

N OTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2001

1. GENERAL

The Company is an exempted company incorporated in the Cayman Islands with limited liability. Its shares are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). Its ultimate holding company is He Fu International Limited, a company which is incorporated in the British Virgin Islands.

The Company is an investment holding and property investment company. The Group is engaged in the manufacture and sale of garments, as well as property investment.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention as modified for the revaluation of certain properties and investment in securities and in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

Basis of consolidation

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

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

All significant inter-company transactions and balances within the Group are eliminated on consolidation.

Goodwill

Goodwill represents the excess of the purchase consideration over the fair value ascribed to the Group's share of the separable net assets at the date of acquisition of a subsidiary and is written off to reserves immediately on acquisition. Negative goodwill, which represents the excess of the fair value ascribed to the Group's share of the separable net assets at the date of acquisition of a subsidiary over the purchase consideration, is credited to reserves.

On disposal of investments in a subsidiary, the attributable amount of goodwill previously eliminated against or credited to reserves is included in the determination of the profit or loss on disposal of the subsidiary.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments in subsidiaries

A subsidiary is an enterprise in which the Company, directly or indirectly, holds more than half of the issued share capital or controls more than half of the voting power, or where the Company controls the composition of its board of directors or equivalent governing body.

Investments in subsidiaries are included in the Company's balance sheet at cost, as reduced by any decline in the value of the subsidiary that is other than temporary. Results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable during the year.

Interests in associates

An associate is an enterprise over which the Group is in a position to exercise significant influence, including participation in financial and operating policy decisions.

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the year. In the consolidated balance sheet, interests in associates are stated at the Group's share of the net assets of the associates.

When the Group transacts with its associates, unrealised profits and losses are eliminated to the extent of the Group's interest in the relevant associates, except where unrealised losses provide evidence of an impairment of the asset transferred.

Investments in securities

Investments in securities are recognised on a trade-date basis and are initially measured at cost.

Other investments are stated at fair value with unrealised gains and losses included in the income statement.

Revenue recognition

Sales of goods are recognised when goods are delivered and title has passed.

Rental income, including rental invoiced in advance from properties let under operating leases, is recognised on a straight line basis over the period of the respective leases.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investment properties

Investment properties are completed properties which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties are stated at their open market value based on professional valuation at the balance sheet date. Any surplus or deficit arising on the revaluation of investment properties is credited or charged to the investment property revaluation reserve unless the balance on this reserve is insufficient to cover a deficit, in which case the excess of the deficit over the balance on 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.

On disposal of investment properties, the balance in the investment property revaluation reserve attributable to that property is transferred to the income statement.

No depreciation is charged in respect of investment properties except where the unexpired terms of the relevant lease is 20 years or less.

Property, plant and equipment

Property, plant and equipment are stated at cost or valuation less depreciation or amortisation. 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 the asset has been put into operation, such as repairs and maintenance and overhaul costs, is normally 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.

The gain or loss arising from the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

Where the recoverable amount of an asset has declined below its carrying amount, the carrying amount is reduced to reflect the decline in value. In determining the recoverable amount of assets, expected future cash flows are not discounted to their present values.

The Group has adopted the transitional relief provided by paragraph 72 of Statement of Standard Accounting Practice 17 "Property, plant and equipment" with regard to the requirement to make regular revaluations of land and buildings. On subsequent disposal of these revalued assets, the attributable revaluation surplus is transferred to retained profits.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment *(Continued)*

The cost of leasehold land is amortised over the period of the lease, using the straight line method.

The cost of buildings is depreciated over 50 years, using the straight line method or, if the remaining period of the lease where the building is situated is shorter than 50 years, on a straight line basis over the remaining period of the lease.

The cost of leasehold improvements is depreciated at 25% per annum or the period of the relevant lease, if shorter, using the reducing balance method.

Depreciation is provided to write off the cost of other property, plant and equipment over their estimated useful lives, using the reducing balance method, at the rate of 10% to 25% per annum.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchase and, where applicable, costs of conversion and other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the first-in, first-out method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Cash equivalents

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

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 expense in a different accounting period from that in which they are recognised in the financial statements. The tax effect of timing differences, computed under the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or asset will crystallise in the foreseeable future.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies

Transactions in foreign currencies are translated at the rates ruling on the dates of the transactions or at the contracted settlement rate. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates ruling on the balance sheet date. Gains and losses arising on exchange are dealt with in the income statement.

On consolidation, the financial statements of operations which are denominated in currencies other than Hong Kong dollar are translated at the rates ruling on the balance sheet date. Exchange differences arising on consolidation, if any, are classified as equity and are recognised as income or as expenses in the period in which the operations are disposed of.

Textile quota entitlements

Revenue from the sale of and the cost of acquiring temporary textile quota entitlements are dealt with in the income statement in the period in which they arise. Textile quota entitlements allocated by the authorities in Hong Kong are not capitalised and are not included as assets in the balance sheet. The cost of permanent textile quota entitlements acquired is written off to the income statement in the year of purchase.

Operating leases

Rentals payable under operating leases are charged to the income statement on a straight line basis over the period of the respective leases.

3. SEGMENTAL INFORMATION

The Group's turnover and contribution to (loss) profit from operations analysed by principal activity and geographic region were as follows:

By principal activity:

	Turnover		Contribution to (loss) profit from operations	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Sales of garments	186,602	368,243	(10,356)	11,795
Property rental income	4,042	4,213	2,111	1,655
	<u>190,644</u>	<u>372,456</u>	<u>(8,245)</u>	<u>13,450</u>
Deficit arising from revaluation of investment properties			(3,791)	(823)
Provision for bad and doubtful debts			(2,178)	(5,906)
Impairment loss recognised in respect of property, plant and equipment			—	(834)
(Loss) profit from operations			<u>(14,214)</u>	<u>5,887</u>

By geographical region:

	Turnover		Contribution to (loss) profit from operations	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
United States of America	170,662	289,782	(9,567)	10,088
United Kingdom	12,171	67,555	(259)	1,554
Other European markets	3,669	10,374	(89)	264
Hong Kong	3,702	4,347	1,723	1,240
Mainland China (the "PRC")	440	398	(53)	304
	<u>190,644</u>	<u>372,456</u>	<u>(8,245)</u>	<u>13,450</u>
Deficit arising from revaluation of investment properties			(3,791)	(823)
Provision for bad and doubtful debts			(2,178)	(5,906)
Impairment loss recognised in respect of property, plant and equipment			—	(834)
(Loss) profit from operations			<u>(14,214)</u>	<u>5,887</u>

4. (LOSS) PROFIT FROM OPERATIONS

	2001 HK\$'000	2000 HK\$'000
(Loss) profit from operations has been arrived at after charging (crediting):		
Directors' remuneration	—	—
Other staff costs	27,239	22,236
Retirement benefits scheme contributions, net of forfeited contributions of approximately HK\$177,000 (2000: HK\$346,000)	4	29
Total staff costs	27,243	22,265
Auditors' remuneration:		
Current year	942	679
Underprovision in prior year	253	—
Cost of temporary textile quota entitlements written off on purchase	13,390	52,395
Depreciation and amortisation	1,828	1,880
Loss on disposal of property, plant and equipment	233	958
Operating lease rentals in respect of land and buildings	2,635	872
Property rental income after deduction of outgoings of approximately HK\$1,931,000 (2000: HK\$1,735,000)	(2,111)	(2,478)

5. FINANCE COSTS

	2001 HK\$'000	2000 HK\$'000
Factoring charges	709	213
Interest on		
— bank borrowings wholly repayable within five years	3,250	1,226
— bank borrowings not wholly repayable within five years	—	2,011
— loan from a former director	133	904
— obligations under finance leases	—	2
— other borrowings wholly repayable within five years	125	—
	4,217	4,356

6. EMPLOYEES' EMOLUMENTS

No emoluments were paid to any directors of the Company during the year. The aggregate emoluments paid to the five highest paid employees of the Group are as follows:

	2001 HK\$'000	2000 HK\$'000
Salaries and other benefits	1,703	2,078
Retirement benefits scheme contributions	62	58
	<u>1,765</u>	<u>2,136</u>

None of the emoluments of the employees were in excess of HK\$1 million.

During the year, no emoluments were paid by the Group to the five highest paid individuals, including directors, as an inducement to join or upon joining the Group or as compensation for loss of office. In addition, no director waived any emoluments during the year.

7. TAXATION CREDIT (CHARGE)

	2001 HK\$'000	2000 HK\$'000
The charge comprises:		
Overprovision of overseas taxation in prior years	971	41
Share of overseas taxation of an associate	—	(370)
	<u>971</u>	<u>(329)</u>

No provision for Hong Kong Profits Tax has been made in the financial statements for the year ended March 31, 2001 as the Group incurred a tax loss for the year.

No provision for Hong Kong Profits Tax was made in the financial statements for the year ended March 31, 2000 as the estimated assessable profit for that year was wholly absorbed by tax losses brought forward. Tax which would otherwise have been payable amounted to approximately HK\$1,227,000.

Overseas taxation is calculated at the rates prevailing in the respective jurisdictions.

8. NET LOSS FOR THE YEAR

Of the Group's net loss for the year of approximately HK\$14,692,000 (2000: HK\$3,487,000), a loss of HK\$29,131,000 (2000: HK\$3,949,000) has been dealt with in the financial statements of the Company.

9. LOSS PER SHARE

The calculation of the basic loss per share is based on the net loss for the year of approximately HK\$14,692,000 (2000: HK\$3,487,000) and on 767,883,000 (2000: weighted average of 706,810,949) shares in issue during the year.

Diluted loss per share is not presented for either 2001 or 2000 as there were no dilutive potential ordinary shares in issue during these years.

10. INVESTMENT PROPERTIES

	THE GROUP		THE COMPANY	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
VALUATION				
At 1st April	38,552	39,375	34,502	35,275
Transferred from land and buildings	4,491	—	4,491	—
Deficit arising on revaluation	(3,791)	(823)	(3,094)	(773)
At 31st March	<u>39,252</u>	<u>38,552</u>	<u>35,899</u>	<u>34,502</u>
Comprising:				
Investment properties held under medium-term leases in				
— Hong Kong	35,899	34,502	35,899	34,502
— the PRC	3,353	4,050	—	—
	<u>39,252</u>	<u>38,552</u>	<u>35,899</u>	<u>34,502</u>

The Group's and the Company's investment properties are held for rental purposes under operating leases and were revalued at 31st March, 2001 on an open market value existing use basis by Messrs. Chung, Chan & Associates, an independent firm of Chartered Surveyors. The deficit arising on revaluation has been charged to the income statement.

11. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings HK\$'000	Leasehold improvements HK\$'000	Furniture, fixtures and office equipment HK\$'000	Motor vehicles HK\$'000	Plant and machinery HK\$'000	Total HK\$'000
THE GROUP						
COST OR VALUATION						
At 1st April, 2000	25,507	4,363	5,722	824	10,094	46,510
Currency realignment	—	1	7	—	—	8
Reclassification	—	—	(147)	—	147	—
Transferred to investment properties	(5,078)	—	—	—	—	(5,078)
Additions	—	307	45	—	59	411
Disposals	(141)	(184)	(5)	(142)	(218)	(690)
At 31st March, 2001	20,288	4,487	5,622	682	10,082	41,161
Comprising:						
At cost	2,782	4,487	5,622	682	10,082	23,655
At valuation — 1993	11,893	—	—	—	—	11,893
— 1995	4,922	—	—	—	—	4,922
— 1997 on transfer (note)	691	—	—	—	—	691
	20,288	4,487	5,622	682	10,082	41,161
DEPRECIATION AND AMORTISATION						
At 1st April, 2000	4,987	3,138	4,292	779	9,020	22,216
Currency realignment	—	—	6	—	—	6
Reclassification	—	—	(72)	—	72	—
Transferred to investment properties	(587)	—	—	—	—	(587)
Provided for the year	431	372	741	11	273	1,828
Eliminated on disposals	(13)	(140)	(3)	(127)	(159)	(442)
At 31st March, 2001	4,818	3,370	4,964	663	9,206	23,021
NET BOOK VALUES						
At 31st March, 2001	15,470	1,117	658	663	876	18,140
At 31st March, 2000	20,520	1,225	1,430	45	1,074	24,294

11. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

	Land and buildings <i>HK\$'000</i>	Leasehold improvements <i>HK\$'000</i>	Furniture, fixtures and office equipment <i>HK\$'000</i>	Total <i>HK\$'000</i>
THE COMPANY				
COST OR VALUATION				
At 1st April, 2000	10,832	1,074	139	12,045
Additions	—	169	6	175
Transferred to investment properties	(5,078)	—	—	(5,078)
Eliminated on disposals	(141)	—	(5)	(146)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31st March, 2001	5,613	1,243	140	6,996
Comprising:				
At cost	—	1,243	140	1,383
At valuation — 1995	4,922	—	—	4,922
— 1997 on transfer (note)	691	—	—	691
	<hr/>	<hr/>	<hr/>	<hr/>
	5,613	1,243	140	6,996
	<hr/>	<hr/>	<hr/>	<hr/>
DEPRECIATION AND AMORTISATION				
At 1st April, 2000	1,100	534	57	1,691
Provided for the year	161	177	22	360
Transferred to investment properties	(587)	—	—	(587)
Eliminated on disposals	(13)	—	(3)	(16)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31st March, 2001	661	711	76	1,448
	<hr/>	<hr/>	<hr/>	<hr/>
NET BOOK VALUES				
At 31st March, 2001	<u>4,952</u>	<u>532</u>	<u>64</u>	<u>5,548</u>
At 31st March, 2000	<u>9,732</u>	<u>540</u>	<u>82</u>	<u>10,354</u>

Note: The land and buildings stated at 1997 valuation were valued at 31st March, 1997 by an independent firm of professional property valuers, on an open market value basis before being transferred from investment properties. No further valuation will be carried out on these land and buildings.

11. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

If the land and buildings had not been revalued, they would have been included on a historical basis at the following amounts:

	THE GROUP HK\$'000	THE COMPANY HK\$'000
Cost	12,595	3,180
Accumulated depreciation and amortisation	4,001	442
Net book value at 31st March, 2001	<u>8,594</u>	<u>2,738</u>
Net book value at 31st March, 2000	<u>12,250</u>	<u>6,244</u>

	THE GROUP		THE COMPANY	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
The net book value of land and buildings comprises:				
Land and buildings held under medium-term leases in				
— Hong Kong	4,952	9,591	4,952	9,591
— the PRC	10,518	10,929	—	141
	<u>15,470</u>	<u>20,520</u>	<u>4,952</u>	<u>9,732</u>

12. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2001	2000
	HK\$'000	HK\$'000
Unlisted shares, at cost	61,830	61,830
Amounts due from subsidiaries	60,148	63,368
Impairment loss recognised	121,978 (121,003)	125,198 (99,012)
	<u>975</u>	<u>26,186</u>

Details of the Company's principal subsidiaries at 31st March, 2001 are set out in note 36.

13. INTERESTS IN ASSOCIATES

	THE GROUP	
	2001	2000
	HK\$'000	HK\$'000
Share of associates' net assets	9	3

At 31st March, 2001, the Group's principal associate is as follows:

Name of associate	Form of business structure	Place of incorporation/operation	Class of shares held	Proportion of nominal value of issued capital held by the Group	Principal activity
Star Billion Fashion Limited	Incorporated	Hong Kong	Ordinary	45%	Sales of garments

The above table lists the associate of the Group which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other associate would, in the opinion of the directors, result in particulars of excessive length.

14. DEPOSITS FOR ACQUISITION OF AN INVESTMENT

At 31st March, 2001, the balance represents the deposit paid to a third party pursuant to an agreement in respect of the acquisition of a 34.5% interest in Beijing Wadakan Food Company Limited ("Beijing Wadakan") for consideration of approximately HK\$18,930,000. Beijing Wadakan is established in the PRC and engaged in the manufacture and sale of soya bean sauce. The acquisition was completed in April 2001.

At 31st March, 2000, the balance represented the deposits paid to a third party (the "Vendor") pursuant to a conditional share sale agreement and a supplemental agreement (the "Agreements") in respect of the acquisition of the entire issued share capital of China Pharmaceutical Products Investment Holdings Company Limited ("CPP") for a consideration of HK\$50,000,000. The sole asset of CPP is its 90% interest in Guizhou Xinbang Pharmaceutical Co., Ltd. which is established in the PRC and engaged in the manufacture and sale of Chinese and Western medicine. On 8th August, 2000, the Company entered into an agreement with the Vendor to terminate the execution of the Agreements and the whole amount was fully refunded to the Company during the year.

15. INVENTORIES

	THE GROUP	
	2001 HK\$'000	2000 HK\$'000
Raw materials	2,047	1,067
Work in progress	3,190	6,369
Finished goods	11,075	8,568
	<u>16,312</u>	<u>16,004</u>

Finished goods of approximately HK\$10,756,000 (2000: HK\$6,078,000) are carried at net realisable value.

16. TRADE AND OTHER RECEIVABLES

At 31st March, 2001, the balances of trade and other receivables included trade receivables of approximately HK\$5,099,000 (2000: HK\$13,149,000). An aged analysis of trade receivables prepared on the basis of sales invoice date is as follows:

	THE GROUP	
	2001 HK\$'000	2000 HK\$'000
0 to 30 days	4,151	8,745
31 to 60 days	549	2,717
61 to 90 days	170	488
91 days or above	229	1,199
	<u>5,099</u>	<u>13,149</u>

The Group allows an average credit period of 30 days (2000: 30 days) to its trade customers.

17. AMOUNT DUE FROM FACTOR

Pursuant to a factoring collection agreement, the Group sells a substantial portion of its trade receivables to a commercial factor, without recourse, up to maximum credit limits established by the factor for each individual account. Receivables sold in excess of these limits are subjected to recourse in the event of non-payment by the customer. At the balance sheet date, there was no significant amount of receivables which were subject to recourse.

18. DEPOSIT WITH A FINANCIAL INSTITUTION

Details of a deposit with a financial institution are as follows:

Name of financial institution	THE GROUP AND THE COMPANY		
	Balance at 31.3.2001 HK\$'000	Balance at 1.4.2000 HK\$'000	Maximum amount outstanding during the year HK\$'000
Orient Group Finance Company Limited ("Orient Finance")	<u>18,563</u>	<u>—</u>	<u>18,563</u>

The amount represents an interest bearing fixed deposit placed with Orient Finance, a company established in the PRC which is authorised by the People's Bank of China of the PRC to operate as a non-bank financial institution in the PRC under the regulations of administration of financial institutions. Mr. Zhang Hongwei has a beneficial interest in Orient Finance and the deposit with it is on commercial rates. Interest income from this deposit during the year amounted to approximately HK\$628,000.

19. BALANCE OF CONSIDERATION PAYABLE ON ACQUISITION OF A SUBSIDIARY

	THE GROUP	
	2001 HK\$'000	2000 HK\$'000
The amount is unsecured and repayable as follows:		
Within one year	880	4,616
Between one and two years	1,015	880
Between two and five years	<u>—</u>	<u>1,015</u>
	1,895	6,511
Less: Amount due within one year shown under current liabilities	<u>(880)</u>	<u>(4,616)</u>
	<u>1,015</u>	<u>1,895</u>

Included in the balance is an amount of approximately HK\$1,895,000 (2000: HK\$2,605,000) which carries interest at 6% per annum.

20. TRADE AND OTHER PAYABLES

At 31st March, 2001, the balances of trade and other payables included trade payables of approximately HK\$11,086,000 (2000: HK\$19,463,000). An aged analysis of trade payables prepared on the basis of supplier invoice date is as follows:

	THE GROUP	
	2001	2000
	HK\$'000	HK\$'000
0 to 30 days	4,315	12,448
31 to 60 days	2,025	2,591
61 to 90 days	1,917	2,769
91 days or above	2,829	1,655
	11,086	19,463

21. SECURED BANK LOANS

	THE GROUP AND THE COMPANY	
	2001	2000
	HK\$'000	HK\$'000
Secured bank loans are repayable as follows:		
Within one year	3,098	2,711
Between one and two years	3,394	3,016
Between two and five years	9,252	11,251
After five years	—	1,490
	15,744	18,468
Less: Amount due within one year shown under current liabilities	(3,098)	(2,711)
Amount due after one year	12,646	15,757

22. SHARE CAPITAL

	Number of shares	Amount HK\$'000
Ordinary shares of HK\$0.10 each		
Authorised:		
— balance at 1st April, 1999, 31st March, 2000 and 31st March, 2001	<u>800,000,000</u>	<u>80,000</u>
Issued and fully paid:		
— balance at 1st April, 1999	511,922,000	51,192
— rights issue of shares	<u>255,961,000</u>	<u>25,596</u>
— balance at 31st March, 2000 and 31st March, 2001	<u>767,883,000</u>	<u>76,788</u>

During the year ended 31st March, 2000, the Company issued 255,961,000 shares of HK\$0.10 each at a price of HK\$0.12 per share by way of rights issue. The net proceeds from the rights issue were used for the payment of the outstanding balance in connection with the acquisition of an investment set out in note 14. The shares issued rank pari passu in all respects with the then existing shares of the Company.

There were no movements in the share capital of the Company for the year.

Details of a change in the issued share capital of the Company subsequent to the balance sheet date are set out in note 37.

23. SHARE OPTION SCHEME

The Company has a share option scheme pursuant to which the Company may grant options to directors and employees of the Company and its subsidiaries to subscribe for shares in the Company in accordance with the terms of the share option scheme, subject to a maximum of 10% of the issued share capital of the Company from time to time. No options have been granted under the share option scheme since its adoption.

24. RESERVES

	Share premium	Other property revaluation reserve	Translation reserve	Goodwill	Special reserve	Deficit	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
THE GROUP							
At 1st April, 1999	84,977	10,770	37	—	33,282	(77,573)	51,493
Premium arising on issue of shares	5,119	—	—	—	—	—	5,119
Expenses incurred in connection with the issue of shares	(1,499)	—	—	—	—	—	(1,499)
Exchange differences arising on translation of financial statements of overseas operations	—	—	(46)	—	—	—	(46)
Write-off of goodwill arising on acquisition of a subsidiary	—	—	—	(157)	—	—	(157)
Net loss for the year	—	—	—	—	—	(3,487)	(3,487)
At 31st March, 2000	88,597	10,770	(9)	(157)	33,282	(81,060)	51,423
Realised on disposal of subsidiaries	—	—	21	—	—	—	21
Exchange differences arising on translation of financial statements of overseas operations	—	—	26	—	—	—	26
Net loss for the year	—	—	—	—	—	(14,692)	(14,692)
At 31st March, 2001	88,597	10,770	38	(157)	33,282	(95,752)	36,778

The Group's deficit includes the Group's share of post-acquisition profits of associates of approximately HK\$4,000 (2000: HK\$2,000).

The special reserve of the Group represents the difference between the aggregate of the nominal amount of the share capital and share premium account of the subsidiaries at the date on which they were acquired by the Group prior to the corporate reorganisation in November 1991 and the nominal amount of the shares issued by the Company for the acquisition.

24. RESERVES (Continued)

	Share premium HK\$'000	Other property revaluation reserve HK\$'000	Deficit HK\$'000	Total HK\$'000
THE COMPANY				
At 1st April, 1999	84,977	2,672	(60,848)	26,801
Premium arising on issue of shares	5,119	—	—	5,119
Expenses incurred in connection with the issue of shares	(1,499)	—	—	(1,499)
Net loss for the year	—	—	(3,949)	(3,949)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31st March, 2000	88,597	2,672	(64,797)	26,472
Net loss for the year (note 8)	—	—	(29,131)	(29,131)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31st March, 2001	<u>88,597</u>	<u>2,672</u>	<u>(93,928)</u>	<u>(2,659)</u>

25. RECONCILIATION OF LOSS BEFORE TAXATION TO NET CASH (OUTFLOW) INFLOW FROM OPERATING ACTIVITIES

	2001	2000
	HK\$'000	HK\$'000
Loss before taxation	(15,663)	(3,158)
Share of results of associates	(2)	(1,258)
Unrealised holding loss on other investments	—	7,772
Gain on disposal of subsidiaries	(579)	—
Interest expenses and factoring charges	4,217	4,356
Interest income	(2,187)	(1,825)
Impairment loss recognised in respect of property, plant and equipment	—	834
Deficit arising on revaluation of investment properties	3,791	823
Depreciation and amortisation	1,828	1,880
Loss on disposal of property, plant and equipment	233	958
(Increase) decrease in inventories	(292)	4,112
Decrease in trade and other receivables	5,561	6,410
Decrease (increase) in amount due from factor	1,030	(14,439)
Decrease (increase) in bills receivables	7,077	(2,700)
Increase in amounts due from associates	(344)	—
(Decrease) increase in trade and other payables	(16,055)	3,221
Increase (decrease) in bills payables	1,775	(238)
(Decrease) increase in amount due to an associate	(6)	6
	(9,616)	6,754
Net cash (outflow) inflow from operating activities	(9,616)	6,754

26. PURCHASE OF A SUBSIDIARY

	2001 HK\$'000	2000 HK\$'000
Net assets acquired:		
Property, plant and equipment	—	1,430
Inventories	—	4,771
Trade and other receivables	—	1,063
Amount due from factor	—	5,499
Bank balances and cash	—	7,864
Trade and other payables	—	(4,376)
Obligations under finance leases	—	(20)
Amount due to a shareholder	—	(1,555)
Taxation payable	—	(413)
	<u>—</u>	<u>—</u>
Net assets	—	14,263
Goodwill arising on acquisition	—	157
	<u>—</u>	<u>14,420</u>
Less: Share of associate's net assets prior to acquisition reclassified on becoming a subsidiary	—	(7,131)
	<u>—</u>	<u>7,289</u>
Satisfied by:		
Cash consideration paid	—	778
Balance of consideration payable on acquisition of a subsidiary	—	6,511
	<u>—</u>	<u>7,289</u>
Total consideration	<u>—</u>	<u>7,289</u>
Analysis of net inflow of cash and cash equivalents in connection with the purchase of a subsidiary:		
Cash consideration paid	—	(778)
Bank balances and cash acquired	—	7,864
	<u>—</u>	<u>7,086</u>
Net inflow of cash and cash equivalents in connection with the purchase of a subsidiary	<u>—</u>	<u>7,086</u>

The subsidiary acquired during the year ended 31st March, 2000 did not contribute significantly to the cash flows of the Group other than utilising approximately HK\$6,463,000 of the Group's net operating cash flows. It also contributed approximately HK\$25,715,000 to the Group's turnover and incurred an operating loss of approximately HK\$989,000.

27. DISPOSAL OF SUBSIDIARIES

	2001 HK\$'000	2000 HK\$'000
Net liabilities disposed of:		
Trade and other payables	(600)	—
Attributable translation reserve (note 24)	21	—
	(579)	—
Gain on disposal	579	—
	—	—
	<u> </u>	<u> </u>

The subsidiaries disposed of during the year did not contribute significantly to the Group's cash flows or operating results.

28. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Share capital HK\$'000	Share premium HK\$'000	Loan from a former director HK\$'000	Bank borrowings HK\$'000	Obligations under finance leases HK\$'000
At 1st April, 1999	51,192	84,977	13,399	21,814	—
Proceeds from issue of shares	25,596	5,119	—	—	—
Expenses incurred in connection with the issue of shares	—	(1,499)	—	—	—
Acquired on acquisition of a subsidiary	—	—	—	—	20
Borrowings raised	—	—	—	5,317	—
Repayment of borrowings	—	—	(7,000)	(5,884)	(20)
Interest payable for the year	—	—	904	—	—
At 31st March, 2000	76,788	88,597	7,303	21,247	—
Interest payable for the year	—	—	133	—	—
Repayment of borrowings	—	—	(6,399)	(5,503)	—
Interest paid	—	—	(1,037)	—	—
At 31st March, 2001	<u>76,788</u>	<u>88,597</u>	<u>—</u>	<u>15,744</u>	<u>—</u>

29. ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS

	2001 HK\$'000	2000 HK\$'000
Bank balances, deposits and cash	19,425	33,009
Deposit with a financial institution	18,563	—
Short-term bank borrowings with less than three months to maturity when raised	(23,887)	(10,757)
	<u>14,101</u>	<u>22,252</u>

30. UNRECOGNISED DEFERRED TAXATION

At the balance sheet date, the Group and the Company has an unrecognised deferred taxation asset of approximately HK\$3,636,000 (2000: HK\$4,655,000) and approximately HK\$672,000 (2000: HK\$623,000) respectively which represents the tax effect of timing differences arising as a result of tax losses available to set off against future assessable profits. This deferred taxation asset has not been recognised in the financial statements as it is not certain that the benefit will be realised in the foreseeable future.

Deferred taxation has not been provided for on the revaluation surplus arising from the revaluation of the Group's properties in the PRC as, in the opinion of the directors, the Group does not have any intention to dispose of these properties in the foreseeable future.

The surplus arising on revaluation of the Group's properties in Hong Kong does not constitute a timing difference for tax purposes as any profits realised on their subsequent disposal would not be subject to taxation.

31. PLEDGE OF ASSETS

At the balance sheet date, the net book values of the assets pledged by the Group and the Company to financial institutions to secure credit facilities granted to the Group and the Company are analysed as follows:

	THE GROUP		THE COMPANY	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Investment properties	35,899	38,552	35,899	34,502
Land and buildings	4,952	19,619	4,952	9,591
Bank deposits	13,066	12,388	10,380	9,841
Other assets	18,967	28,360	34	17
	<u>72,884</u>	<u>98,919</u>	<u>51,265</u>	<u>53,951</u>

The bank deposits were pledged to secure short-term credit facilities granted to the Group.

32. OPERATING LEASE COMMITMENTS

At the balance sheet date, the Group and the Company were committed to make the following rental payments for land and buildings in the next year under non-cancellable operating leases which expire:

	THE GROUP		THE COMPANY	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Within one year	467	774	467	—
In the second to fifth year inclusive	2,192	1,687	—	589
	<u>2,659</u>	<u>2,461</u>	<u>467</u>	<u>589</u>

33. CONTINGENT LIABILITIES

	THE COMPANY	
	2001 HK\$'000	2000 HK\$'000
Corporate guarantees given to banks and other financial institutions in respect of credit facilities extended to subsidiaries	<u>64,000</u>	<u>95,000</u>

At the balance sheet date, the Group did not have any significant contingent liabilities.

34. RETIREMENT BENEFITS SCHEME

The Group participates in the Mandatory Provident Fund Scheme ("MPF Scheme") registered under the Mandatory Provident Fund Scheme Ordinance in December 2000. The assets of the MPF scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rules of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rates specified in the rules. The only obligation of the Group with respect to the MPF Scheme is to make the required contributions under the scheme. No forfeited contributions are available to reduce contributions payable in future years.

The Group also operates a defined contribution retirement benefits scheme ("Defined Contribution Scheme") for qualifying employees. The assets of the scheme are held separately in a fund which is under the control of an independent trustee. The retirement benefits scheme contributions charged to the consolidated income statement represent the contributions payable by the Group to the fund at rates specified in the rules of the scheme. When there are employees who leave the scheme prior to becoming fully vested in the contributions, the amount of the forfeited contributions will be used to reduce future contributions payable by the Group.

34. RETIREMENT BENEFITS SCHEME *(Continued)*

The retirement benefits scheme contributions arising from the MPF Scheme and the Defined Contribution Scheme charged to the consolidated income statement represent contributions payable to the funds by the Group at rates specified in the rules of the schemes.

The employees employed in the PRC subsidiary are members of state-managed retirement benefits schemes operated by the PRC government. The PRC subsidiary is required to contribute a certain percentage of their payroll to the retirement benefits scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefits schemes is to make the required contributions under the schemes.

At the balance sheet date, the total amount of forfeited contributions, which arose upon employees leaving the Defined Contribution Scheme and which are available to reduce the contributions payable in the future years, was approximately HK\$644,000 (2000: HK\$343,000).

35. RELATED PARTY TRANSACTIONS AND BALANCES

In addition to the transaction described in note 18, the following significant related party transactions have been entered into by the Group during the year:

Nature of transactions	AN ASSOCIATE	
	2001	2000
	HK\$'000	HK\$'000
Handling charges received	—	985
Interest income received	—	49
Management fee received	280	—
Rental income received	26	—
	<u>286</u>	<u>1,034</u>

The above transactions were carried out in accordance with terms determined and agreed by both parties and the balances with associates are unsecured, non-interest bearing and repayable on demand.

36. PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries, all of which are wholly-owned by the Company indirectly, at 31st March, 2001 are as follows:

Name of subsidiary	Place of incorporation/ establishment and operations	Nominal value of issued/ registered capital	Principal activities
Mountain Fashion Industries Ltd.	PRC	RMB13,764,608	Manufacture and sales of garments
Mountain Industries Limited*	Hong Kong	HK\$800,000	Investment holding and sales of garments
Portlo, Inc.*	United States of America	US\$200,000	Investment holding and sales of garments
Topstyle Limited	Hong Kong	HK\$10,000,000	Manufacture and sales of garments and the provision of agency services to group companies

* The financial statements of these subsidiaries were not audited by member firms of Deloitte Touche Tohmatsu.

The above table lists the subsidiaries of the Group which, in the opinion of the directors, principally affected the results or 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 outstanding at the end of the year or at any time during the year.

37. POST BALANCE SHEET EVENT

On 29th May, 2001, the Company announced that 191,970,750 new ordinary shares of HK\$0.10 each in the Company (the “Rights Shares”) would be issued by way of rights issue at a price of HK\$0.12 per share on the basis of one Rights Share for every four then existing issued shares in the Company. The subscription price of HK\$0.12 per Rights Share represents a discount of approximately 13.04% to the closing price of HK\$0.138 per share quoted on the Stock Exchange on 28th May, 2001. Net proceeds of approximately HK\$21,900,000 received from the rights issue have been used for investing in new garment manufacturing facilities in Cambodia and as general working capital of the Group. The Rights Shares were issued on 19th July, 2001 and rank pari passu in all respects with the then existing issued shares of the Company.