as follows:

	Minimum lease payments 2003 HK\$'000	Minimum lease payments 2002 HK\$'000	Present value of minimum lease payments 2003 HK\$'000	Present value of minimum lease payments 2002 HK\$'000
Within one year	255	622	209	536
In the second year	141	254	118	210
In the third to fifth years, inclusive	—	141	—	117
Total minimum finance lease payments	396	1,017	327	863
<i>Less:</i>				
Future finance charges	(69)	(154)		
Present value of lease obligations	327	863		
<i>Less:</i> Amount due within one year shown under current liabilities	(209)	(536)		
	118	327		

21. Amounts Due to Directors

The amounts are unsecured, non-interest bearing and have no fixed repayment terms.

22. Deferred Taxation

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Balance at beginning of the year	519	514
(Reverse)/charge for the year — note 10	(519)	5
Balance at end of the year	—	519

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

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

The Company and the Group had no unprovided deferred tax at the balance sheet date (2002: Nil).

23. Share Capital

Shares

	2003 HK\$'000	2002 HK\$'000
Authorised: 1,000,000,000 ordinary shares of HK\$0.10 each	100,000	100,000
Issued and fully paid: 200,030,000 ordinary shares of HK\$0.10 each	20,003	20,003

Share options

The operation of the share option scheme adopted by the Company on March 14, 2000 (the "Old Scheme") was terminated upon the adoption of the New Scheme (as defined below). In such event, no further option would be granted under the Old Scheme. However, all options granted prior to such termination and not yet exercised shall continue to be valid and exercisable subject to and in accordance with the Old Scheme.

On September 10, 2002, at the annual general meeting, the Company adopted a new share option scheme (the "New Scheme") under which the board of directors may, at their discretion, invite any full time and part time employees, directors, suppliers, customers, consultants, advisors or shareholders of any of the companies within the Group to take up options to subscribe for ordinary shares of the Company at any time during ten years from the date of adoption.

The total number of shares which may be issued upon exercise of all options to be granted under the New Scheme and other schemes of the Group must not in aggregate exceed 10% of the shares in issue upon completion of the share offer and the capitalization issue at the time dealings in the shares commence on the Stock Exchange unless a fresh approval from the shareholders of the Company has been obtained.

The maximum number of shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the New Scheme and any other share option schemes of the Company shall not exceed such number of shares as shall represent 30% of the issued share capital of the Company from time to time.

The total number of shares issued and may be issued upon exercise of the options granted to each eligible person under the New Scheme and any other share option schemes of the Company (including exercised, cancelled and outstanding options) in 12-month period must not exceed 1% of the issued share capital of the Company.

Option granted under the New Scheme must be accepted within 28 days from the date of grant. Upon acceptance, the grantee shall pay HK\$1.00 to the Company as consideration for the grant.

The subscription price for the shares under the New Scheme shall be a price determined by the board of directors of the Company and notified to an eligible participant and shall not be the higher of: (i) the nominal value of a share; (ii) the closing price of one share as stated in the daily quotation sheets issued by the Stock Exchange on the offer date, which shall be a business day; and (iii) the average closing price of the shares as stated in the daily quotation sheets issued by the Stock Exchange for the five business days immediately preceding the offer date.

The following tables disclose details of the Company's share options held by employees (including directors) and movements in such holdings during the year:

(a) Movements in share options

	2003 Number	2002 Number
At beginning of the year	18,580,000	19,010,000
Exercised	—	(30,000)
Lapsed	(150,000)	(400,000)
Cancelled	(2,940,000)	—
At end of the year	15,490,000	18,580,000

23. Share Capital (continued)

Share options (continued)

(b) Terms of unexpired and unexercised share options at balance sheet date

Date granted	Exercise period	Exercise price	2003 Number	2002 Number
June 1, 2000	June 1, 2000 to December 31, 2002	HK\$1.5792	—	2,940,000
February 5, 2001	February 5, 2001 to February 4, 2011	HK\$0.2528	15,490,000	15,640,000
			<u>15,490,000</u>	<u>18,580,000</u>

The financial impact of share options granted 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 recognised in the income statement in respect of the value of options granted in the year. Upon the exercise of the share options, the resulting share 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 lapse or are cancelled prior to their exercise date are deleted from the register of outstanding options.

As at the date of this report, all of the aforementioned share options remained outstanding.

24. Reconciliation of Loss Before Taxation to Net Cash (Used in)/ Generated from Operation

	2003 HK\$'000	2002 HK\$'000
Loss before taxation	(29,232)	(440)
Adjustment for:		
Depreciation of fixed assets	3,618	4,470
Deficit on revaluation of investment properties	3,955	—
Loss on disposal of fixed assets	4,897	95
Interest income	(11)	(120)
Interest on bank loans and overdrafts	654	2,870
Interest on finance lease payables	85	138
Interest on other loans	280	6
Operating (loss)/profit before working capital changes	(15,754)	7,019
Decrease in rental deposits	642	823
Decrease in inventories	22,805	12,871
Decrease in prepayments, deposits and other receivable	2,260	4,546
Decrease in accounts receivables	655	92
Decrease in accounts payable	(3,377)	(3,742)
(Decrease)/increase in accrued liabilities and other payable	(6,465)	4,014
Decrease in trust receipt loans with original maturity of over three months	(5,662)	(21,172)
Cash (used in)/generated from operation	(4,896)	4,451
Interest received	11	120
Interest on bank loans and overdrafts	(654)	(2,876)
Interest on finance lease payables	(85)	(138)
Interest on other loans	(280)	—
Tax (paid)/refunded	(594)	200
Net cash (used in)/generated from operation	(6,498)	1,757

25. Analysis of Changes in Financing During the Year

	Share capital and share premium HK\$'000	Bank loans and other loans HK\$'000	Finance lease payables HK\$'000	Amounts due to directors HK\$'000
At April 1, 2001	46,117	9,370	1,319	—
Inception of finance lease	—	—	616	—
Net cash inflow/(outflow) from financing	7	(1,704)	(1,072)	—
At March 31, 2002	46,124	7,666	863	—
Inception of bank loans and other loans	—	12,150	—	—
Loans from directors	—	—	—	6,330
Net cash outflow from financing	—	(3,627)	(536)	—
At March 31, 2003	46,124	16,189	327	6,330

26. Operating Lease Commitments

The Group — as lessor

The Group leases certain investment properties (note 13) under operating lease arrangements for a term of one year.

At balance sheet date, the Group had contracted with tenants for the following future minimum lease receivables under non-cancellable operating leases falling due as follows:

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Within one year	—	490

The Group — as lessee

The Group leases certain leasehold land and buildings under operating lease arrangements. The original lease terms for these leasehold land and buildings range from one to ten years.

At balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases falling due as follows:

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Within one year	32,350	40,392
In the second to fifth years, inclusive	25,523	20,828
	57,873	61,220

27. Contingent Liabilities

At March 31, 2003 the Company had provided guarantees to banks and financial institution for loan facilities utilised by certain of its subsidiaries as follows:

	2003 HK\$'000	2002 HK\$'000
Banking facilities	7,500	24,320
Other loans	10,150	—
	17,650	24,320

At March 31, 2003 the Group had no significant contingent liabilities (2002: Nil).

28. Pledge of Assets

Details of the Group's banking facilities and other loans secured by assets of the Group are included in note 18 and note 19.

29. Commitments

At the balance sheet date, neither the Company nor the Group had any other significant commitments (2002:Nil).

30. Connected and Related Party Transactions

Other than disclosed in note 21 above, the Group had the following transactions with related parties during the year:

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Rental expenses paid to Boldsmore International Limited ("Boldsmore")	(a) 2,266	2,184
Rental income from certain relatives of certain directors of the Company	(b) —	492

Notes:

- (a) The rental expenses paid to Boldsmore, a fellow subsidiary of the Company, were determined by the directors with reference to the market conditions.
- (b) The rental income from certain relatives of certain directors of the Company was determined by the directors with reference to the then market conditions.

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

31. Post Balance Sheet Event

Subsequent to the balance sheet date, the Group entered into a sales and purchase agreement on May 23, 2003 with a third party to sell one of the investment properties at a consideration of HK\$2,398,000. The agreement was completed on June 23, 2003 and resulted in a loss of approximately HK\$4,311,000 to the income statement.

32. Comparative Figures

As further explained in note 2 to the financial statements, due to the adoption of certain new and revised SSAPs during the current year, the accounting treatment and the presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been reclassified and revised to conform with the current year's presentation.

33. Principal Subsidiaries

Name of subsidiary	Place of incorporation/ registration and operations	Nominal value of paid-up issued 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	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	US\$1	100	Wholesale of fashion apparel and complementary accessories

33. Principal Subsidiaries (continued)

Name of subsidiary	Place of incorporation/ registration and operations	Nominal value of paid-up issued share/ registered capital	Percentage of equity attributable to the Company	Principal activities
<i>Indirectly held:</i>				
Gay Giano Company Limited	Hong Kong	HK\$1,000,000	100	Retail of fashion apparel and complementary accessories
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")	PRC	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 May 3, 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.

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

None of the subsidiaries had any debt securities subsisting at the end of the year or at any time during the year.