

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 principal activity of the Group is property investment. Its former principal subsidiaries were engaged in the manufacture and sale of garments and they were disposed of during the year.

2. ADOPTION OF 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. Adoption of these SSAPs has led to a number of changes in the Group’s accounting policies. The revised accounting policies are set out in note 3. In addition, the new and revised SSAPs have introduced additional and revised disclosure requirements which have been adopted in these financial statements. Comparative amounts and disclosure for the prior period have been restated in order to achieve a consistent presentation. The new and revised SSAPs adopted during the year did not have any material effect on the results of the Group for the current or prior accounting periods.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention as modified for the revaluation of certain properties 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.

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group’s interest in the fair value of the identifiable assets and liabilities of a subsidiary or an associate at the date of acquisition.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2002

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Goodwill *(Continued)*

Goodwill arising on acquisitions prior to 1st April, 2001 continues to be held in reserves, and will be charged to the income statement at the time of disposal of the relevant subsidiary or the associate or at such time as the goodwill is determined to be impaired.

Goodwill arising on acquisitions after 1st April, 2001 is capitalised and amortised on a straight-line basis over its useful economic life. Goodwill arising on the acquisition of an associate is included within the carrying amount of the associate.

On disposal of a subsidiary or an associate, the attributable amount of unamortised goodwill/goodwill previously eliminated against reserves is included in the determination of the profit or loss on disposal.

Investments in subsidiaries

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

Interests in associates

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 plus the premium paid on acquisition in so far as it has not already been written off/amortised, less any identified impairment loss.

The results of associates are accounted for by the Company on the basis of dividends received and receivable during the year. In the Company's balance sheet, investments in associates are stated at cost, less any identified impairment loss.

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.

Investment properties

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)***Investment properties** *(Continued)*

Investment properties are stated at their open market value. Any revaluation increase or decrease 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 revaluation decrease, in which case the excess of the revaluation decrease over the balance on the investment property revaluation reserve is charged to the income statement. Where a decrease has previously been charged to the income statement and a revaluation increase subsequently arises, this increase is credited to the income statement to the extent of the decrease previously charged.

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

No depreciation is provided on investment properties except where the unexpired term 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 and amortisation and accumulated impairment losses.

Advantage has been taken of the transitional relief provided by paragraph 80 of SSAP No. 17 "Property, Plant and Equipment" from the requirement to make regular revaluations of the Group's and the Company's land and buildings which had been carried at revalued amounts prior to 30th September, 1995, and accordingly no further revaluation of land and buildings is carried out. In previous years, the revaluation increase arising on the revaluation of these assets was credited to the revaluation reserve. Any future decreases in value of these assets will be dealt with as an expense to the extent that they exceed the balance, if any, on the revaluation reserve relating to a previous revaluation of the same asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus is transferred to retained profits.

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 sits 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2002

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment *(Continued)*

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.

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.

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.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible 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 recognised 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 a 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 had been recognised for the asset in prior years. A reversal of an impairment loss is recognised 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 the relevant SSAP.

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 an asset will crystallise in the foreseeable future.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)***Foreign currencies**

Transactions in currencies other than Hong Kong dollars are translated into Hong Kong dollars at the rates ruling on the dates of the transactions or at the contracted settlement rate. Monetary assets and liabilities denominated in currencies other than Hong Kong dollars are re-translated into Hong Kong dollars 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 dollars are translated into Hong Kong dollars at the rates ruling on the balance sheet date. Exchange differences arising, 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 relevant lease terms.

Retirement benefit schemes

The retirement benefit costs charged in the income statement represent the contributions payable in respect of the current year to the Group's defined contribution scheme.

4. SEGMENTAL INFORMATION**Business segments:**

For management purposes, the Group was organised into two operating divisions — manufacturing and trading of garments (“Garment”) and property rental. The Garment business was disposed of on 28th March, 2002 and discontinued thereafter (note 7). These divisions are the basis on which the Group reports its primary segment information.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2002

4. SEGMENTAL INFORMATION (Continued)

Segment information about these businesses is presented below:

2002

	(Discontinued)	Property		
	Garment	rental	Eliminations	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
TURNOVER				
External sales	147,564	3,973	—	151,537
Inter-segment sales	—	240	(240)	—
Total turnover	<u>147,564</u>	<u>4,213</u>	<u>(240)</u>	<u>151,537</u>
RESULT				
Segment result	<u>(3,996)</u>	<u>(4,229)</u>	<u>216</u>	(8,009)
Interest income				1,492
Amortisation of goodwill				(419)
Impairment loss recognised on goodwill				(6,532)
Unallocated corporate expenses				<u>(24,477)</u>
Loss from operations				(37,945)
Finance costs				(2,762)
Share of results of associates				(1,252)
Gain on disposal of discontinued operations				<u>16,513</u>
Loss before taxation				(25,446)
Taxation				<u>(248)</u>
Net loss for the year				<u><u>(25,694)</u></u>
OTHER INFORMATION				
Capital additions	1,127	221	—	1,348
Depreciation and amortisation	1,369	430	—	1,799
Amortisation of goodwill				419
Other non-cash expenses				<u>6,532</u>

Inter-segment sales are charged at terms agreed between the relevant parties.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2002

4. SEGMENTAL INFORMATION (Continued)

At 31st March, 2002, the Group was solely engaged in properties letting business and accordingly, no analysis of the Group's assets and liabilities by business segments had been presented.

2001

	(Discontinued)	Property		
	Garment	rental	Eliminations	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
TURNOVER				
External sales	186,602	4,042	—	190,644
Inter-segment sales	—	634	(634)	—
	<u>186,602</u>	<u>4,676</u>	<u>(634)</u>	<u>190,644</u>
RESULT				
Segment result	<u>(7,365)</u>	<u>(1,208)</u>	<u>162</u>	(8,411)
Interest income				2,187
Unallocated corporate expenses				<u>(5,803)</u>
Loss from operations				(12,027)
Finance costs				(4,217)
Share of results of associates	2	—	—	2
Gain on disposal of discontinued operations				<u>579</u>
Loss before taxation				(15,663)
Taxation credit				<u>971</u>
Net loss for the year				<u>(14,692)</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2002

4. SEGMENTAL INFORMATION (Continued)

2001 (Continued)

	(Discontinued) Garment HK\$'000	Property rental HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
CONSOLIDATED BALANCE SHEET				
Assets				
Segment assets	59,643	44,573	—	104,216
Interests in associates	9	—	—	9
Unallocated corporate assets				74,121
Consolidated total assets				178,346
Liabilities				
Segment liabilities	43,780	678	—	44,458
Unallocated corporate liabilities				18,920
Consolidated total liabilities				63,378
OTHER INFORMATION				
Capital additions	236	175	—	411
Depreciation and amortisation	1,468	360	—	1,828
Other non-cash expenses	2,178	—	—	2,178

Inter-segment sales are charged at terms agreed between the relevant parties.

Geographical segments:

Before the discontinuance of Garment business, the Group's operations were located in Hong Kong, Mainland China (the "PRC") and United States of America ("USA"). The Group's Garment division was carried out in all of the above regions and property rental division is located in Hong Kong and the PRC.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2002

4. SEGMENTAL INFORMATION (Continued)

The following provides an analysis of the Group's sales by geographical market, irrespective of the origin of the goods/services.

	Turnover		Contribution to loss from operations	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
USA	147,129	170,662	(3,877)	(6,234)
Hong Kong	3,514	3,702	(4,149)	(1,105)
The PRC	459	440	—	(36)
Other European markets	435	3,669	17	(265)
United Kingdom ("UK")	—	12,171	—	(771)
	<u>151,537</u>	<u>190,644</u>	<u>(8,009)</u>	<u>(8,411)</u>
Interest income			1,492	2,187
Amortisation of goodwill			(419)	—
Impairment loss recognised goodwill			(6,532)	—
Unallocated corporate expenses			(24,477)	(5,803)
			<u>(37,945)</u>	<u>(12,027)</u>

Revenue from the Group's Garment division in 2002 was derived principally from USA (2002: HK\$147,129,000, 2001: HK\$170,662,000) and other European markets (2002: HK\$435,000, 2001: HK\$3,669,000). In 2001, such revenue amounting to HK\$12,171,000 was also derived from UK.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2002

4. SEGMENTAL INFORMATION (Continued)

The following is an analysis of the carrying amount of segment assets, and capital additions analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets		Capital additions	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Hong Kong	95,376	121,496	226	317
The PRC	—	22,173	407	86
USA	—	34,677	715	8
	<u>95,376</u>	<u>178,346</u>	<u>1,348</u>	<u>411</u>

5. LOSS FROM OPERATIONS

	2002 HK\$'000	2001 HK\$'000
Loss from operations has been arrived at after charging (crediting):		
Directors' remuneration	16,886	—
Other staff costs	24,039	27,239
Retirement benefits scheme contributions, net of forfeited contributions of approximately HK\$120,000 (2001: HK\$177,000)	—	4
Total staff costs	<u>40,925</u>	<u>27,243</u>
Amortisation of goodwill upon acquisition of an associate	419	—
Auditors' remuneration:		
Current year	555	942
Underprovision in prior years	26	253
Cost of temporary textile quota entitlements	13,653	13,390
Depreciation and amortisation	1,799	1,828
(Gain) loss on disposal of property, plant and equipment	(48)	233
Interest income	(1,492)	(2,187)
Property rental income after deduction of outgoings of approximately HK\$1,933,000 (2001: HK\$1,931,000)	<u>(2,040)</u>	<u>(2,111)</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2002

6. FINANCE COSTS

	2002 HK\$'000	2001 HK\$'000
Factoring charges	340	709
Interest on		
— bank borrowings wholly repayable within five years	2,047	3,250
— loan from a former director	—	133
— other borrowings wholly repayable within five years	375	125
	<u>2,762</u>	<u>4,217</u>

7. GAIN ON DISPOSAL OF DISCONTINUED OPERATIONS

On 19th March, 2002, the Company entered into a conditional sale and purchase agreement (the “Agreement”) with an independent third party (the “Buyer”) to dispose of its entire interest in Topstyle International Limited, which together with its subsidiaries, carried out all of the Group’s Garment operations. The sale consideration of HK\$25,000,000 (the “Consideration”) was subject to adjustment based on various conditions as stated in the Agreement. The disposal was effected in order to generate cash flow for future investment opportunities of the Group and for general working capital purposes. On 28th March, 2002, the Company and the Buyer agreed to reduce the Consideration to HK\$15,000,000 and the disposal was completed on the same date.

A gain of approximately HK\$16,513,000 arose from the disposal of the Group’s Garment operations, being the proceed of the disposal less the carrying amount of the net assets and attributable reserves of the Garment operations. No tax charge or credit arose from the transaction.

During the year ended 31st March, 2001, the Group also disposed of its entire interest in two inactive subsidiaries engaged previously in Garment operations at nil consideration, resulting in a gain of approximately HK\$579,000.

Details of the results of the Garment operations for the period from 1st April, 2001 to 28th March, 2002, which have been included in the consolidated financial statements, together with the corresponding figures for the year ended 31st March, 2001, were set out in note 4.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2002

8. DIRECTORS' EMOLUMENTS

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Executive directors:		
Fees	12,358	—
Other emoluments — salaries and other benefits	4,528	—
	<u> </u>	<u> </u>
Total emoluments	<u>16,886</u>	<u> </u>

The emoluments of the directors were within the following bands:

	Number of directors	
	2002	2001
HK\$1,000,000 or below	4	6
HK\$7,000,001 to HK\$7,500,000	1	—
HK\$9,000,001 to HK\$9,500,000	1	—
	<u> </u>	<u> </u>

9. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, two (2001: nil) were directors of the Company whose emoluments are included in the disclosure in note 8 above. The emoluments of the remaining three (2001: five) individuals were as follows:

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Salaries and other benefits	2,268	1,703
Retirement benefits scheme contributions	47	62
	<u> </u>	<u> </u>
	<u>2,315</u>	<u>1,765</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2002

9. EMPLOYEES' EMOLUMENTS *(Continued)*

The emoluments of the employees were within the following bands:

	Number of employees	
	2002	2001
HK\$1,000,000 or below	2	5
HK\$1,000,001 to HK\$1,500,000	1	—
	<u>3</u>	<u>5</u>

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.

10. TAXATION (CHARGE) CREDIT

	2002	2001
	HK\$'000	HK\$'000

The (charge) credit comprises:

Overseas taxation		
— Current year	(36)	—
— (Under)overprovision in prior years	(212)	971
	<u>(248)</u>	<u>971</u>

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

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

Details of unrecognised deferred taxation were set out in note 31.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2002

11. BASIS LOSS PER SHARE

The calculation of the basic loss per share is based on the net loss for the year of approximately HK\$25,694,000 (2001: HK\$14,692,000) and on the weighted average of 914,594,604 (2001: 808,297,895) shares in issue during the year after adjusting for the effect of the rights issue of shares by the Company as described in note 24.

There were no dilutive potential ordinary shares in issue during the years presented.

12. INVESTMENT PROPERTIES

	THE GROUP		THE COMPANY	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
VALUATION				
At 1st April	39,252	38,552	35,899	34,502
Transferred from land and buildings	3,820	4,491	3,820	4,491
Deficit arising on revaluation	(4,048)	(3,791)	(4,048)	(3,094)
Upon disposal of subsidiaries	(3,353)	—	—	—
	<u>35,671</u>	<u>39,252</u>	<u>35,671</u>	<u>35,899</u>
At 31st March	<u>35,671</u>	<u>39,252</u>	<u>35,671</u>	<u>35,899</u>
Comprising:				
Investment properties held under medium-term leases in				
— Hong Kong	35,671	35,899	35,671	35,899
— the PRC	—	3,353	—	—
	<u>35,671</u>	<u>39,252</u>	<u>35,671</u>	<u>35,899</u>

The Group's and the Company's investment properties are held for rental purposes under operating leases and were revalued at 31st March, 2002 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2002

13. 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, 2001	20,288	4,487	5,622	682	10,082	41,161
Transferred to investment properties	(4,505)	—	—	—	—	(4,505)
Additions	—	905	79	—	364	1,348
Disposals	—	(323)	(55)	—	(86)	(464)
Disposal of subsidiaries	(12,764)	(3,636)	(5,397)	(682)	(10,084)	(32,563)
At 31st March, 2002	3,019	1,433	249	—	276	4,977
Comprising:						
At cost	1,911	1,433	249	—	276	3,869
At valuation — 1995	417	—	—	—	—	417
— 1997 on transfer (note)	691	—	—	—	—	691
	3,019	1,433	249	—	276	4,977
DEPRECIATION, AMORTISATION AND IMPAIRMENT LOSS						
At 1st April, 2001	4,818	3,370	4,964	663	9,206	23,021
Transferred to investment properties	(685)	—	—	—	—	(685)
Provided for the year	628	500	370	5	296	1,799
Eliminated on disposals	—	(323)	(40)	—	(81)	(444)
Eliminated on disposal of subsidiaries	(2,657)	(2,649)	(5,123)	(668)	(9,224)	(20,321)
At 31st March, 2002	2,104	898	171	—	197	3,370
NET BOOK VALUES						
At 31st March, 2002	<u>915</u>	<u>535</u>	<u>78</u>	<u>—</u>	<u>79</u>	<u>1,607</u>
At 31st March, 2001	<u>15,470</u>	<u>1,117</u>	<u>658</u>	<u>19</u>	<u>876</u>	<u>18,140</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2002

13. PROPERTY, PLANT AND EQUIPMENT (Continued)

	Land and buildings HK\$'000	Leasehold improvements HK\$'000	Furniture, fixtures and office equipment HK\$'000	Total HK\$'000
THE COMPANY				
COST OR VALUATION				
At 1st April, 2001	5,613	1,243	140	6,996
Transferred to investment properties	(4,505)	—	—	(4,505)
Additions	—	190	31	221
	<u>1,108</u>	<u>1,433</u>	<u>171</u>	<u>2,712</u>
At 31st March, 2002	1,108	1,433	171	2,712
Comprising:				
At cost	—	1,433	171	1,604
At valuation — 1995	417	—	—	417
— 1997 on transfer (note)	691	—	—	691
	<u>1,108</u>	<u>1,433</u>	<u>171</u>	<u>2,712</u>
DEPRECIATION AND AMORTISATION				
At 1st April, 2001	661	711	76	1,448
Transferred to investment properties	(685)	—	—	(685)
Provided for the year	217	187	26	430
	<u>193</u>	<u>898</u>	<u>102</u>	<u>1,193</u>
At 31st March, 2002	193	898	102	1,193
NET BOOK VALUES				
At 31st March, 2002	<u>915</u>	<u>535</u>	<u>69</u>	<u>1,519</u>
At 31st March, 2001	<u>4,952</u>	<u>532</u>	<u>64</u>	<u>5,548</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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2002

13. 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	816	816
Accumulated depreciation, amortisation and impairment losses	130	130
Net book value at 31st March, 2002	<u>686</u>	<u>686</u>
Net book value at 31st March, 2001	<u>8,594</u>	<u>2,738</u>

	THE GROUP		THE COMPANY	
	2002	2001	2002	2001
	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	915	4,952	915	4,952
— the PRC	—	10,518	—	—
	<u>915</u>	<u>15,470</u>	<u>915</u>	<u>4,952</u>

14. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2002	2001
	HK\$'000	HK\$'000
Unlisted shares, at cost	61,362	61,830
Amounts due from subsidiaries	8,650	60,148
Impairment loss recognised	70,012 (70,012)	121,978 (121,003)
	<u>—</u>	<u>975</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2002

14. INTERESTS IN SUBSIDIARIES (Continued)

At March 31, 2002, all subsidiaries of the Group were inactive. In the opinion of the directors, these subsidiaries did not affect significantly the results or assets of the Group and to give details of these subsidiaries would 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.

15. INTEREST IN AN ASSOCIATE

	THE GROUP		THE COMPANY	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Unlisted shares, at cost	—	—	18,930	—
Share of an associate's net assets	10,727	9	—	—
Goodwill arising from acquisition of an associate	—	—	—	—
Impairment loss recognised	—	—	(8,203)	—
	<u>10,727</u>	<u>9</u>	<u>10,727</u>	<u>—</u>

The movement in goodwill arising from acquisition of an associate is as follows:

	2002	2001
	HK\$'000	HK\$'000
COST		
Arising on acquisition of an associate and balance at end of the year	<u>6,951</u>	<u>—</u>
AMORTISATION		
Provided for the year	419	—
Impairment loss recognised	<u>6,532</u>	<u>—</u>
At end of the year	<u>6,951</u>	<u>—</u>
CARRYING VALUE		
At end of the year	<u>—</u>	<u>—</u>

15. INTEREST IN AN ASSOCIATE *(Continued)*

The goodwill is amortised on a straight-line basis over a period of approximately 17 years, the remaining term of the associate established in the PRC.

The directors have reviewed the carrying value of the goodwill at 31st March, 2002 with reference to the discounted future cash flows from the associate and determined that it had declined below the carrying value. Accordingly, the carrying value of the goodwill has reduced to reflect this impairment.

At 31st March, 2002, the Group's associate is as follows:

Name of associate	Form of business structure	Place of incorporation/ operation	Class of shares held	Proportion of nominal value of registered capital held directly by the Company	Principal activity
北京和田寬食品有限公司 Beijing Wadakan Food Company Limited ("Beijing Wadakan")	Incorporated	PRC	Registered capital	34.5%	Manufacture and sale of soya bean sauces

Beijing Wadakan is in the process of application for its new certificate of approval, business license and the related documents upon the acquisition of the relevant interest by the Company. In the opinion of the directors of the Company, such documents will be issued in due course.

The following details have been extracted from the financial statements of Beijing Wadakan, the Group's significant associate:

	2002 HK\$'000
Results for the year:	
Turnover	26,161
Loss before taxation	(3,628)
Loss before taxation attributable to the Group	(1,252)
Financial position:	
Non-current assets	41,335
Current assets	14,658
Current liabilities	(24,900)
Net assets	31,093
Net assets attributable to the Group	10,727

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2002

16. DEPOSIT FOR ACQUISITION OF AN INVESTMENT

At 31st March, 2002, the deposit represents full consideration paid to a third party pursuant to an agreement in respect of the acquisition of a 55% interest in 北京虎王和田寬食品有限公司 Beijing Huwang Wadakan Food Company Limited (“Beijing Huwang Wadakan”) for a consideration of approximately HK\$17,000,000. Beijing Huwang Wadakan is established in the PRC and is engaged in the manufacture and sale of soya bean sauce. The acquisition was completed in April 2002.

At 31st March, 2001, the balance represented a deposit paid to a third party for the acquisition of a 34.5% interest in Beijing Wadakan. The acquisition was completed in April 2001.

17. INVENTORIES

	THE GROUP	
	2002	2001
	HK\$'000	HK\$'000
Raw materials	—	2,047
Work in progress	—	3,190
Finished goods	—	11,075
	<u>—</u>	<u>16,312</u>

At 31st March, 2001, finished goods of approximately HK\$10,756,000 were carried at net realisable value.

18. TRADE AND OTHER RECEIVABLES

At 31st March, 2002, the balance of trade and other receivables included trade receivables of approximately HK\$223,000 (2001: HK\$5,099,000). An aged analysis of trade receivables prepared on the basis of sales invoice date is as follows:

	THE GROUP	
	2002	2001
	HK\$'000	HK\$'000
0 to 30 days	133	4,151
31 to 60 days	69	549
61 to 90 days	13	170
91 days or above	8	229
	<u>223</u>	<u>5,099</u>

The Group allows an average credit period of 30 days (2001: 30 days) to its trade customers.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2002

19. AMOUNT DUE FROM FACTOR

Pursuant to a factoring collection agreement, the Group sold 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 were subjected to recourse in the event of non-payment by the customer. At March 31, 2001, there was no significant amount of receivables which were subject to recourse.

20. 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 31.3.2002 HK\$'000	Balance at 1.4.2001 HK\$'000	Maximum amount outstanding during the year HK\$'000
Orient Group Finance Company Limited ("Orient Finance")	<u>17,804</u>	<u>18,563</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\$410,000 (2001: HK\$628,000).

21. BALANCE OF CONSIDERATION PAYABLE ON ACQUISITION OF A FORMER SUBSIDIARY

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
The amount is unsecured and repayable as follows:		
Within one year	—	880
Between one and two years	—	1,015
	—	1,895
Less: Amount due within one year shown under current liabilities	—	(880)
	<u>—</u>	<u>1,015</u>

The balance at 31st March, 2001 carried interest at 6% per annum and was disposed of upon disposal of certain subsidiaries during the year.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2002

22. TRADE AND OTHER PAYABLES

At 31st March, 2002, the balances of trade and other payables included trade payables of approximately HK\$763,000 (2001: HK\$11,086,000). An aged analysis of trade payables prepared on the basis of supplier invoice date is as follows:

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
0 to 30 days	11	4,315
31 to 60 days	86	2,025
61 to 90 days	209	1,917
91 days or above	457	2,829
	<u>763</u>	<u>11,086</u>

23. SECURED BANK LOANS

	THE GROUP AND THE COMPANY	
	2002 HK\$'000	2001 HK\$'000
Secured bank loans are repayable as follows:		
Within one year	4,597	3,098
Between one and two years	3,714	3,394
Between two and five years	5,341	9,252
	<u>13,652</u>	<u>15,744</u>
Less: Amount due within one year shown under current liabilities	<u>(4,597)</u>	<u>(3,098)</u>
Amount due after one year	<u>9,055</u>	<u>12,646</u>

24. SHARE CAPITAL

	Number of shares	Amount HK\$'000
Ordinary shares of HK\$0.10 each		
Authorised:		
— balance at 1st April, 2000 and 31st March, 2001	800,000,000	80,000
— increase during the year	800,000,000	80,000
	<u>1,600,000,000</u>	<u>160,000</u>
Issued and fully paid:		
— balance at 1st April, 2000 and 31st March, 2001	767,883,000	76,788
— rights issue of shares	191,970,750	19,197
	<u>959,853,750</u>	<u>95,985</u>

During the year ended 31st March, 2002, the following changes in the share capital of the Company took place:

- (i) Pursuant to a resolution passed at an extraordinary general meeting of the Company on 22nd June, 2001, the authorised share capital of the Company was increased from HK\$80,000,000 to HK\$160,000,000 by the creation of 800,000,000 additional shares of HK\$0.10 each, ranking pari passu in all respects with the then existing issued and unissued shares of the Company.
- (ii) On 19th July, 2001, the Company issued 191,970,750 shares of HK\$0.10 each in the Company at a price of HK\$0.12 per share by way of rights issue. The net proceeds from the rights issue were used for investing in new garment manufacturing facilities in Cambodia which was disposed of during the year and as general working capital of the Group. The shares issued rank pari passu in all respects with the then existing issued shares of the Company.

There were no movements in the share capital of the Company for the year ended 31st March, 2001.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2002

25. SHARE OPTION SCHEME

The share option scheme of the Company, pursuant to which the Company might grant options to directors and employees of the Company and its subsidiaries to subscribe for shares in the Company, was expired on 18th March, 2002. No options had ever been granted under this scheme.

26. 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, 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
Premium arising on issue of shares	3,839	—	—	—	—	—	3,839
Expenses incurred in connection with the issue of shares	(1,776)	—	—	—	—	—	(1,776)
Realised on disposal of subsidiaries	—	(8,098)	(38)	157	(33,282)	8,098	(33,163)
Net loss for the year	—	—	—	—	—	(25,694)	(25,694)
At 31st March, 2002	<u>90,660</u>	<u>2,672</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(113,348)</u>	<u>(20,016)</u>

The Group's deficit includes the Group's share of post-acquisition loss of an associate of approximately HK\$1,252,000 (2001: profits of HK\$4,000).

The special reserve of the Group represented the difference between the aggregate of the nominal amount of the share capital and share premium account of the former 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2002

26. RESERVES (Continued)

	Share premium HK\$'000	Other property revaluation reserve HK\$'000	Deficit HK\$'000	Total HK\$'000
THE COMPANY				
At 1st April, 2000	88,597	2,672	(64,797)	26,472
Net loss for the year	—	—	(29,131)	(29,131)
At 31st March, 2001	88,597	2,672	(93,928)	(2,659)
Premium arising on issue of shares	3,839	—	—	3,839
Expenses incurred in connection with the issue of shares	(1,776)	—	—	(1,776)
Net loss for the year	—	—	(19,290)	(19,290)
At 31st March, 2002	<u>90,660</u>	<u>2,672</u>	<u>(113,218)</u>	<u>(19,886)</u>

In accordance with the Company's Articles of Association, no dividend shall be paid otherwise than out of profits. Accordingly, as at 31st March, 2002, the Company did not have any distributable reserves.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2002

27. RECONCILIATION OF LOSS BEFORE TAXATION TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	2002 HK\$'000	2001 HK\$'000
Loss before taxation	(25,446)	(15,663)
Share of results of associates	1,252	(2)
Gain on disposal of discontinued operations	(16,513)	(579)
Interest expense and factoring charges	2,762	4,217
Interest income	(1,492)	(2,187)
Amortisation of goodwill	419	—
Impairment loss recognised on goodwill	6,532	—
Deficit arising on revaluation of investment properties	4,048	3,791
Depreciation and amortisation	1,799	1,828
(Gain) loss on disposal of property, plant and equipment	(48)	233
Decrease (increase) in inventories	747	(292)
(Increase) decrease in trade and other receivables	(2,061)	5,561
Decrease in amount due from factor	10,941	1,030
Decrease in bills receivables	3,271	7,077
Decrease (increase) in amounts due from associates	285	(344)
Increase (decrease) in trade and other payables	3,109	(16,055)
(Decrease) increase in bills payables	(1,775)	1,775
Decrease in amount due to an associate	—	(6)
Net cash outflow from operating activities	<u>(12,170)</u>	<u>(9,616)</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2002

28. DISPOSAL OF SUBSIDIARIES

	2002 HK\$'000	2001 HK\$'000
Net assets (liabilities) disposed of:		
Investment properties	3,353	—
Property, plant and equipment	12,242	—
Interests in associates	1,959	—
Inventories	15,565	—
Trade and other receivables	11,092	—
Amount due from factor	7,992	—
Amounts due from associates	6,547	—
Taxation recoverable	41	—
Pledged bank deposits	4,000	—
Bank balances and cash	4,988	—
Balance of consideration payable on acquisition of a subsidiary	(1,243)	—
Trade and other payables	(17,431)	(600)
Bank overdrafts	(245)	—
Trust receipt and import loans	(15,808)	—
Minority interests	(1,402)	—
	31,650	(600)
Other property revaluation reserve realised	(8,098)	—
Translation reserve realised (<i>note 26</i>)	(38)	21
Goodwill realised (<i>note 26</i>)	157	—
Special reserve realised (<i>note 26</i>)	(33,282)	—
Gain on disposal	16,513	579
Transfer of realised other property revaluation reserve to deficit (<i>note 26</i>)	8,098	—
	15,000	—
Satisfied by:		
Cash consideration received	15,000	—

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2002

28. DISPOSAL OF SUBSIDIARIES (*Continued*)

Analysis of net inflow of cash and cash equivalents in respect of the disposal of subsidiaries:

	2002 HK\$'000	2001 HK\$'000
Cash consideration received	15,000	—
Bank balances and cash disposed of	(4,988)	—
Bank overdrafts disposed of	245	—
Trust receipt and import loans matured within three months when raised disposed of	15,808	—
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	26,065	—

The subsidiaries disposed of during the year contributed a cash inflow of approximately HK\$5,370,000 to the Group's net operating cash outflow, paid approximately HK\$989,000 in respect of net returns on investments and servicing of finance, received a net refund of tax of approximately HK\$1,076,000 and utilised approximately HK\$398,000 in respect of investing activities. They also contributed approximately HK\$147,564,000 to the Group's turnover and a loss of approximately HK\$3,996,000 to the Group's loss from operations.

The subsidiaries disposed of during the year ended 31st March, 2001 did not contribute significantly to the Group's cash flows or operating results.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2002

29. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Loan from a former director <i>HK\$'000</i>	Bank borrowings <i>HK\$'000</i>
At 1st April, 2000	76,788	88,597	7,303	21,247
Repayment of borrowings	—	—	(6,399)	(5,503)
Interest paid	—	—	(1,037)	—
Interest payable for the year	—	—	133	—
At 31st March, 2001	76,788	88,597	—	15,744
Proceeds from issue of shares	19,197	3,839	—	—
Expenses paid in connection with the issue of shares	—	(1,776)	—	—
Repayment of borrowings	—	—	—	(2,092)
At 31st March, 2002	<u>95,985</u>	<u>90,660</u>	<u>—</u>	<u>13,652</u>

30. ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Bank balances and cash	315	19,425
Deposit with a financial institution	17,804	18,563
Short-term bank borrowings matured within three months when raised	—	(23,887)
	<u>18,119</u>	<u>14,101</u>

31. UNRECOGNISED DEFERRED TAXATION

At the balance sheet date, the Group and the Company has an unrecognised deferred taxation asset of approximately HK\$4,286,000 (2001: HK\$3,636,000) and approximately HK\$4,286,000 (2001: HK\$672,000) 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2002

31. UNRECOGNISED DEFERRED TAXATION *(Continued)*

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.

32. 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, the Company and certain former subsidiaries of the Group are analysed as follows:

	THE GROUP		THE COMPANY	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Investment properties	35,671	35,899	35,671	35,899
Land and buildings	915	4,952	915	4,952
Bank deposits	10,547	13,066	10,547	10,380
Other assets	7	18,967	7	34
	<u>47,140</u>	<u>72,884</u>	<u>47,140</u>	<u>51,265</u>

The bank deposits and other assets were pledged to secure short-term credit facilities granted to certain former subsidiaries (2001: certain subsidiaries) of the Group.

33. OPERATING LEASE ARRANGEMENTS

The Group as Lessee

	THE GROUP	
	2002	2001
	HK\$'000	HK\$'000
Minimum lease payments paid under operating leases during the year in respect of land and buildings	<u>7,170</u>	<u>2,635</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2002

33. OPERATING LEASE ARRANGEMENTS (Continued)

At the balance sheet date, the Group and the Company had commitments for future minimum lease payments for land and buildings under non-cancellable operating leases which fall due follows:

	THE GROUP		THE COMPANY	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Within one year	4,528	2,635	4,528	467
In the second to fifth year inclusive	—	3,923	—	—
	<u>4,528</u>	<u>6,558</u>	<u>4,528</u>	<u>467</u>

Operating lease payments represent rentals payable by the Group for certain of its office premises and directors' quarters. Leases are negotiated for a term of one year and rentals are fixed throughout the lease period.

The Group as Lessor

Property rental income earned by the Group during the year was approximately HK\$3,973,000 (2001: HK\$4,042,000). Significant leases are negotiated for a lease term of 1 to 3 years.

At the balance sheet date, the Group and the Company had contracted with tenants for the following future minimum lease payments:

	THE GROUP AND THE COMPANY	
	2002	2001
	HK\$'000	HK\$'000
Within one year	2,428	2,503
In the second to fifth year inclusive	889	840
	<u>3,317</u>	<u>3,343</u>

34. CONTINGENT LIABILITIES

	THE GROUP		THE COMPANY	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Corporate guarantees given to banks and other financial institutions in respect of credit facilities extended to certain former subsidiaries (2001: certain subsidiaries)	<u>64,000</u>	<u>—</u>	<u>64,000</u>	<u>64,000</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2002

35. 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.

Prior to the disposal of the Group's Garment operations, the Group also operated a defined contribution retirement benefits scheme ("Defined Contribution Scheme") for qualifying employees. The assets of the scheme were held separately in a fund which was under the control of an independent trustee. The retirement benefits scheme contributions charged to the consolidated income statement represented 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 would be used to reduce future contributions payable by the Group.

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.

At 31st March, 2001, the total amount of forfeited contributions, which arose upon employees leaving the Defined Contribution Scheme and which were available to reduce the contributions payable in the future years, was approximately HK\$644,000. There were no such forfeited contributions at 31st March, 2002.

36. RELATED PARTY TRANSACTIONS AND BALANCES

In addition to the transaction described in note 20, the following significant related party transactions have been entered into by the Group during the year:

Nature of transactions	AN ASSOCIATE	
	2002	2001
	HK\$'000	HK\$'000
Management fee received	210	280
Rental income received	<u>29</u>	<u>26</u>

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