



Mission Statement

To become one of the
World's
Recognized
LEADERS
in fashion apparel

Contents



Chairman's Statement	2
Financial Highlights	4
Management Discussion and Analysis	5
Notice of Annual General Meeting	9
Biographical Details of Directors and Senior Management	11
Report of the Directors	14
Report of the Auditors	20
Consolidated Profit and Loss Account	21
Consolidated Balance Sheet	22
Consolidated Statement of Changes in Equity	24
Consolidated Cash Flow Statement	26
Balance Sheet	29
Notes to Financial Statements	30
Five Year Financial Summary	77
Corporate Information	78

Chairman's Statement

Turnover for the fifteen months ended 31 December 2002 was HK\$2,173 million. Net loss attributable to shareholders was HK\$23 million, compared to a reported profit of HK\$102 million last year. After writing off Theme's goodwill of HK\$58 million, the adjusted profit of the year 2001 was HK\$44 million.



The Board of Directors recommended a final dividend of one HK cent per share.

During the past two years, we deepened the re-engineering of our Group's entire operation. We intensified our aggressive marketing initiatives to keep us ahead in our industry. The strategic combination of our expanded product base, customer base and tailored customer service will effectively propel the business growth of our core manufacturing, private labels and August Silk in 2003.

We have heightened our emphasis on developing, energising our marketing team to expand Theme's franchise network in the PRC. Early signs of our investment in this area are encouraging. We expect our growing franchise network will pave the way for a breakthrough in our retail business.

The magnitude of the adverse impact on local and global economies brought by the Iraqi war and the SARS disease is hard to predict. Nevertheless, we are taking new initiatives to overcome the challenges ahead. We are optimistic about 2003.



I want to thank our shareholders, fellow board members, management and staff, as well as our business partners for their support and contribution to the Group during the period. Lastly, I must express our greatest sorrow for the passing away of Mr. H K Poon, the Honorary Chairman of our Group. We will never forget Mr. Poon's enormous contribution to High Fashion.

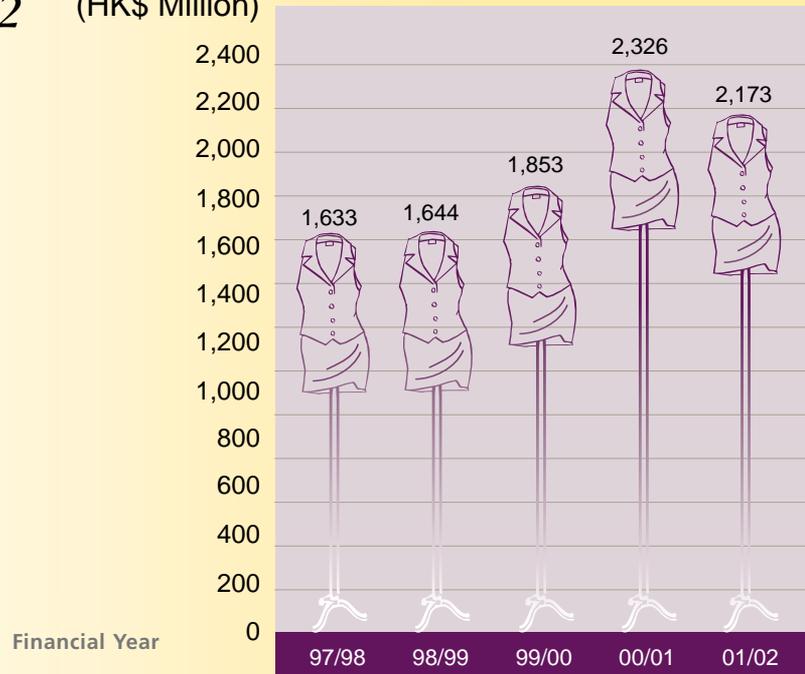
Lam Foo Wah
Chairman

Hong Kong, 14 April 2003

Financial Highlights

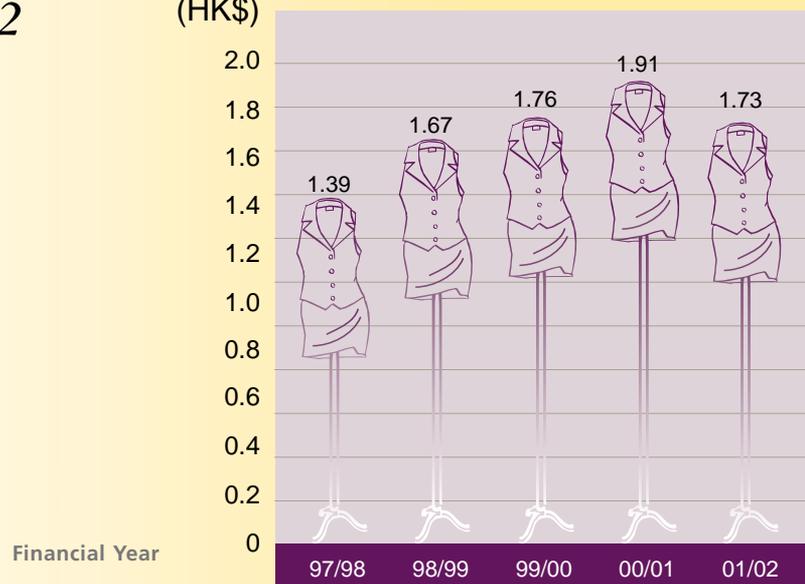
Group Turnover

2001/2002 (HK\$ Million)



Net Asset per Share

2001/2002 (HK\$)



Management Discussion and Analysis

Results

We have changed our financial year-end date to 31 December to be coterminous with our subsidiaries in the PRC. This accounting period covers a period of 15 months. Turnover for the period amounted to HK\$2.2 billion, compared to HK\$2.3 billion for the 12 months ended 30 September 2001.

Net loss attributable to shareholders for the fifteen months ended 31 December 2002 was HK\$23 million, compared with a reported profit of HK\$102 million last year. After writing off Theme's goodwill of HK\$58 million, the adjusted profit of year 2001 was HK\$44 million. Basic loss per share was 7 HK cents. Net asset value per share was HK\$1.73.

Review of Operations

	15 months	12 months	15 months	12 months	Change %	
	ended 31 December 2002	ended 30 September 2001	ended 31 December 2002	ended 30 September 2001	Turnover	Contribution
	Turnover		Contribution			
	HK\$'000	HK\$'000	HK\$'000	HK\$'000		
By principal activity:						
Manufacturing and trading	1,886,797	2,110,344	82,864	179,991	(11)	(54)
Retailing	286,683	215,322	(63,382)	(21,177)	33	(199)
	2,173,480	2,325,666	19,482	158,814	(7)	(88)

The terrorist attack on 11 September 2001 adversely affected the Group's business. Turnover for the 15 months period was 7% less than that of the previous 12 months. The 15 months period was reviewed under 3 separate reporting periods. Segmental information on principal activities for the three periods is as follows:

	3 months ended 31 December 2002	6 months ended 30 September 2002	6 months ended 31 March 2002
	HK\$'000	HK\$'000	HK\$'000
Manufacturing and trading			
Turnover	472,761	631,741	782,295
Contribution	16,991	1,816	64,057
Contribution %	3.6%	0.3%	8.2%
Retailing			
Turnover	59,238	102,830	124,615
Contribution	(4,607)	(32,664)	(26,111)
Contribution %	(7.8%)	(31.8%)	(21.0%)



Under the manufacturing and trading segment, significant improvement on both turnover and contribution percentage was recorded in the last quarter on our core business. This was achieved as a result of intensified strategic marketing initiatives undertaken by the Group. It is expected that such improvement will prevail in the year 2003.

We have broadened the product base of August Silk Inc. to capture new business in the USA. We are optimistic about the prospects of August Silk Inc..

Under the retail segment, our loss in the last quarter was reduced after we had ceased the business of U-campus and Wahaha joint venture prior to September 2002. We have heightened our focus on the expansion of Theme's franchise operation in the PRC. A strong marketing team was developed in the PRC to grow Theme's franchise network. Early signs of our investments in this area are encouraging.

We cautiously reduced any loss making operations in other regions, by closing down non-performing shops when their leases expired.

Liquidity and Financial Resources

Taking advantage of lower interest cost, the Group has fully drawn its unsecured medium term bank loans of HK\$200 million to replace a large portion of existing trading loans. The Group's total outstanding bank borrowings at 31 December 2002 were approximately HK\$364 million. Cash and bank balances totalled HK\$149 million at the same date.

Gearing ratio of non-current liabilities to shareholders' funds was 19% at the balance sheet date. Current ratio was maintained at a healthy level of 1.4:1. The Group is in a strong financial position to meet its operating needs.

The Group's receivables were mainly denominated in US dollars. Bank borrowings were denominated in US dollars, Hong Kong dollars and Renminbi. Since the Hong Kong dollar is pegged to the US dollar, the Group considers that its foreign exchange risk is minimal.

The Group had no material contingent liabilities other than trade bills discounted in the ordinary course of business. Barring pledged time deposits of HK\$12 million, trade receivables of HK\$47 million and Chinese Value Added Tax receivable of HK\$85 million of certain subsidiaries as well as land and building with net book value of HK\$2.2 million, there were no other charges on the Group's assets.

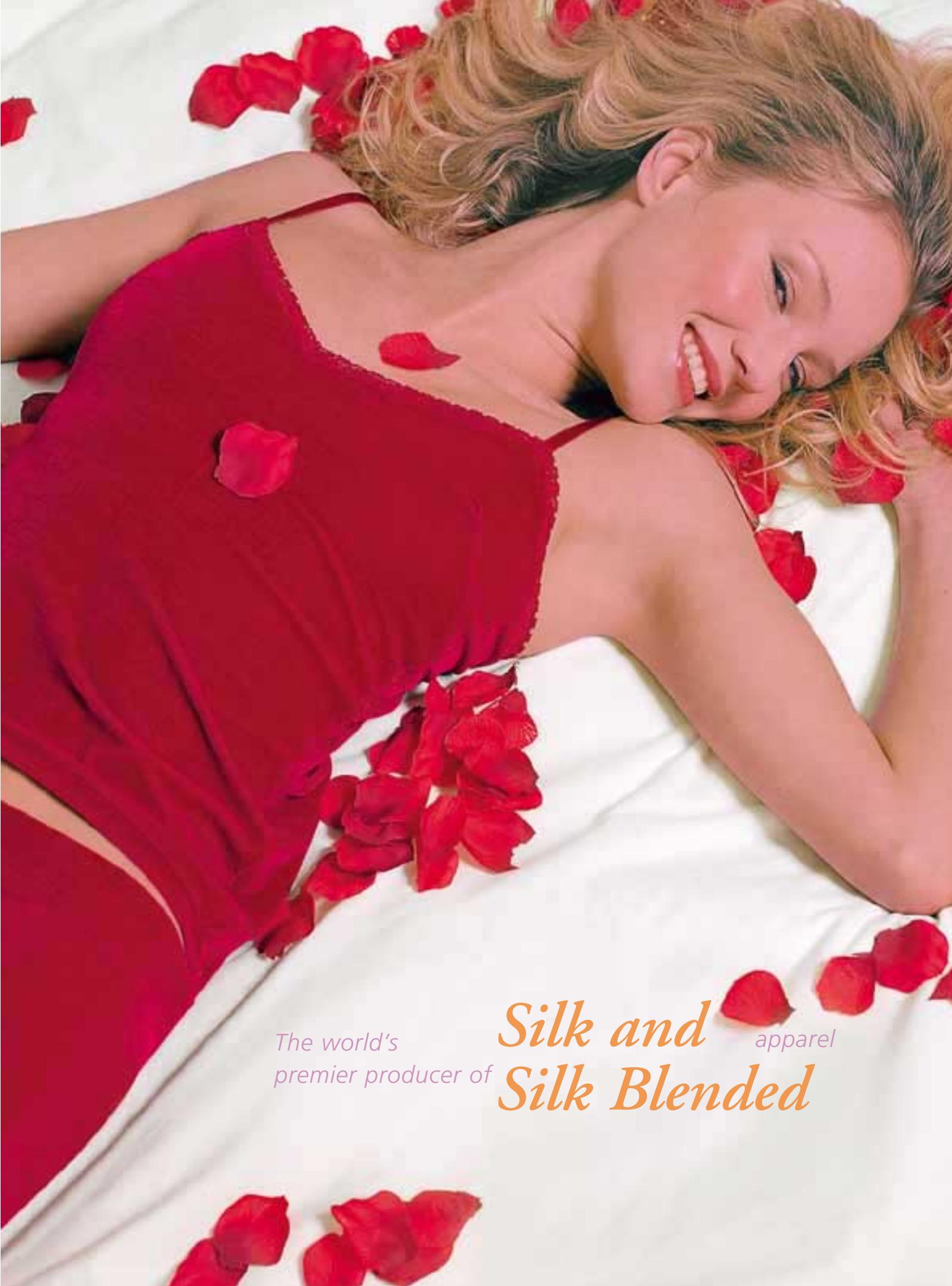
The increase in deposits, prepayments and other receivables was mainly due to the increase of Value Added Tax refundable from the PRC government.

Capital Expenditure

The acquisition of High Fashion Kaidi was completed in April 2002. Capital expenditure of HK\$28 million was invested in land and building for a new weaving project in Xinchang, Zhejiang Province. Total cash outlays of HK\$101 million was recorded, with a corresponding increase in fixed assets. Apart from these transactions, there was no material capital expenditure during the period.

General

The total number of employees of the Group including jointly-controlled entities and associates was reduced from 13,000 to 10,500 at 31 December 2002, down 19%.



The world's
premier producer of

Silk and apparel
Silk Blended

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Annual General Meeting of High Fashion International Limited (the “Company”) will be held at 10th Floor, High Fashion Centre, 1-11 Kwai Hei Street, Kwai Chung, New Territories, Hong Kong on Friday, 30 May 2003 at 10:30 a.m. for the following purposes:–

1. To adopt the Audited Financial Statements together with the Report of the Directors and the Report of the Auditors for the fifteen months ended 31 December 2002.
2. To declare a final dividend for the fifteen months ended 31 December 2002.
3. (a) To elect Directors.
(b) To authorize Directors to appoint any person as a Director either to fill a casual vacancy or as an addition to the existing Board of Directors.
4. To re-appoint Auditors and authorize the Directors to fix their remuneration.

By Order of the Board

Lin Yuet Man

Company Secretary

Hong Kong, 14 April 2003

Notes:

1. Any member entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and vote in his stead. A proxy need not be a member of the Company.
2. To be valid, forms of proxy and the power of attorney or other authority (if any) under which it is signed or a notarially certified copy of that power or authority, must be deposited at the head office and principal place of business of the Company at 11th Floor, High Fashion Centre, 1-11 Kwai Hei Street, Kwai Chung, New Territories, Hong Kong not less than 48 hours before the time appointed for holding the meeting or at any adjournment thereof.
3. The principal and branch registers of members of the Company will be closed from Friday, 23 May 2003 to Friday, 30 May 2003, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the proposed final dividend, all transfers accompanied by the relevant share certificates must be lodged with the Hong Kong Branch Share Registrars of the Company, Secretaries Limited of Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong for registration by no later than 4:30 p.m. on Thursday, 22 May 2003.



Biographical Details of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. LAM Foo Wah, aged 54, is the chairman and the managing director of the Company and a co-founder of the Group. He is also the chairman of Theme International Holdings Limited. He oversees the Group's operations and is responsible for formulating the Group's overall policy and development. He has over 25 years' experience in the manufacturing and marketing of garments.

Mr. IP Weng Kun, aged 56, is the deputy managing director of the Company and is principally responsible for the strategic planning of the Group's core operation in China, product development, sourcing and marketing. He joined the Group in 1982.

Mr. HUI Yip Wing, David, aged 53, joined the Group in 1996. Mr. Hui is an executive director of four other listed companies and is currently appointed as a non-executive director of a listed company. He possesses vast operational experience at senior management level, with special emphasis on strategic planning, financial control, re-engineering and total quality management.

Mr. WONG Shing Loong, Raymond, aged 53, joined the Group in 1997. He is responsible for the financing, personnel and administration of the Group. Mr. Wong is a fellow member of The Association of Chartered Certified Accountants and the Hong Kong Society of Accountants. Prior to joining the Group, he had worked as an executive director in a Hong Kong listed company.

Ms. SO Siu Hang, Patricia, aged 44, joined the Group in 1990. She is responsible for the strategic planning with focus on marketing and sales of the core operations. She received a bachelor's degree in commerce and finance and a master's degree in business administration from the University of Toronto and York University in Canada respectively. Prior to joining the Group, she had worked for an international bank.

Mr. Jack WEINSTOCK, aged 73, joined the Group in 1991. He is the chairman emeritus of August Silk Inc. He has over 52 years' experience in the import, export, marketing and sales of garments. He graduated from Michigan State University with a bachelor's degree in arts. He also holds an honorary Ph.D. in human relations from the Academy of Arts College in San Francisco, California, the USA.

NON-EXECUTIVE DIRECTORS

Mr. WOO King Wai, David, aged 58, joined the Group in 1992. He holds a bachelor's degree in architecture (Honours) from the University of California, Berkeley, the USA. He is a member of the Hong Kong Institute of Architects and the Royal Australian Institute of Architects. He is currently an executive member of the Hainan Political Consultative Conference, the People's Republic of China.

Mr. CHAN Wah Tip, Michael, aged 50, joined the Group as a company secretary in 1992 and was appointed as a non-executive director in 1995. He has been practising as a solicitor in Hong Kong for over 20 years and is a partner of Wilkinson & Grist, the legal adviser of the Company.

SENIOR MANAGEMENT

Mr. Louis BREUNING, aged 47, joined the Group in 1994. He has over 20 years' experience in the knit, dress & sportswear industry and is the president of August Silk Inc.. He graduated from St. John University in New York, the USA with a bachelor's degree in business.

Mr. CHAN Chun Man, Benedict, aged 48, is the chairman of August Silk Inc. and High Fashion International (USA) Inc.. He is responsible for overseeing the Group's investments in the USA. He graduated from the University of Hong Kong with a bachelor's degree in economics and pure mathematics. He is a member of The Association of Chartered Certified Accountants, the Hong Kong Society of Accountants and the American Institute of Certified Public Accountants. Mr. Chan joined the Group in 1992.

Mr. CHU Dom Lam, aged 50, joined the Group in 1980. He is a director of High Fashion Garments Company Limited and is responsible for the management of the Group's garment manufacturing operations in the People's Republic of China.

Mr. FEI Jian Ming, aged 51, is a director of High Fashion Garments Company Limited and the general manager of Hangzhou Westlake High Fashion Industry Co., Ltd. and Zhejiang High Fashion Kaidi Silk Company Limited. He joined the Group in 1993. He graduated from Zhejiang University and holds a master degree in business administration. He is a part-time professor of Zhejiang Institute of Science & Technology and the vice-president of Hangzhou Foreign Investment Association & Hangzhou Garments Association. He has over 20 years' management experience in clothing industry.

Ms. HU Ze Lin, aged 52, is a deputy general manager of Zhejiang Xinchang High Fashion Silk Co., Ltd. She is responsible for the production of that company. She joined the Group in 1993. She got the title of Economist in China. She has over 20 years' experience in textile industry with good experience in quality control in silk weaving production management.

Ms. LEUNG Suk Yin, Hilda, aged 46, has been with the Group since its inception. She holds a diploma in business management from the Hong Kong Polytechnic University and the Hong Kong Management Association. She has over 20 years' experience in the sales and merchandising of garments in Hong Kong and is a director of High Fashion Garments Company Limited.

Mr. LIN Ping, aged 42, is the general manager of Zhejiang Xinchang High Fashion Silk Science & Technology Co., Ltd and a deputy general manager of Zhejiang Xinchang High Fashion Silk Co., Ltd. He is responsible for the operation and administration of two companies. He is also a permanent member of China Fashion Color Association, a deputy general director of China Fashion Color Association Silk Committee, a permanent member of Zhejiang Province Silk Association. He joined the Group in 1993. He got the title of Economist in China. He has over 20 years' experience in textile industry with wide experience in product design and development, silk weaving production and management.

Mr. LIN Yuet Man, Edwin, aged 42, joined the Group in 1997. He is the company secretary of the Company and a director of High Fashion Garments Management Limited. He has over 20 years' experience in accounting field. He is a member of The Association of Chartered Certified Accountants, the Hong Kong Society of Accountants, The Hong Kong Institute of Company Secretaries and The Institute of Chartered Secretaries & Administrators. He also holds a master's degree in business administration.

Mr. Fritz PENWELL, aged 63, is the president of High Fashion Garments, Inc., and holds a master's degree in industrial psychology. He has over 30 years' experience in importing, sales and marketing in the fashion industry both in the USA and overseas. He was a principal in several New York knitwear and California/Japanese sportswear companies. He joined the Group in 1994.

Mr. RUAN Gen Yao, aged 42, is the general manager of Hangzhou Dalifu Silk Finishing Co., Ltd. He is responsible for the operation of that company. He joined the Group in 2001. He got the title of Politician Engineer in China and being Labour Model of Hangzhou and the representation of the People's Congress of Tonglu, China. He has over 10 years' experience in silk finishing and dyeing with good experience in business management and silk finishing and dyeing.

Ms. WONG Man Lui, Endora, aged 47, joined the Group in 1991. She has over 20 years' experience in the sales and merchandising of garments. She is a director of High Fashion Knitwear Overseas Limited and is responsible for the development of knit product, sample operation, management of all the knit garments and for the Group's China and offshore operation.

Mr. WONG Wai Kuen, Henry, aged 47, joined the Group in 2000. He is a director of High Fashion Garments Management Limited and is mainly responsible for banking, investor relations, human resources and administration of the Group. Prior to joining the Group, he had worked for an international bank for more than 20 years.

Mr. Nicholas E. G. WRIGHT, aged 48, joined the Group in 1993. He is the managing director of High Fashion (U.K.) Limited. He has over 19 years' experience in the clothing industry.

Mr. ZHANG Shan Pu, aged 47, is the general manager of Suzhou High Fashion Garment Co., Ltd. He is responsible for the operation of that company. He joined the Group in 1999. He graduated from an institution and has over 10 years' experience in silk knitting garments management with good experience in business management and silk knitting production.

Mr. ZHU Jian Ping, aged 42, is the general manager of Zhejiang Xinchang High Fashion Silk Co., Ltd. He joined the Group in 1993. He got the title of Economist in China. He has over 20 years' experience in textile industry with wide experience in silk weaving production and management.

Report of the Directors

The directors present their report and the audited financial statements of the Company and the Group for the period from 1 October 2001 to 31 December 2002.

CHANGE OF FINANCIAL YEAR END DATE

The Group changed its financial year end date from 30 September to 31 December with effect from 1 October 2001. The current accounting period covers a period of fifteen months from 1 October 2001 to 31 December 2002.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the principal subsidiaries are set out in note 18 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the period.

RESULTS AND DIVIDENDS

The Group's loss for the period from 1 October 2001 to 31 December 2002 and the state of affairs of the Company and the Group at 31 December 2002 are set out in the financial statements on pages 21 to 76.

The first interim dividend of 1 HK cent per ordinary share was paid on 27 July 2002.

The second interim dividend of 1 HK cent per ordinary share was declared on 17 December 2002 and paid on 18 January 2003.

The directors recommend the payment of a final dividend of 1 HK cent per ordinary share in respect of the period, to shareholders on the register of members on 30 May 2003. This recommendation has been incorporated in the financial statements as an allocation of retained earnings within capital and reserves in the balance sheet. Further details of this accounting treatment are set out in note 13 to the financial statements.

FIVE YEAR FINANCIAL SUMMARY

A summary of the published results and assets and liabilities of the Group for the last five financial years, as extracted from the audited financial statements and reclassified as appropriate, is set out on page 77. This summary does not form part of the audited financial statements.

FIXED ASSETS AND INVESTMENT PROPERTIES

Details of movements in the fixed assets and investment properties of the Group during the period are set out in notes 15 and 16 to the financial statements, respectively.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the period, together with the reasons therefor, are set out in notes 31 and 32 to the financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws or the laws of Bermuda which would oblige the Company to offer new shares on a pro rata basis to its existing shareholders.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

The Company did not redeem any of its listed securities during the period. Neither the Company, nor any of its subsidiaries purchased or sold any of the Company's listed securities during the period.

RESERVES

Details of movements in the reserves of the Company and the Group during the period are set out in note 33 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

At 31 December 2002, the Company's reserves available for distribution, calculated in accordance with the provisions of The Companies Act 1981 of Bermuda (as amended), amounted to HK\$151,943,000. In addition, the Company's share premium account, in the amount of HK\$292,131,000, may be distributed in the form of fully paid bonus shares.

CHARITABLE CONTRIBUTIONS

During the period, the Group made charitable contributions totalling HK\$409,000.

MAJOR CUSTOMERS AND SUPPLIERS

In the period under review, sales to the Group's five largest customers accounted for 34% of the total sales for the period and sales to the largest customer included therein amounted to 9%. Purchases from the Group's five largest suppliers accounted for less than 30% of the total purchases for the period.

None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or five largest suppliers.

DIRECTORS

The directors of the Company during the period and up to the date of this report were:

Executive directors:

Lam Foo Wah
Ip Weng Kun
Hui Yip Wing, David
Wong Shing Loong, Raymond
So Siu Hang, Patricia
Jack Weinstock

Non-executive directors:

Poon Hon Kam	(resigned on 26 March 2002)
Woo King Wai, David	(independent director)
Chan Wah Tip, Michael	(independent director)

In accordance with the Company's bye-laws, Messrs. Hui Yip Wing, David and Wong Shing Loong, Raymond will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting. The non-executive directors are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Company's bye-laws.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 11 to 13 of the Annual Report.

DIRECTORS' SERVICE CONTRACTS

No director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

Mr. Chan Wah Tip, Michael, a director of the Company, was interested in contracts for the provision of legal advisory services to the Group. Further details of the transactions undertaken in connection therewith are included in note 39 to the financial statements. Save for the foregoing, no director had a material interest in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the period.

DIRECTORS' INTERESTS IN SHARES

At 31 December 2002, the interests of the directors in the share capital of the Company and its subsidiaries as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") were as follows:

(i) **The Company**

Name of director	Notes	Number of ordinary shares held and nature of interest		
		Personal	Family	Other
Lam Foo Wah	1,2,3	–	–	120,807,986
Ip Weng Kun	4	–	–	5,627,848
So Siu Hang, Patricia		1,508,809	–	–
Hui Yip Wing, David		–	2,652,007	–
Wong Shing Loong, Raymond		2,600,000	–	–
Jack Weinstock		1,178,600	–	–

(ii) **Subsidiary – High Fashion Knitters Limited**

Name of director	Note	Nature of interest	Number of ordinary shares held
Lam Foo Wah	5	Corporate	5,339,431

Notes:

- Mr. Lam Foo Wah is deemed to have an interest in 10,672,797 ordinary shares which are beneficially owned by Annick Investment Limited, the entire issued share capital of which is held under a related discretionary trust.
- Mr. Lam Foo Wah is deemed to have an interest in 77,963,622 ordinary shares which are beneficially owned by Hinton Company Limited, the entire issued share capital of which is held under a related discretionary trust.
- Mr. Lam Foo Wah is deemed to have an interest in 32,171,567 ordinary shares which is beneficially owned by High Fashion Charitable Foundation Limited, the entire issued share capital of which is held under a related discretionary trust.
- Mr. Ip Weng Kun is deemed to have an interest in 5,627,848 ordinary shares which are beneficially owned by Major Rank Holdings Limited, the entire issued share capital of which is held under a related discretionary trust.
- These shares are held through three companies beneficially owned by Mr. Lam Foo Wah.

The interests of the directors in the share options of the Company are separately disclosed in note 32 to the financial statements.

Save as disclosed above, none of the directors, chief executives or their associates had any personal, family, corporate or other interests in the equity or debt securities of the Company, its subsidiaries or any of its associated corporations as defined in the SDI Ordinance.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from as disclosed in the share option scheme disclosures in note 32 to the financial statements, at no time during the period were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

SUBSTANTIAL SHAREHOLDERS

At 31 December 2002, the following interests of 10% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance.

Name	Number of ordinary shares held	%
Hinton Company Limited	77,963,622	approximately 24

The interests of Hinton Company Limited has also been disclosed as the interests of Mr. Lam Foo Wah under the section "Directors' interests in shares".

Save as disclosed above, no person, other than the directors of the Company whose interests are set out in the section "Directors' interests in shares", had registered an interest in the share capital of the Company that was required to be recorded pursuant to Section 16(1) of the SDI Ordinance.

CONNECTED TRANSACTIONS

During the period, additional loan facilities in the amount of HK\$70 million were granted to Theme International Holdings Limited ("Theme") by Navigation Limited, a wholly-owned subsidiary of the Company, bringing a total loan facilities granted to Theme as at the balance sheet date to HK\$100 million. At the balance sheet date, the outstanding loan balance, amounting to HK\$64 million, was unsecured and bore interest at the Hong Kong Dollar Prime Rate. A total interest income of HK\$2,835,000 was received by Navigation Limited during the period.

Theme is a non-wholly owned subsidiary of the Company.

CODE OF BEST PRACTICE

None of the directors is aware of information that would reasonably indicate that the Company is not, or was not for any part of the fifteen months ended 31 December 2002, in compliance with Appendix 14.

AUDIT COMMITTEE

The Company has an audit committee which was established in accordance with the requirements of the Code of Best Practice for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises the two independent non-executive directors of the Company.

AUDITORS

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

Lam Foo Wah

Chairman

Hong Kong

14 April 2003

Report of the Auditors



To the members

High Fashion International Limited
(Incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 21 to 76 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2002 and of the loss and cash flows of the Group for the period from 1 October 2001 to 31 December 2002 and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

ERNST & YOUNG
Certified Public Accountants

Hong Kong
14 April 2003

Consolidated Profit and Loss Account

Period from 1 October 2001 to 31 December 2002

	Notes	Period from 1 October 2001 to 31 December 2002 HK\$'000	Year ended 30 September 2001 HK\$'000 (Restated)
TURNOVER	6	2,173,480	2,325,666
Cost of sales		(1,545,306)	(1,656,376)
Gross profit		628,174	669,290
Other revenue and gains		36,434	29,925
Selling and distribution expenses		(301,760)	(234,041)
Administrative expenses		(343,366)	(306,360)
PROFIT FROM OPERATING ACTIVITIES	7	19,482	158,814
Finance costs	8	(37,171)	(37,604)
Impairment of goodwill		–	(58,672)
Loss on disposal of subsidiaries, associates and jointly-controlled entity		(6,672)	–
Write back of provision/(provision) of investments in and amounts due from jointly-controlled entities		3,284	(14,003)
Share of profits and losses of:			
Jointly-controlled entities		1,100	1,182
Associates		(1,016)	2,009
PROFIT/(LOSS) BEFORE TAX		(20,993)	51,726
Tax	11	(1,687)	(6,892)
PROFIT/(LOSS) BEFORE MINORITY INTERESTS		(22,680)	44,834
Minority interests		(727)	(716)
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	12	(23,407)	44,118
DIVIDENDS	13		
Interim		6,481	21,834
Proposed final		3,249	24,955
		9,730	46,789
EARNINGS/(LOSS) PER SHARE	14		
Basic		(7.4 cents)	14.1 cents
Diluted		N/A	13.7 cents

Consolidated Balance Sheet

31 December 2002

		31 December 2002 HK\$'000	30 September 2001 HK\$'000 (Restated)
	<i>Notes</i>		
NON-CURRENT ASSETS			
Fixed assets	15	351,920	266,606
Investment properties	16	29,000	29,000
Trademarks	17	6,053	6,917
Interests in jointly-controlled entities	19	19,761	19,006
Interests in associates	20	(608)	9,503
Long term investments	21	13,793	13,793
		419,919	344,825
CURRENT ASSETS			
Cash and bank balances		137,043	153,795
Time deposits		–	118,811
Pledged deposits		11,961	–
Bonds and certificate of deposits	22	10,000	23,452
Bills receivable		–	5,560
Trade receivables	23	223,083	260,422
Inventories	24	313,296	302,478
Deposits, prepayments and other receivables		195,243	155,358
Amounts due from jointly-controlled entities	19	2,780	1,109
		893,406	1,020,985
CURRENT LIABILITIES			
Bank loans and overdrafts	25	264,457	306,284
Finance lease and hire purchase contract payables	26	508	433
Bills payable		9,568	35,970
Trade payables and accrued purchases	27	218,157	198,007
Other payables and accruals	28	134,673	152,376
Tax payable		4,177	7,539
Dividend payable		3,249	–
Amounts due to associates		–	4,038
Amounts due to jointly-controlled entities		–	8,688
		634,789	713,335
NET CURRENT ASSETS			
		258,617	307,650
TOTAL ASSETS LESS CURRENT LIABILITIES			
		678,536	652,475

Consolidated Balance Sheet (cont'd)

31 December 2002

		31 December 2002 HK\$'000	30 September 2001 HK\$'000 <i>(Restated)</i>
NON-CURRENT LIABILITIES			
Bank loans	25	100,120	22,000
Finance lease and hire purchase contract payables	26	589	307
Provision for long service payments	29	4,490	11,421
Deferred tax	30	3,430	3,430
		108,629	37,158
MINORITY INTERESTS			
		9,000	19,762
		560,907	595,555
CAPITAL AND RESERVES			
Issued capital	31	32,438	31,192
Reserves	33(a)	525,220	539,408
Proposed final dividend		3,249	24,955
		560,907	595,555

Lam Foo Wah
Director

Ip Weng Kun
Director

Consolidated Statement of Changes in Equity

Period from 1 October 2001 to 31 December 2002

		Issued share capital	Share premium account	Exchange fluctuation reserve	PRC reserve funds	Capital reserve/ (goodwill)	Capital redemption reserve	Investment property revaluation reserve	Retained profits	Proposed final dividend	Total
	Notes	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 October 2000:											
As previously reported		31,234	275,941	(3,028)	9,071	(57,941)	4,661	-	255,531	-	515,469
Prior year adjustments:											
SSAP 9-Proposed final dividend for 2000	13	-	-	-	-	-	-	-	-	39,926	39,926
SSAP 34-Accrued paid leave	28	-	-	-	-	-	-	-	(6,909)	-	(6,909)
As restated		31,234	275,941	(3,028)	9,071	(57,941)	4,661	-	248,622	39,926	548,486
Revaluation surplus		-	-	-	-	-	-	213	-	-	213
Exchange realignment		-	-	935	125	-	-	-	-	-	1,060
Net gains and losses not recognised in the profit and loss account											
		-	-	935	125	-	-	213	-	-	1,273
Transfer from retained profits		-	-	-	2,411	-	42	-	(2,453)	-	-
Repurchase of shares		(42)	-	-	-	-	-	-	(522)	-	(564)
Net profit for the year		-	-	-	-	-	-	-	44,118	-	44,118
Impairment of goodwill	33(a)	-	-	-	-	58,672	-	-	-	-	58,672
Capital reserve on acquisition		-	-	-	-	5,330	-	-	-	-	5,330
Declared final dividend for 2000		-	-	-	-	-	-	-	-	(39,926)	(39,926)
Interim dividend for 2001	13	-	-	-	-	-	-	-	(21,834)	-	(21,834)
Proposed final dividend for 2001	13	-	-	-	-	-	-	-	(24,955)	24,955	-
At 30 September 2001		31,192	275,941	(2,093)	11,607	6,061	4,703	213	242,976	24,955	595,555
At 1 October 2001:											
As previously reported		31,192	275,941	(2,093)	11,607	(52,611)	4,703	213	307,647	-	576,599
Prior year adjustments:											
SSAP 9-Proposed final dividend for 2001	13	-	-	-	-	-	-	-	-	24,955	24,955
SSAP 30-Impairment of goodwill	33(a)	-	-	-	-	58,672	-	-	(58,672)	-	-
SSAP 34-Accrued paid leave	28	-	-	-	-	-	-	-	(5,999)	-	(5,999)
As restated		31,192	275,941	(2,093)	11,607	6,061	4,703	213	242,976	24,955	595,555
Exchange realignment		-	-	4,927	-	-	-	-	-	-	4,927
Net gains and losses not recognised in the profit and loss account											
		-	-	4,927	-	-	-	-	-	-	4,927

Consolidated Statement of Changes in Equity (cont'd)

Period from 1 October 2001 to 31 December 2002

	Notes	Issued share capital HK\$'000	Share premium account HK\$'000	Exchange fluctuation reserve HK\$'000	PRC reserve funds HK\$'000	Capital reserve/ (goodwill) HK\$'000	Capital redemption reserve HK\$'000	Investment	Retained profits HK\$'000	Proposed final dividend HK\$'000	Total HK\$'000
								property revaluation reserve HK\$'000			
Transfer from retained profits		-	-	-	1,045	-	-	-	(1,045)	-	-
Scrip dividends		1,018	15,267	-	-	-	-	-	-	-	16,285
Exercise of share options		228	923	-	-	-	-	-	-	-	1,151
Release upon disposal of subsidiaries		-	-	(2,535)	(4,397)	-	-	-	4,397	-	(2,535)
Release upon disposal of associates and jointly-controlled entity		-	-	367	(2,315)	-	-	-	2,315	-	367
Net loss for the period		-	-	-	-	-	-	-	(23,407)	-	(23,407)
Declared final dividend for 2001		-	-	-	-	-	-	-	-	(24,955)	(24,955)
First interim dividend for 2002	13	-	-	-	-	-	-	-	(3,232)	-	(3,232)
Second interim dividend for 2002	13	-	-	-	-	-	-	-	(3,249)	-	(3,249)
Proposed final dividend for 2002	13	-	-	-	-	-	-	-	(3,249)	3,249	-
At 31 December 2002		32,438	292,131*	666*	5,940*	6,061*	4,703*	213*	215,506*	3,249	560,907
Reserves retained by:											
Company and subsidiaries		32,438	292,131	1,493	5,940	6,061	4,703	213	244,734	3,249	590,962
Jointly-controlled entities		-	-	(827)	-	-	-	-	(29,228)	-	(30,055)
31 December 2002		32,438	292,131	666	5,940	6,061	4,703	213	215,506	3,249	560,907
Company and subsidiaries		31,192	275,941	(1,632)	9,292	6,061	4,703	213	264,291	24,955	615,016
Jointly-controlled entities		-	-	(735)	622	-	-	-	(30,443)	-	(30,556)
Associates		-	-	274	1,693	-	-	-	9,128	-	11,095
30 September 2001		31,192	275,941	(2,093)	11,607	6,061	4,703	213	242,976	24,955	595,555

* *These reserve accounts comprise the consolidated reserves of HK\$525,220,000 (30 September 2001 (restated): HK\$539,408,000) in the consolidated balance sheet.*

Consolidated Cash Flow Statement

Period from 1 October 2001 to 31 December 2002

	Notes	Period from 1 October 2001 to 31 December 2002 HK\$'000	Year ended 30 September 2001 HK\$'000 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before tax		(20,993)	51,726
Adjustments for:			
Finance costs		37,171	37,604
Impairment of goodwill		–	58,672
Loss on disposal of subsidiaries, associates and jointly-controlled entity		6,672	–
Provision/(write back of provision) of investments in and amounts due from jointly-controlled entities		(3,284)	14,003
Share of profits and losses of jointly-controlled entities and associates		(84)	(3,191)
Interest income	7	(5,715)	(11,824)
Dividend income from long term investments	7	(2,047)	–
Write back of impairment of a long term investment	7	–	(675)
Gain on disposal of a long term investment	7	–	(240)
Loss/(gain) on disposal of fixed assets	7	(370)	3,169
Depreciation	7	47,572	28,480
Amortisation of trademarks	7	864	–
Operating profit before working capital changes		59,786	177,724
Decrease/(increase) in bonds and certificate of deposits		13,452	(23,452)
Decrease in bills receivable		5,560	11,977
Decrease in trade receivables		33,112	9,899
Increase in inventories		(11,979)	(13,637)
Increase in deposits, prepayments and other receivables		(42,203)	(54,535)
Decrease/(increase) in amounts due from jointly-controlled entities		(533)	22,471
Decrease in bills payable		(26,402)	(10,051)
Increase/(decrease) in trade payables and accrued purchases		28,203	(6,178)
Decrease in other payables and accruals		(17,100)	(38,326)
Decrease in provision for long service payments		(6,931)	(639)
Increase in amounts due to associates		–	953
Increase in amounts due to jointly-controlled entities		–	18,871
Cash generated from operations		34,965	95,077
Hong Kong profits tax paid		(3,167)	(1,203)
Taxes paid elsewhere		(1,172)	(3,714)
Net cash inflow from operating activities		30,626	90,160

Consolidated Cash Flow Statement (cont'd)

Period from 1 October 2001 to 31 December 2002

	Notes	Period from 1 October 2001 to 31 December 2002 HK\$'000	Year ended 30 September 2001 HK\$'000 (Restated)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		5,715	11,824
Dividends received from long term investments		2,047	–
Purchases of fixed assets		(157,490)	(80,112)
Purchases of investment properties		–	(28,787)
Proceeds from disposal of fixed assets		8,007	2,892
Proceeds from disposal of a long term investment		–	2,200
Decrease/(increase) in amounts due from jointly-controlled entities		4,360	(10,182)
Decrease in amounts due to jointly-controlled entities		–	(2,271)
Decrease in amounts due from associates		–	1,401
Increase/(decrease) in amounts due to associates		115	(2,780)
Acquisition of subsidiaries	34(b)	–	16,441
Capital contribution to a jointly-controlled entity		(5,974)	–
Disposal of subsidiaries	34(c)	(1,839)	–
Increase in pledged deposits		(11,961)	–
Proceeds from disposal of associates		3,206	–
Acquisition of minority interests in subsidiaries		(271)	(2,007)
Net cash outflow from investing activities		(154,085)	(91,381)
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans		458,710	292,264
Increase/(decrease) in trust receipt loans		(112,659)	55,456
Repayment of bank loans		(309,675)	(230,238)
Repayment of other loans		–	(3,509)
Repurchase of shares		–	(564)
Capital element of finance lease and hire purchase rental payments		(661)	(698)
Interest paid	8	(24,111)	(25,205)
Interest element on finance lease and hire purchase rental payments	8	(81)	(331)
Factoring expenses	8	(4,913)	(5,778)
Bank charges	8	(8,066)	(6,290)
Exercise of share options	31	1,151	–
Dividends paid		(11,902)	(61,760)
Net cash inflow/(outflow) from financing activities		(12,207)	13,347

Consolidated Cash Flow Statement (cont'd)

Period from 1 October 2001 to 31 December 2002

	Period from 1 October 2001 to 31 December 2002 HK\$'000	Year ended 30 September 2001 HK\$'000 (Restated)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	(135,666)	12,126
Cash and cash equivalents at beginning of period/year	271,520	258,288
Effect of foreign exchange rate changes, net	186	1,106
CASH AND CASH EQUIVALENTS AT END OF PERIOD/YEAR	136,040	271,520
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	137,043	153,795
Non-pledged time deposits with original maturity of less than three months when acquired	–	118,811
Bank overdrafts, unsecured	(1,003)	(1,086)
	136,040	271,520

Balance Sheet

31 December 2002

		31 December 2002 HK\$'000	30 September 2001 HK\$'000 (Restated)
NON-CURRENT ASSETS			
Interests in subsidiaries	18	481,983	434,303
CURRENT ASSETS			
Bank balances		61	46
Dividend receivable		20,000	60,000
		20,061	60,046
CURRENT LIABILITIES			
Other payables and accruals		1,011	916
Tax payable		48	48
Dividend payable		3,249	–
		4,308	964
NET CURRENT ASSETS		15,753	59,082
		497,736	493,385
CAPITAL AND RESERVES			
Issued capital	31	32,438	31,192
Reserves	33(b)	462,049	437,238
Proposed final dividend		3,249	24,955
		497,736	493,385

Lam Foo Wah
Director

Ip Weng Kun
Director

Notes to Financial Statements

31 December 2002

1. CORPORATE INFORMATION

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

2. CHANGE OF FINANCIAL YEAR END DATE

In order to be coterminous with the financial year end date of the Company's major subsidiaries in the People's Republic of China ("PRC"), the financial year end date of the Company was changed from 30 September to 31 December with effect from 1 October 2001. These financial statements cover a period of fifteen months from 1 October 2001 to 31 December 2002. Accordingly, the comparative amounts presented for the consolidated profit and loss, statement of changes in equity, cash flow statement and related notes in respect of the financial year ended 30 September 2001 are not for a comparable time period.

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

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

- SSAP 1 (Revised) : "Presentation of financial statements" *
- SSAP 9 (Revised) : "Events after the balance sheet date"
- SSAP 11 (Revised) : "Foreign currency translation" *
- SSAP 15 (Revised) : "Cash flow statements" *
- SSAP 18 (Revised) : "Revenue"
- SSAP 26 : "Segment reporting"
- SSAP 28 : "Provisions, contingent liabilities and contingent assets"
- SSAP 29 : "Intangible assets"
- SSAP 30 : "Business combinations"
- SSAP 31 : "Impairment of assets"
- SSAP 32 : "Consolidated financial statements and accounting for investments in subsidiaries"
- SSAP 33 : "Discontinuing operations" *
- SSAP 34 : "Employee benefits" *
- Interpretation 13 : "Goodwill – continuing requirements for goodwill and negative goodwill previously eliminated against/credited to reserves"

* *Adopted before their effective dates.*

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

SSAP 1 (Revised) prescribes the basis for the presentation of financial statements and sets out guidelines for their structure and minimum requirements for the content thereof. The principal impact of the revision to this SSAP is that a consolidated statement of changes in equity is now presented on pages 24 to 25 of the financial statements in place of the consolidated statement of recognised gains and losses that was previously required.

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

SSAP 9 (Revised) prescribes which type of events occurring after the balance sheet date require adjustment to the financial statements, and which require disclosure, but no adjustment. Its principal impact on these financial statements is that the proposed final dividend which is not declared and approved until after the balance sheet date, is no longer recognised as a liability at the balance sheet date, but is disclosed as an allocation of retained earnings on a separate line within the capital and reserves section of the balance sheet. The prior year adjustment arising from the adoption of this new SSAP is detailed in note 13 to the financial statements.

SSAP 11 (Revised) prescribes the basis for the translation of foreign currency transactions and financial statements. The principal impact of the revision of this SSAP on the consolidated financial statements is that the profit and loss accounts of overseas subsidiaries, jointly-controlled entities and associates are now translated to Hong Kong dollars at the weighted average exchange rates, whereas previously they were translated at the exchange rates at the balance sheet date. The adoption of the revised SSAP 11 has had no material effect on the financial statements.

SSAP 15 (Revised) prescribes the revised format for the cash flow statement. The principal impact of the revision of this SSAP is that the consolidated cash flow statement now presents cash flows under three headings, cash flows from operating, investing and financing activities, rather than the five headings previously required. In addition, the definition of cash equivalents for the purpose of the cash flow statement has been revised. Further details of these changes and the prior year adjustments that have resulted from them are included in the accounting policy for "Cash and cash equivalents" in note 4 and in note 34(a) to the financial statements.

SSAP 26 prescribes the principles to be applied for reporting financial information by segment. It requires that management assesses whether the Group's predominant risks or returns are based on business segments or geographical segments and determines one of these bases to be the primary segment information reporting format, with the other as the secondary segment information reporting format. The impact of this SSAP is the inclusion of significant additional segment reporting disclosures which are set out in note 5 to the financial statements.

SSAP 28 prescribes the recognition criteria and measurement bases to apply to provisions, contingent liabilities and contingent assets, together with the required disclosures in respect thereof. Provisions are now disclosed as a separate line item on the face of the balance sheet and note 29 to the financial statements "Provision for long service payments" has been revised to include the new required additional disclosures.

SSAP 29 prescribes the recognition and measurement criteria for intangible assets, together with the disclosure requirements. The SSAP requires that intangible assets are amortised over their estimated useful life. This change in the accounting treatment has had no material effect on the net carrying amount of intangible assets in the balance sheet.

3. **IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE (“SSAPs”) AND THOSE ADOPTED BEFORE THEIR EFFECTIVE DATES (cont'd)**

SSAP 30 prescribes the accounting treatment for business combinations, including the determination of the date of acquisition, the method for determining the fair values of the assets and liabilities acquired, and the treatment of goodwill or negative goodwill arising on acquisition. The SSAP requires the disclosure of goodwill and negative goodwill in the non-current assets section of the balance sheet. It requires that goodwill is amortised to the profit and loss account over its estimated useful life. Negative goodwill is recognised in the profit and loss account depending on the circumstances from which it arose, as further described in the accounting policy for negative goodwill disclosed in note 4 to the financial statements. Interpretation 13 prescribes the application of SSAP 30 to goodwill arising from acquisitions in previous years which remains eliminated against reserves. The adoption of the SSAP and Interpretation has resulted in a prior year adjustment, further details of which are included in note 33(a) to the financial statements.

SSAP 34 prescribes the recognition and measurement criteria to apply to employee benefits, together with the required disclosures in respect thereof. The adoption of this SSAP has resulted in the recognition of an accrual for paid holiday carried forward by the Group's employees as at the balance sheet date. The recognition of this accrual has resulted in a prior year adjustment, further details of which are included under the heading “Employee benefits” in note 4 and in note 28 to the financial statements. In addition, disclosures are now required in respect of the Company's share option schemes, as detailed in note 32 to the financial statements. These share option scheme disclosures are similar to the Listing Rules disclosures previously included in the Report of the Directors, which are now required to be included in the notes to the financial statements as a consequence of the SSAP.

4. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic remeasurement of investment properties and bonds and certificate of deposits, as further explained below.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the period from 1 October 2001 to 31 December 2002. The results of subsidiaries acquired or disposed of during the period are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Subsidiaries

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities. The Company's interests in subsidiaries are stated at cost less any impairment losses.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Joint venture companies

A joint venture company is a company set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture company operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture company's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture company is treated as:

- (a) a subsidiary, if the Company has unilateral control, directly or indirectly, over the joint venture company;
- (b) a jointly-controlled entity, if the Company does not have unilateral control, but has joint control, directly or indirectly, over the joint venture company;
- (c) an associate, if the Company does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture company's registered capital and is in a position to exercise significant influence over the joint venture company; or
- (d) a long term investment, if the Company holds, directly or indirectly, less than 20% of the joint venture company's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture company.

Jointly-controlled entities

A jointly-controlled entity is a joint venture company which is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's share of the post-acquisition results and reserves of jointly-controlled entities is included in the consolidated profit and loss account and consolidated reserves, respectively. Where the profit sharing ratio is different to the Group's equity interest, the share of post-acquisition results of the jointly-controlled entities is determined based on the agreed profit sharing ratio. The Group's interests in jointly-controlled entities are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting less any impairment losses.

4. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

Associates

An associate is a company, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting less any impairment losses.

Goodwill

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

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life. In the case of associates and jointly-controlled entities, any unamortised goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

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

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

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

The adoption of SSAP 30 has resulted in a prior year adjustment, further details of which are included in note 33(a) to the financial statements.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)**Negative goodwill**

Negative goodwill arising on the acquisition of subsidiaries, associates and jointly-controlled entities represents the excess of the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition, over the cost of the acquisition.

To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the acquisition plan and that can be measured reliably, but which do not represent identifiable liabilities as at the date of acquisition, that portion of negative goodwill is recognised as income in the consolidated profit and loss account when the future losses and expenses are recognised.

To the extent that negative goodwill does not relate to identifiable expected future losses and expenses as at the date of acquisition, negative goodwill is recognised in the consolidated profit and loss account on a systematic basis over the remaining average useful life of the acquired depreciable/amortisable assets. The amount of any negative goodwill in excess of the fair values of the acquired non-monetary assets is recognised as income immediately.

In the case of associates and jointly-controlled entities, any negative goodwill not yet recognised in the consolidated profit and loss account is included in the carrying amount thereof, rather than as a separately identified item on the consolidated balance sheet.

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

On disposal of subsidiaries, associates or jointly-controlled entities, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of negative goodwill which has not been recognised in the consolidated profit and loss account and any relevant reserves as appropriate. Any attributable negative goodwill previously credited to the capital reserve at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.

Impairment of assets

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

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

4. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

Fixed assets and depreciation

Fixed assets, other than investment properties and construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

Depreciation is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold land	Over the lease terms
Buildings	2% to 5%
Leasehold improvements	Over the lease terms
Plant and equipment	9% to 20%
Furniture and fixtures	9% to 25%
Motor vehicles	9% to 25%

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents buildings under construction and plant and equipment in the process of installation, which is stated at cost less any impairment losses and is not depreciated. Cost comprises direct costs of construction and installation. Construction in progress is reclassified to the appropriate category of fixed assets when completed and ready for use.

Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are intended to be held on a long term basis for their investment potential, any rental income being negotiated at arm's length. Such properties are not depreciated and are stated at their open market values on the basis of annual professional valuations performed at the end of each financial year. Changes in the values of investment properties are dealt with as movements in the investment property revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on a portfolio basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged.

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)**Leased assets**

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in fixed assets and depreciated over the estimated useful lives of the assets. The finance costs of such leases are charged to the profit and loss account so as to provide a constant periodic rate of charge over the lease terms. Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases.

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

Trademarks

Trademarks are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful life of 10 years.

Long term investments

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

Bonds and certificate of deposits

Bonds and certificate of deposits are held for an undetermined period and are stated at their fair values on the basis of their quoted market prices at the balance sheet date on an individual investment basis. The gains or losses arising from changes in the fair value of a security are credited or charged to the profit and loss account in the period in which they arise.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Textile quotas

Permanent textile quotas allocated by government authorities are not capitalised and, therefore, not reflected as assets in the balance sheet. Temporary textile quota expenses are charged to the profit and loss account when incurred.

4. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

Deferred tax

Deferred tax is provided, using the liability method, on all significant timing differences to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

Provisions

A provision is recognised when a present obligation (legal or constructive) had arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

Provision for long service payments are made based on past experience and the directors' knowledge of the business and work force.

Foreign currencies

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

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

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

Employee benefits

Paid leave carried forward

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

Prior to the adoption of SSAP 34 during the period, as explained in note 3 to the financial statements, the Group did not accrue for paid annual leave carried forward at the balance sheet date. This change in accounting policy has resulted in a prior year adjustment due to the initial recognition of the accrual, further details of which are included in note 28 to the financial statements.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Employee benefits (cont'd)

Employment Ordinance long service payments

Certain of the Group's employees have completed the required number of years of services to the Group in order to be eligible for long service payments under the Hong Kong Employment Ordinance in the event of the termination of their employment. The Group is liable to make such payments in the event that such a termination of employment meets the circumstances specified in the Employment Ordinance. A provision is recognised in respect of the probable future long service payments expected to be made. The provision is based on the best estimate of the probable future payments which have been earned by the employees from their service to the Group to the balance sheet date.

Retirement benefits scheme

Certain subsidiaries operate different defined contribution retirement benefits schemes for those employees who are eligible to participate in the scheme. The assets of the scheme are held separately from those of the Group in an independently administered fund. Contributions are made based on a percentage of the participating employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the scheme. The Group's employer contributions vest fully with the employees when contributed into the schemes, except for the Group's voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully.

Share option scheme

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

Cash and cash equivalents

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

Prior to the adoption of the revised SSAP 15 during the period, as explained in note 3 to the financial statements, cash equivalents in the consolidated cash flow statement also included advances from bank repayable within three months from the date of the advance, in addition to bank overdrafts. This change in definition has resulted in a prior year adjustment relating to trust receipt loans, further details of which are included in note 34(a) to the financial statements.

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

4. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

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.

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) dividends, when the shareholders' right to receive payment has been established.

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.

Interim dividends are simultaneously proposed and declared, because the Company's articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

In previous years, the Company recognised its proposed final dividend to shareholders, which was declared and approved after the balance sheet date, as a liability in its balance sheet. The revised accounting treatment for dividends resulting from the adoption of SSAP 9 (Revised) has given rise to a prior year adjustment in both the Group's and the Company's financial statements, further details of which are included in note 13 to the financial statements.

5. SEGMENT INFORMATION

SSAP 26 was adopted during the period, as detailed in note 3 to the financial statements. 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 businesses 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. The business segments are divided into (i) the manufacture and trading of garments; and (ii) the retailing of garments.

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

(a) Business segments

Group

	Manufacture and trading of garments		Retailing of garments		Consolidated	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Segment revenue:						
Sales to external customers	1,886,797	2,110,344	286,683	215,322	2,173,480	2,325,666
Segment results	75,271	167,273	(63,551)	(79,870)	11,720	87,403
Interest income, dividend income and unallocated gains					7,762	12,739
Finance costs					(37,171)	(37,604)
Loss on disposal of subsidiaries, associates and jointly-controlled entity	(6,672)	-	-	-	(6,672)	-
Write back of provision/ (provision) of investments in and amounts due from jointly-controlled entities	3,284	(14,003)	-	-	3,284	(14,003)
Share of profits and losses of:						
Jointly-controlled entities	1,100	1,182	-	-	1,100	1,182
Associates	(1,016)	2,009	-	-	(1,016)	2,009
Profit/(loss) before tax					(20,993)	51,726
Tax					(1,687)	(6,892)
Profit/(loss) before minority interests					(22,680)	44,834
Minority interests					(727)	(716)
Net profit/(loss) from ordinary activities attributable to shareholders					(23,407)	44,118

5. SEGMENT INFORMATION (cont'd)

(a) Business segments (cont'd)

Group

	Manufacture and trading of garments		Retailing of garments		Consolidated	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Segment assets	1,181,267	1,236,420	111,902	99,795	1,293,169	1,336,215
Interests in jointly-controlled entities	19,761	19,006	–	–	19,761	19,006
Interests in associates	–	6,791	(608)	2,712	(608)	9,503
Bank overdrafts included in segment assets	–	1,086	1,003	–	1,003	1,086
Total assets	1,201,028	1,263,303	112,297	102,507	1,313,325	1,365,810
Segment liabilities	324,405	362,308	46,829	48,932	371,234	411,240
Unallocated liabilities					371,181	338,167
Bank overdrafts included in segment assets	–	1,086	1,003	–	1,003	1,086
Total liabilities					743,418	750,493
Other segment information:						
Depreciation and amortisation	37,364	19,857	11,072	8,623	48,436	28,480
Capital expenditure	149,436	69,235	9,091	11,855	158,527	81,090
Impairment of goodwill recognised in the profit and loss account	–	–	–	58,672	–	58,672
Write back of impairment of a long term investment	–	–	–	(675)	–	(675)

5. SEGMENT INFORMATION (cont'd)

(b) Geographical segments

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

Group

	United States of America		Europe		Greater China		Others		Consolidated	
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:										
Sales to external customers	1,591,636	1,798,954	173,830	169,015	386,511	322,072	21,503	35,625	2,173,480	2,325,666
Other segment information:										
Segment assets	137,316	195,501	15,605	28,607	1,135,332	1,112,107	4,916	-	1,293,169	1,336,215
Interests in jointly-controlled entities	-	-	-	-	19,761	19,006	-	-	19,761	19,006
Interests in associates	-	-	-	-	(608)	9,503	-	-	(608)	9,503
Bank overdrafts included in segment assets	-	-	-	-	1,003	1,086	-	-	1,003	1,086
	137,316	195,501	15,605	28,607	1,155,488	1,141,702	4,916	-	1,313,325	1,365,810
Capital expenditure	404	6,332	4,751	1,398	152,648	73,360	724	-	158,527	81,090

6. TURNOVER

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

7. PROFIT FROM OPERATING ACTIVITIES

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

	Period from 1 October 2001 to 31 December 2002 HK\$'000	Year ended 30 September 2001 HK\$'000
Cost of inventories sold	1,545,306	1,656,376
Depreciation	47,572	28,480
Amortisation of trademarks*	864	–
Auditors' remuneration	2,026	2,847
Minimum lease payments under operating lease rentals of equipment	121	122
Operating lease rentals of land and buildings:		
Minimum lease payments	77,354	68,829
Contingent rents	21,233	–
	98,587	68,829
Staff costs (including directors' remuneration – note 9):		
Wages, salaries and bonuses	363,650	323,436
Retirement benefits contributions	13,097	4,948
Less: Forfeited contributions	(875)	–
Net pension contributions @	12,222	4,948
	375,872	328,384
Foreign exchange losses, net	2,105	6,430
Temporary textile quota expenses	11,794	8,608
Loss/(gain) on disposal of fixed assets	(370)	3,169
Gross rental income from investment properties	(3,488)	(5,175)
Less: Outgoings	1,345	1,081
Net rental income	(2,143)	(4,094)
Sub-letting rental income (included in selling and distribution expenses)	(5,672)	(7,715)
Interest income	(5,715)	(11,824)
Dividend income from long term investments	(2,047)	–
Write back of impairment of a long term investment #	–	(675)
Gain on disposal of a long term investment	–	(240)
Gain on disposal of bonds and certificate of deposits	(2,522)	–

* The amortisation of trademarks is included in "Selling and distribution expenses" on the face of the consolidated profit and loss account.

The write back of impairment of a long term investment is included in "Administrative expenses" on face of the consolidated profit and loss account.

@ At 31 December 2002, the Group had forfeited contributions of HK\$21,000 (30 September 2001: nil) available to reduce its contributions to the retirement benefits scheme in future years.

8. FINANCE COSTS

	Group	
	Period from 1 October 2001 to 31 December 2002 HK\$'000	Year ended 30 September 2001 HK\$'000
Interest on bank loans and overdrafts, and other loans wholly repayable within five years	24,111	25,205
Interest on finance leases and hire purchase contracts	81	331
Factoring expenses	4,913	5,778
Bank charges	8,066	6,290
	37,171	37,604

9. DIRECTORS' REMUNERATION

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

	Group	
	Period from 1 October 2001 to 31 December 2002 HK\$'000	Year ended 30 September 2001 HK\$'000
Fees	839	720
Salaries, allowances and benefits in kind	16,962	13,670
Performance related bonuses	3,100	4,650
Retirement benefits contributions	574	435
	21,475	19,475

Fees include HK\$200,000 (Year ended 30 September 2001: HK\$160,000) payable to the independent non-executive directors for the fifteen months ended 31 December 2002. There were no other emoluments payable to the independent non-executive directors during the period (Year ended 30 September 2001: Nil).

9. DIRECTORS' REMUNERATION (cont'd)

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

	Number of directors	
	Period from 1 October 2001 to 31 December 2002	Year ended 30 September 2001
Nil to HK\$1,000,000	4	4
HK\$2,000,001 to HK\$2,500,000	–	1
HK\$2,500,001 to HK\$3,000,000	2	2
HK\$3,000,001 to HK\$3,500,000	1	1
HK\$3,500,001 to HK\$4,000,000	1	–
HK\$8,000,001 to HK\$8,500,000	–	1
HK\$8,500,001 to HK\$9,000,000	1	–
	9	9

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

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the period and in the prior year are directors, details of whose remuneration are set out in note 9 above.

11. TAX

	Period from 1 October 2001 to 31 December 2002 HK\$'000	Year ended 30 September 2001 HK\$'000
Group:		
Hong Kong	630	2,970
Elsewhere	1,107	2,234
Overprovision in prior year	(71)	(326)
Deferred – <i>note 30</i>	–	1,230
	1,666	6,108
Share of tax attributable to:		
Jointly-controlled entities	21	775
Associates	–	9
	21	784
Tax charge for the period/year	1,687	6,892

Hong Kong profits tax has been provided at the rate of 16% (Year ended 30 September 2001: 16%) on the estimated assessable profits arising in Hong Kong during the period. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

In accordance with the relevant tax rules and regulations in the PRC, certain of the Company's PRC subsidiaries and jointly-controlled entities enjoy income tax exemptions and reductions. Certain PRC subsidiaries and jointly-controlled entities are subject to income taxes at tax rates ranging from 12% to 33%.

There was no unprovided deferred tax in respect of the period (Year ended 30 September 2001: Nil).

12. NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders for the period from 1 October 2001 to 31 December 2002 dealt with in the financial statements of the Company is HK\$18,351,000 (Year ended 30 September 2001: HK\$60,586,000).

13. DIVIDENDS

	Period from 1 October 2001 to 31 December 2002 HK\$'000	Year ended 30 September 2001 HK\$'000
First interim – 1 (Year ended 30 September 2001: 7) HK cent per ordinary share	3,232	21,834
Second interim – 1 (Year ended 30 September 2001: Nil) HK cent per ordinary share	3,249	–
Proposed final – 1 (Year ended 30 September 2001: 8) HK cent per ordinary share	3,249	24,955
	9,730	46,789

During the period, the Group adopted the revised SSAP 9 “Events after the balance sheet date”, as detailed in note 3 to the financial statements. To comply with this revised SSAP, a prior year adjustment has been made to reclassify the proposed final dividend for the year ended 30 September 2001 of HK\$24,955,000, which was recognised as a current liability at the prior year end, to the proposed final dividend reserve account within the capital and reserves section of the balance sheet. The result of this has been to reduce both the Group’s and the Company’s current liabilities and increase the capital and reserves previously reported as at 30 September 2001 by HK\$24,955,000.

Accordingly, a prior year adjustment has also been made to reclassify the proposed final dividend for the year ended 30 September 2000 of HK\$39,926,000 from current liability to the proposed final dividend reserve account at 1 October 2000 as reflected in the consolidated statement of changes in equity.

The effect of this change in accounting policy as at 31 December 2002 is that the current period’s proposed final dividend of HK\$3,249,000 has been included in the proposed final dividend reserve account within the capital and reserves section of the balance sheet at that date, whereas in previous years it would have been recognised as current liability at the balance sheet date.

The final dividend for the year ended 30 September 2001 of HK\$16,285,000 was satisfied in the form of scrip dividend (note 31) and HK\$8,670,000 was satisfied by the payment of cash.

14. EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings/(loss) per share is based on the net loss attributable to shareholders for the period of HK\$23,407,000 (Year ended 30 September 2001: restated net profit of HK\$44,118,000) and the weighted average of 318,307,126 (Year ended 30 September 2001: 311,940,758) ordinary shares in issue during the period.

Diluted loss per share amount for the period has not been disclosed as the share options outstanding during the period had an anti-dilutive effect on the basic loss per share for the period.

The calculation of diluted earnings per share for the prior year is based on the restated net profit attributable to shareholders of HK\$44,118,000. The weighted average number of ordinary shares used in the calculation is 311,940,758 ordinary shares in issue during that year, as used in the basic earnings per share calculation, and the weighted average of 10,458,802 ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options during that year.

15. FIXED ASSETS

Group

	Land and buildings (Hong Kong) HK\$'000	Land and buildings (Elsewhere) HK\$'000	Construction in progress HK\$'000	Leasehold improve- ments HK\$'000	Plant and equipment HK\$'000	Furniture and fixtures HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Cost:								
At beginning of period	36,620	120,206	8,175	28,452	184,595	61,891	22,034	461,973
Additions	-	77,298	23,828	9,319	35,466	8,461	4,155	158,527
Transfers	-	5,198	(13,156)	-	4,567	2,701	690	-
Disposals	-	(4,855)	-	(5,909)	(16,921)	(4,803)	(4,965)	(37,453)
Disposal of subsidiaries	-	(12,106)	(28)	-	(6,294)	(292)	(1,593)	(20,313)
Exchange realignments	-	122	-	(109)	34	248	134	429
At 31 December 2002	36,620	185,863	18,819	31,753	201,447	68,206	20,455	563,163
Accumulated depreciation:								
At beginning of period	4,649	21,709	-	11,514	93,249	49,499	14,747	195,367
Provided during the period	925	8,764	-	8,548	20,460	5,772	3,103	47,572
Disposals	-	(2,096)	-	(4,144)	(11,839)	(4,033)	(4,471)	(26,583)
Disposal of subsidiaries	-	(3,691)	-	-	(1,418)	(43)	(332)	(5,484)
Exchange realignments	-	97	-	(54)	18	227	83	371
At 31 December 2002	5,574	24,783	-	15,864	100,470	51,422	13,130	211,243
Net book value:								
At 31 December 2002	31,046	161,080	18,819	15,889	100,977	16,784	7,325	351,920
At 30 September 2001	31,971	98,497	8,175	16,938	91,346	12,392	7,287	266,606

Notes to Financial Statements (cont'd)

31 December 2002

15. FIXED ASSETS (cont'd)

The net book value of the fixed assets of the Group held under finance leases and hire purchase contracts included in the total amount of motor vehicles at 31 December 2002 amounted to HK\$1,652,000 (30 September 2001: HK\$939,000).

The Group's land and buildings included above are held under the following lease terms:

	Hong Kong HK\$'000	Elsewhere HK\$'000	Total HK\$'000
Long term leases	–	2,879	2,879
Medium term leases	36,620	182,984	219,604
	<u>36,620</u>	<u>185,863</u>	<u>222,483</u>

16. INVESTMENT PROPERTIES

	Group	
	31 December 2002 HK\$'000	30 September 2001 HK\$'000
At beginning of period/year	29,000	–
Additions	–	28,787
Revaluation surplus	–	213
At end of period/year	<u>29,000</u>	<u>29,000</u>

The Group's investment properties are situated in Hong Kong and are held under medium term leases. The investment properties were revalued on 31 December 2002 by Centaline Surveyors Limited, an independent professional valuer, on an open market, existing use basis.

17. TRADEMARKS

Group

	HK\$'000
Cost:	
At beginning of period and 31 December 2002	6,917
Accumulated amortisation:	
At beginning of period	–
Provided during the period	864
At 31 December 2002	864
Net book value:	
At 31 December 2002	6,053
At 30 September 2001	6,917

18. INTERESTS IN SUBSIDIARIES

	Company	
	31 December 2002 HK\$'000	30 September 2001 HK\$'000
Unlisted shares, at cost	126,671	126,671
Due from subsidiaries	369,133	307,632
Due to subsidiaries	(13,821)	–
	481,983	434,303

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

18. INTERESTS IN SUBSIDIARIES (cont'd)

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations@	Nominal value of issued/ paid-up capital	Percentage of equity interest attributable to the Company		Principal activities
			2002	2001	
Access Agents Limited	British Virgin Islands/PRC	US\$1	100	100	Garment retailing
Angel Star Investment Limited	Hong Kong	HK\$2 ordinary HK\$2 non-voting deferred	75	75	Holding of trademarks
August Silk (BVI) Limited	British Virgin Islands/PRC	US\$1	100	100	Garment trading
August Silk (H.K.) Limited	Hong Kong	HK\$2	100	100	Garment trading
August Silk Inc.	USA	US\$10	100	100	Marketing and garment trading
Bramead International Inc.	British Virgin Islands/USA	US\$1	100	100	Holding of trademarks
Cantabian Limited	Hong Kong	HK\$2 ordinary HK\$2 non-voting deferred	100	100	Investment holding
Dongguan Daliwai Fashion Co., Ltd.	PRC	HK\$28,000,000	100	100	Garment manufacturing
Dong Guan Sanyue Fashions Limited	PRC	HK\$10,000,000	69	69	Garment manufacturing
Fuli Garments (Hangzhou) Co., Ltd.#	PRC	HK\$1,000,000	–	60	Garment manufacturing
Guangdong Theme-Huayu Fashion Company Limited	PRC	RMB5,000,000	36.75 †	36.75 †	Garment retailing
Hangzhou High Fashion May Garments Industry Co. Ltd.*	PRC	RMB4,966,400	100	–	Garment manufacturing

18. INTERESTS IN SUBSIDIARIES (cont'd)

Name	Place of incorporation/ registration and operations@	Nominal value of issued/ paid-up capital	Percentage of equity interest attributable to the Company		Principal activities
			2002	2001	
Hangzhou OCT & High Fashion Textile Co., Ltd.	PRC	RMB3,000,000	100	60	Garment manufacturing
Hangzhou Westlake High Fashion Industry Co., Ltd.	PRC	RMB33,192,800	100	100	Garment manufacturing
High Fashion Garments, Inc.	USA	US\$5,000	100	100	Marketing and garment trading
High Fashion Apparel Limited	British Virgin Islands/ Hong Kong	US\$1,000	100	100	Investment holding
High Fashion (FG) Limited*	British Virgin Islands/ PRC	US\$1	100	–	Garment manufacturing
High Fashion Garments Company Limited	Hong Kong	HK\$2 ordinary HK\$10,000,000 non-voting deferred	100	100	Garment trading
High Fashion Garments (BVI) Limited*	British Virgin Islands/PRC	US\$1	100	–	Garment manufacturing and trading
High Fashion Garments Macao Commercial Offshore Limited*	Macau	MOP100,000	100	–	Garment trading
High Fashion Garments Management Limited	Hong Kong	HK\$20 ordinary HK\$20 non-voting deferred	100	100	Provision of management services
High Fashion International (USA) Inc.	USA	US\$1,800	100	100	Investment holding
High Fashion Knitwear Limited*	British Virgin Islands/PRC	US\$1	100	–	Garment trading

Notes to Financial Statements (cont'd)

31 December 2002

18. INTERESTS IN SUBSIDIARIES (cont'd)

Name	Place of incorporation/ registration and operations@	Nominal value of issued/ paid-up capital	Percentage of equity interest attributable to the Company		Principal activities
			2002	2001	
High Fashion Knitwear Overseas Limited	Hong Kong	HK\$2 Ordinary HK\$10,000 Non-voting deferred	100	100	Garment trading
High Fashion Silk (Taiwan) Limited*	Taiwan	NT\$5,000,000	100	–	Garment retailing
High Fashion Trading Company Limited	Hong Kong	HK\$2	100	100	Garment trading
High Fashion (UK) Limited	United Kingdom	GB£20,000	70.5	70.5	Garment trading
Honghuali Garments Accessory (Shenzhen) Co., Ltd.#	PRC	RMB2,160,000	–	60	Manufacturing of garment accessories
Mateland Limited	Hong Kong	HK\$2	100	100	Garment retailing
Navigation Limited	British Virgin Islands/ Hong Kong	US\$1	100	100	Investment holding
Quality Control Agency Inc.	British Virgin Islands/PRC	US\$1,000	75	100	Garment manufacturing
Shanghai Theme Fashion Company	PRC	RMB3,000,000	36.75 †	36.75 †	Garment retailing
Stage II Limited	Hong Kong	HK\$800,000	75	75	Garment retailing

18. INTERESTS IN SUBSIDIARIES (cont'd)

Name	Place of incorporation/ registration and operations@	Nominal value of issued/ paid-up capital	Percentage of equity interest attributable to the Company		Principal activities
			2002	2001	
Super Base (China) Limited	Hong Kong	HK\$2	75	75	Property holding
Taiwan Vision Company Limited	Taiwan	NT\$80,000,000	75	75	Garment retailing
Theme International Holdings Limited	Bermuda/ Hong Kong	HK\$25,083,294	75	75	Investment holding
Theme International Limited	Hong Kong	HK\$2 ordinary HK\$1,000,000 non-voting deferred	75	75	Garment trading
U-campus Holdings Limited	Hong Kong	HK\$2	100	100	Garment retailing
Zhejiang High Fashion Kaidi Silk Co., Ltd.	PRC	RMB51,828,660	100	100	Dyeing, printing and sandwashing of fabrics
Zhejiang Xinchang High Fashion Silk Co., Ltd.	PRC	RMB50,219,630	100	100	Silk weaving
Zhejiang Xinchang High Fashion Silk Science and Technology Co., Ltd.*	PRC	US\$5,000,000	100	–	Silk weaving

These companies were disposed of during the current period, further details of which are set out in note 34(c).

* These companies were newly incorporated during the current period.

† These companies are subsidiaries of the non-wholly owned subsidiaries of the Company and, accordingly, are accounted for as subsidiaries by virtue of control over the companies.

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

All subsidiaries are indirectly held by the Company with the exception of High Fashion Apparel Limited.

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

19. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

	Group	
	31 December 2002 HK\$'000	30 September 2001 HK\$'000
Share of net assets	7,791	14,585
Due from jointly-controlled entities	11,970	7,591
Due to jointly-controlled entities	–	(3,170)
	<u>19,761</u>	<u>19,006</u>

The balances with the jointly-controlled entities are unsecured, interest-free and have no fixed terms of repayment.

Particulars of the jointly-controlled entities are as follows:

Name	Business structure	Place of registration and operations	Percentage of				Principal activities
			Ownership interest	Voting power of the Board	Profit sharing		
Hangzhou Dalifu Silk Finishing Co., Ltd.	Corporate	PRC	51	50	51	Garment manufacturing	
High Fashion Garments (Zhong Shan) Limited*	Corporate	PRC	51	50	–	Dormant	
High Fashion Zhongshan Printing, Dyeing and Garments Manufacturing Ltd.*	Corporate	PRC	51	50	–	Dormant	
Suzhou High Fashion Garment Co., Ltd.	Corporate	PRC	51	60	51	Garment manufacturing	

All of the above investments in jointly-controlled entities are indirectly held by the Company.

* *The Group has a 51% beneficial interest in these companies. By virtue of an arrangement between the Group and the joint venture partner holding the remaining 49% beneficial interest in the companies, the joint venture partner is entitled to all of the companies' profits and is liable for all of their losses.*

20. INTERESTS IN ASSOCIATES

	Group	
	31 December 2002 HK\$'000	30 September 2001 HK\$'000
Share of net assets	–	15,358
Due from associates	–	1,901
Due to associates	(608)	(7,756)
	(608)	9,503

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

Particulars of the associates are as follows:

Name	Business structure	Place of registration and operations	Percentage of ownership interest attributable to the Group		Principal activities
			2002	2001	
Sherman-Theme (China) Limited	Corporate	Hong Kong	37.5	37.5	Investment holding
Shenyang Sherman – Theme Fashion Limited*	Corporate	PRC	22.5	22.5	Dormant
Shenzhen Fuli Garments Accessory Co., Ltd.	Corporate	PRC	–	70	Manufacturing of garment accessories
Strait Approach Pte. Limited*	Corporate	Singapore	–	36.75	Garment retailing and trading

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

The investments in the associates are indirectly held by the Company.

21. LONG TERM INVESTMENTS

	Group	
	31 December 2002 HK\$'000	30 September 2001 HK\$'000
Unlisted equity investments, at cost	14,118	14,118
Provision for impairment	(325)	(325)
	13,793	13,793

Particulars of certain of the Group's long term investments are as follows:

Name	Place of registration and operations	Percentage of equity interest attributable to the Group
Zhoushan High Fashion Silk Spinning & Clothing Co., Ltd.	PRC	30#
Zhoushan High Fashion Knitting Co., Ltd.	PRC	30#

The interests in these companies have not been accounted for as associates because the Group does not have significant influence over these companies.

22. BONDS AND CERTIFICATE OF DEPOSITS

	Group	
	31 December 2002 HK\$'000	30 September 2001 HK\$'000
At market value:		
Overseas listed bonds	–	23,452
Hong Kong unlisted certificate of deposits	10,000	–
	10,000	23,452

23. TRADE RECEIVABLES

The Group allows an average credit period of 30 to 60 days to its trade debtors. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management.

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

	Group	
	31 December 2002 HK\$'000	30 September 2001 HK\$'000
Within 90 days	219,778	250,952
91 to 180 days	2,432	5,809
181 to 360 days	582	2,849
Over 360 days	291	812
	223,083	260,422

24. INVENTORIES

	Group	
	31 December 2002 HK\$'000	30 September 2001 HK\$'000
Raw materials	110,933	101,848
Work in progress	63,688	41,298
Finished goods	138,675	159,332
	313,296	302,478

The carrying amount of inventories carried at net realisable value included in the above balance was HK\$64,339,000 (30 September 2001: HK\$40,532,000) as at the balance sheet date.

Notes to Financial Statements (cont'd)

31 December 2002

25. BANK LOANS AND OVERDRAFTS

	Group	
	31 December 2002 HK\$'000	30 September 2001 HK\$'000
Bank overdrafts, unsecured	1,003	1,086
Trust receipt loans, unsecured	25,040	137,699
Bank loans, unsecured	281,727	179,264
Bank loans, secured	56,807	10,235
	<hr/>	<hr/>
	364,577	328,284
Portion classified as current liabilities	(264,457)	(306,284)
	<hr/>	<hr/>
Long term portion	100,120	22,000
	<hr/>	<hr/>
Amounts repayable:		
Within one year or on demand	264,457	306,284
In the second year	76,720	8,000
In the third to fifth years, inclusive	23,400	14,000
	<hr/>	<hr/>
	364,577	328,284

At 31 December 2002, the secured bank loans were secured by mortgages over certain of the Group's land and buildings, plant and equipment and other receivables which had an aggregate net book value of approximately HK\$2,210,000 (30 September 2001: HK\$2,342,000), nil (30 September 2001: HK\$17,779,000) and HK\$85,477,000 (30 September 2001: nil), respectively.

26. FINANCE LEASE AND HIRE PURCHASE CONTRACT PAYABLES

The Group leases certain of its motor vehicles. These leases are classified as finance leases and have remaining lease terms of one to four years.

At 31 December 2002, the total future minimum lease payments under finance leases and their present values were as follows:

Group

	Minimum lease payments		Present value of minimum lease payments	
	31 December 2002 HK\$'000	30 September 2001 HK\$'000	31 December 2002 HK\$'000	30 September 2001 HK\$'000
Amounts payable:				
Within one year	582	483	508	433
In the second year	358	267	321	252
In the third to fifth years, inclusive	286	57	268	55
Total minimum finance lease payments	1,226	807	1,097	740
Future finance charges	(129)	(67)		
Total net finance lease payables	1,097	740		
Portion classified as current liabilities	(508)	(433)		
Long term portion	589	307		

Notes to Financial Statements (cont'd)

31 December 2002

27. TRADE PAYABLES AND ACCRUED PURCHASES

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

	Group	
	31 December 2002 HK\$'000	30 September 2001 HK\$'000
Trade payables:		
Within 90 days	126,962	106,077
91 to 180 days	11,998	12,820
181 to 360 days	9,311	9,763
Over 360 days	16,414	8,299
	<hr/>	<hr/>
	164,685	136,959
Accrued purchases	53,472	61,048
	<hr/>	<hr/>
	218,157	198,007

28. OTHER PAYABLES AND ACCRUALS

SSAP 34 was adopted during the period, as explained in note 3 and under the heading "Employee benefits" in note 4 to the financial statements. As a result, an accrual is now made at the balance sheet date for the expected future cost of paid annual leave earned during the period by employees, which remains untaken by the employees at the balance sheet date and is permitted to be carried forward and utilised in the following year.

This change in accounting policy has resulted in HK\$5,536,000 and HK\$5,999,000 being included in the balance of the Group's accruals in respect of paid leave carried forward as at 31 December 2002 and 30 September 2001, respectively. As a consequence, the consolidated net loss attributable to shareholders for the period ended 31 December 2002 has been decreased by HK\$463,000 and the consolidated net profit attributable to the shareholders for the year ended 30 September 2001 has been increased by HK\$910,000; and consolidated retained profits at 1 October 2001 and 2000 have been reduced by HK\$5,999,000 and HK\$6,909,000 respectively, as detailed in the consolidated statement of changes in equity.

29. PROVISION FOR LONG SERVICE PAYMENTS

Group

	HK\$'000
At beginning of period	11,421
Amounts utilised during the period	(4,031)
Reversal of unutilised amounts	(2,900)
At 31 December 2002	4,490

The Group provides for the probable future long service payments expected to be made to employees under the Hong Kong Employment Ordinance, as further explained under the heading "Employee benefits" in note 4 to the financial statements. The provision is based on the best estimate of the probable future payments which have been earned by the employees from their service to the Group to the balance sheet date.

30. DEFERRED TAX

	Group	
	31 December 2002 HK\$'000	30 September 2001 HK\$'000
Balance at beginning of period/year	3,430	2,200
Charge for the period/year – note 11	–	1,230
At end of period/year	3,430	3,430

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

	Provided		Not provided	
	31 December 2002 HK\$'000	30 September 2001 HK\$'000	31 December 2002 HK\$'000	30 September 2001 HK\$'000
Accelerated/(reversing) depreciation allowances	3,630	3,630	(487)	104
Tax losses	(200)	(200)	(126,712)	(108,788)
	3,430	3,430	(127,199)	(108,684)

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

The Company had no significant potential deferred tax liabilities for which provision has not been made.

31. SHARE CAPITAL

Shares

	31 December 2002 HK\$'000	30 September 2001 HK\$'000
Authorised:		
1,000,000,000 ordinary shares of HK\$0.10 each	100,000	100,000
Issued and fully paid:		
324,381,550 (30 September 2001: 311,923,630) ordinary shares of HK\$0.10 each	32,438	31,192

During the period, there were the following movements in share capital:

- (a) The subscription rights attaching to 2,280,000 share options were exercised at the subscription price of HK\$0.505 per share (note 32), resulting in the issue of 2,280,000 shares of HK\$0.10 each for a total cash consideration, before expenses, of HK\$1,151,000.
- (b) The final dividend for the year ended 30 September 2001 of HK\$16,285,000 was satisfied by the allotment of new shares in the Company, credited as fully paid, by way of scrip dividend of one new share for every 20 shares, resulting in the issue of 10,177,920 shares of HK\$0.10 each.

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

	Number of shares in issue	Share capital HK\$'000	Share premium HK\$'000	Total HK\$'000
At 1 October 2000	312,335,630	31,234	275,941	307,175
Repurchase of shares	(412,000)	(42)	–	(42)
At 1 October 2001	311,923,630	31,192	275,941	307,133
Share options exercised (a)	2,280,000	228	923	1,151
Scrip dividends (b)	10,177,920	1,018	15,267	16,285
At 31 December 2002	324,381,550	32,438	292,131	324,569

32. SHARE OPTION SCHEMES

On 26 March 2002, the share option scheme adopted by the Company on 18 March 1994 (the "Old Scheme") was terminated and a new scheme (the "New Scheme") was adopted by the shareholders of the Company. As a result, the Company can no longer grant any further options under the Old Scheme. However, all options granted prior to the termination of the Old Scheme will remain in full force and effect. The purpose of the New Scheme is to enable the Company to grant options to eligible participants, thereby (a) providing alternative recognition of their contributions; (b) strengthening the relationship between the Group and its employees and executives; (c) attracting and retaining key employees and executives; and (d) motivating employees and executives. Eligible participants of the New Scheme include the directors and employees of the Group. Unless otherwise terminated or amended, the New Scheme will remain in force for ten years from date of adoption.

Pursuant to the New Scheme, the total number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the New Scheme and options granted and yet to be exercised under any other schemes will not exceed 30% of the issued share capital of the Company from time to time. The maximum number of shares issuable under share options to each eligible participant within any 12-month period is limited to 1% of the Company's shares in issue at any time. The offer of a grant of share options may be accepted within 28 days from the date of the offer with no consideration being payable by the grantee. The exercise period of the share options granted is determinable by the directors, but no later than 10 years from the date of the offer. The subscription price for the shares in respect of which options are granted is determinable by the directors, but may not be less than the higher of (1) the closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheet on the date of grant of the option; (2) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of grant of the option; and (3) the par value of the Company's shares.

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

The 2,280,000 share options exercised during the period resulted in the issue of 2,280,000 ordinary shares of the Company and new share capital of HK\$228,000 and share premium of HK\$923,000 (before issuing expenses), as detailed in note 31 to the financial statements.

At the balance sheet date, the Company had 12,920,000 share options outstanding, which represented approximately 4% of the Company's shares in issue as at that date. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 12,920,000 additional ordinary shares of the Company and additional share capital of HK\$1,292,000 and share premium of HK\$5,232,600 (before issuing expenses).

32. SHARE OPTION SCHEMES (cont'd)

The following share options were outstanding during the period:

Name or category of participant	Number of share options			Date of grant	Exercise price HK\$	Price of Company's shares at exercise date *
	At 1 October 2001	Exercised during the period	At 31 December 2002			
Directors						
Lam Foo Wah	3,800,000	–	3,800,000	6 May 1999	0.505	–
Ip Weng Kun	1,500,000	–	1,500,000	6 May 1999	0.505	–
So Siu Hang, Patricia	1,200,000	–	1,200,000	6 May 1999	0.505	–
Wong Shing Loong, Raymond	1,000,000	–	1,000,000	6 May 1999	0.505	–
Jack Weinstock	500,000	(200,000)	300,000	6 May 1999	0.505	0.97
Other employees	7,200,000	(2,080,000)	5,120,000	6 May 1999	0.505	1.52
	<u>15,200,000</u>	<u>(2,280,000)</u>	<u>12,920,000</u>			

Note: 40% of the options granted are exercisable during the period from 5 May 2002 to 4 May 2009, 30% of the options granted are exercisable during the period from 5 May 2003 to 4 May 2009 and the remaining 30% of the options granted are exercisable during the period from 5 May 2004 to 4 May 2009.

* The price of the Company's shares disclosed as at the date of exercise of the share options is the weighted average of the Stock Exchange closing prices over all of the exercises of options within the disclosure category.

33. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current period and prior year are presented in the consolidated statement of changes in equity on pages 24 to 25 of the financial statements.

As detailed in note 4 to the financial statements, the Group has adopted the transitional provision of SSAP 30 which permits goodwill and negative goodwill in respect of acquisitions which occurred prior to 1 October 2001 to be eliminated against reserves or credited to the capital reserve, respectively.

Due to the adoption of SSAP 30, the Group has adopted a policy to assess goodwill eliminated against reserves for impairment. As a result, the Group has recognised an impairment of part of the goodwill previously eliminated against capital reserve of HK\$58,672,000 in the year ended 30 September 2001 as a prior year adjustment. Accordingly, the consolidated net profit attributable to shareholders for the year ended 30 September 2001 and retained profits as at 30 September 2001 have been decreased by HK\$58,672,000.

The amounts of goodwill eliminated against the capital reserve and negative goodwill credited to capital reserve arising from the acquisition of subsidiaries was HK\$2,527,000 and HK\$8,588,000, respectively, as at 30 September 2001 and 31 December 2002.

Pursuant to the relevant laws and regulations in the PRC, a portion of the profits of the Group's subsidiaries in the PRC has been transferred to PRC reserve funds which are restricted as to use.

Notes to Financial Statements (cont'd)

31 December 2002

33. RESERVES (cont'd)

(b) Company

	Share premium account HK\$'000	Contributed surplus HK\$'000	Capital reserve HK\$'000	Capital redemption reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 30 September 2000	275,941	101,171	16,521	4,661	25,669	423,963
Transfer from retained profits	-	-	-	42	(42)	-
Premium paid on repurchase of shares	-	-	-	-	(522)	(522)
Profit for the year	-	-	-	-	60,586	60,586
Interim dividend for 2001	-	-	-	-	(21,834)	(21,834)
Proposed final dividend for 2001	-	-	-	-	(24,955)	(24,955)
At 30 September 2001	275,941	101,171	16,521	4,703	38,902	437,238
Scrip dividends	15,267	-	-	-	-	15,267
Exercise of share options	923	-	-	-	-	923
Profit for the period	-	-	-	-	18,351	18,351
First interim dividend for 2002	-	-	-	-	(3,232)	(3,232)
Second interim dividend for 2002	-	-	-	-	(3,249)	(3,249)
Proposed final dividend for 2002	-	-	-	-	(3,249)	(3,249)
At 31 December 2002	292,131	101,171	16,521	4,703	47,523	462,049

The contributed surplus of the Company arose as a result of the Group's reorganisation in 1992 and represented the excess of the fair value of the subsidiaries' net assets acquired over the nominal value of the Company's shares issued in exchange therefore. Under The Companies Act 1981 of Bermuda (as amended), the contributed surplus is distributable to shareholders under certain circumstances.

34. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) **Prior year adjustments**

SSAP 15 (Revised) was adopted during the current period, as detailed in note 3 to the financial statements, which has resulted in a change to the layout of the cash flow statement. The cash flow statement is now presented under three headings: cash flows from operating activities, investing activities and financing activities. Previously five headings were used, comprising the three headings listed above, together with cash flows from returns on investments and servicing of finance and from taxes paid. The significant reclassifications resulting from the change in presentation are that taxes paid are now included in cash flows from operating activities, interest and dividends received are now included in cash flows from investing activities, and interest and dividends paid are now included in cash flows from financing activities. The presentation of the 2001 comparative cash flow statement has been changed to accord with the new layout.

Also, the definition of "cash equivalents" under the revised SSAP 15 has been revised from that under the previous SSAP 15, as explained under the heading "Cash and cash equivalents" in note 4 to the financial statements. This has resulted in trust receipt loans no longer qualifying as cash equivalents. The amount of cash equivalents in the consolidated cash flow statement at 30 September 2001 has been adjusted to remove trust receipt loans amounting to HK\$35,989,000, previously included at that date. Current period's movement in trust receipt loans is now included in cash flows from financing activities and the comparative cash flow statement has been changed accordingly.

34. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (cont'd)

(b) Acquisition of subsidiaries

	Year ended 30 September 2001 HK\$'000
Net assets acquired:	
Fixed assets	93,355
Cash and bank balances	39,308
Trade receivables	38,748
Inventories	91,218
Deposits, prepayments and other receivables	36,799
Bank loans	(124,112)
Trade payables and accrued purchases	(40,067)
Other payables and accruals	(57,176)
Tax payable	(2,320)
Net amounts due from the Group	<u>13,831</u>
	89,584
Capital reserve on acquisition	<u>(7,337)</u>
	<u>82,247</u>
Satisfied by:	
Cash consideration	22,867
Transfer of interests in jointly-controlled entities to subsidiaries	<u>59,380</u>
	<u>82,247</u>
Analysis of the net inflow of cash and cash equivalents in respect of the acquisition of subsidiaries:	
	Year ended 30 September 2001 HK\$'000
Cash consideration	(22,867)
Cash and bank balances acquired	<u>39,308</u>
Net inflow of cash and cash equivalents in respect of the acquisition of subsidiaries	<u>16,441</u>

The subsidiaries acquired contributed HK\$67,275,000 to the Group's turnover and contributed HK\$15,123,000 in respect of the net profit attributable to shareholders for the prior year.

34. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (cont'd)

(c) Disposal of subsidiaries

	Period from 1 October 2001 to 31 December 2002 HK\$'000
Net assets disposed of:	
Fixed assets	14,829
Cash and bank balances	1,839
Trade receivables	4,227
Inventories	1,161
Deposits, prepayments and other receivables	5,106
Trade payable and accrued purchases	(8,053)
Other payables and accruals	(603)
Tax payable	(689)
Minority interests	(10,889)
Net amounts due from the Group	10,360
Exchange fluctuation reserve	2,535
	<hr/>
	19,823
Loss on disposal of subsidiaries	<hr/> (5,176) <hr/>
	<hr/> 14,647 <hr/>
Satisfied by:	
Other receivables	4,287
Net amounts due from the Group	10,360
	<hr/> 14,647 <hr/>

An analysis of the net outflow of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

Cash and bank balances disposed of	<hr/> (1,839)
Net outflow of cash and cash equivalents in respect of the disposal of subsidiaries	<hr/> (1,839) <hr/>

The results of the subsidiaries disposed of during the period had no significant impact on the Group's consolidated turnover or loss after tax for the period.

(d) Non-cash transactions

During the period, the Group entered into finance lease arrangements in respect of fixed assets with a total capital value at the inception of the leases of HK\$1,037,000 (Year ended 30 September 2001: HK\$978,000).

Notes to Financial Statements (cont'd)

31 December 2002

35. PLEDGE OF ASSETS

At the balance sheet date, the Group has pledged the following assets to factoring houses and banks to secure credit facilities granted to the Group.

	Group	
	31 December 2002 HK\$'000	30 September 2001 HK\$'000
Land and buildings	2,210	2,342
Plant and equipment	–	17,779
Time deposits	11,961	–
Other receivables	85,477	–
Trade receivables	47,054	94,607
	146,702	114,728

36. CONTINGENT LIABILITIES

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

	Group		Company	
	31 December 2002 HK\$'000	30 September 2001 HK\$'000	31 December 2002 HK\$'000	30 September 2001 HK\$'000
Bank guarantees given in lieu of utility, property rental and other service deposits	1,283	1,081	–	–
Bills discounted with recourse	21,771	30,456	–	–
Trade receivables factored with recourse	258	187	–	–
Guarantees given to banks in connection with facilities granted to:				
Subsidiaries	–	–	725,702	635,736
Third party	3,774	21,226	–	–
	27,086	52,950	725,702	635,736

As at 31 December 2002, the guarantees given to banks in connection with facilities granted to subsidiaries by the Company were utilised to the extent of approximately HK\$206 million (30 September 2001: HK\$200 million).

37. OPERATING LEASE ARRANGEMENTS

(a) As lessor

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

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

	Group	
	31 December 2002 HK\$'000	30 September 2001 HK\$'000
Investment properties:		
Within one year	1,495	4,623
In the second to fifth years, inclusive	527	4,191
	2,022	8,814
Subleases:		
Within one year	2,485	3,280
In the second to fifth years, inclusive	625	3,456
	3,110	6,736
	5,132	15,550

37. OPERATING LEASE ARRANGEMENTS (cont'd)

(b) As lessee

The Group leases certain of its office properties, equipment and retail shops under operating lease arrangements. These leases are negotiated for terms ranging from one to eight years. Under certain lease agreements for the retail shops, contingent rentals in excess of the minimum lease payments are payable if the turnover of such retail shops reaches a pre-determined level.

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

	Group	
	31 December 2002 HK\$'000	30 September 2001 HK\$'000
Land and buildings:		
Within one year	30,109	45,000
In the second to fifth years, inclusive	48,102	63,906
After five years	3,269	19,201
	81,480	128,107
Equipment:		
Within one year	117	118
In the second to fifth years, inclusive	239	41
	356	159
	81,836	128,266

38. COMMITMENTS

In addition to the operating lease commitments detailed in note 37 above, the Group had the following commitments at the balance sheet date:

(a) Capital commitments

	Group	
	31 December 2002 HK\$'000	30 September 2001 HK\$'000
Contracted, but not provided for	19,777	76,450

In addition, the Group's share of the jointly-controlled entities' own capital commitment which are not included in the above was as follows:

	Group	
	31 December 2002 HK\$'000	30 September 2001 HK\$'000
Authorised, but not contracted for	359	82

- (b) At the balance sheet date, the Group had entered into agreements for forward sales of United States dollars equivalent to HK\$172,815,000 (30 September 2001: HK\$39,619,000) for the hedging of foreign currency trade debts in the ordinary course of business.

At the balance sheet date, the Company did not have any significant commitments.

39. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances detailed elsewhere in these financial statements, the Group had the following material transactions with related parties during the period/year:

		Group
	<i>Notes</i>	Period from 1 October 2001 to 31 December 2002 HK\$'000
		Year ended 30 September 2001 HK\$'000
Purchases of raw materials and finished goods from jointly-controlled entities	<i>(i)</i>	57,909
Purchases of raw materials and finished goods from an associate	<i>(i)</i>	3,774
Professional fees paid to Wilkinson & Grist	<i>(ii)</i>	611
		314,433
		5,321
		388

Notes:

- (i) The purchases of raw materials and finished goods were made according to the published prices and conditions offered to the major customers of the supplier, except that a longer credit period was usually granted.
- (ii) The professional fees related to the provision of secretarial and legal advisory services and were charged according to the fee rates and conditions similar to those offered to other customers of Wilkinson & Grist. Mr. Chan Wah Tip, Michael, a director of the Company, is a partner of Wilkinson & Grist.

40. COMPARATIVE AMOUNTS

As further explained in note 3 to the financial statements, due to the adoption of certain new and revised SSAPs and Interpretation during the current period, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain prior year adjustments have been made and certain comparative amounts have been reclassified to conform with the current period's presentation.

41. APPROVAL OF THE FINANCIAL STATEMENTS

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

Five Year Financial Summary

A summary of the published results and of the assets, liabilities and minority interests of the Group for the last five financial period/years, as extracted from the audited financial statements and reclassified and adjusted as appropriate, is set out below.

RESULTS

	Period from 1 October 2001 to 31 December 2002 HK\$'000	Year ended 30 September 2001 HK\$'000 (Restated)	Year ended 30 September 2000 HK\$'000 (Restated)	Year ended 30 September 1999 HK\$'000 (Restated)	Year ended 30 September 1998 HK\$'000 (Restated)
Turnover	2,173,480	2,325,666	1,852,907	1,643,968	1,633,498
Profit/(loss) before tax	(20,993)	51,726	136,849	107,134	54,612
Tax	(1,687)	(6,892)	(3,544)	(3,501)	(1,356)
Profit/(loss) before minority interests	(22,680)	44,834	133,305	103,633	53,256
Minority interests	(727)	(716)	(648)	(483)	(2,012)
Net profit/(loss) attributable to shareholders	(23,407)	44,118	132,657	103,150	51,244

ASSETS, LIABILITIES AND MINORITY INTERESTS

	31 December 2002 HK\$'000	30 September 2001 HK\$'000 (Restated)	30 September 2000 HK\$'000 (Restated)	30 September 1999 HK\$'000 (Restated)	30 September 1998 HK\$'000 (Restated)
Total assets	1,313,325	1,365,810	1,049,023	897,509	797,362
Total liabilities	(743,418)	(750,493)	(481,639)	(322,222)	(288,243)
Minority interests	(9,000)	(19,762)	(18,900)	(15,181)	(14,588)
	560,907	595,555	548,484	560,106	494,531

As further explained in note 3 to the financial statements due to the adoption of certain new and revised SSAPs and Interpretation during the current period, certain accounting treatments have been revised to comply with the new requirements. Accordingly, certain prior period adjustments have been made and certain comparative amounts have been reclassified to conform with the current period's presentation.

Corporate Information

BOARD OF DIRECTORS

Mr. Lam Foo Wah

(Chairman and Managing Director)

Mr. Ip Weng Kun *(Deputy Managing Director)*

Mr. Hui Yip Wing, David

Mr. Wong Shing Loong, Raymond

Ms. So Siu Hang, Patricia

Mr. Jack Weinstock

* Mr. Chan Wah Tip, Michael, Solicitor

* Mr. Woo King Wai, David

* being independent non-executive director

SECRETARY

Mr. Lin Yuet Man, Edwin

REGISTERED OFFICE

Clarendon House

2 Church Street

Hamilton HM11

Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

11th Floor

High Fashion Centre

1-11 Kwai Hei Street

Kwai Chung

New Territories

Hong Kong

INTERNET WEB SITE

www.highfashion.com.hk

PRINCIPAL SHARE REGISTRAR AND TRANSFER AGENT

Westbroke Limited

Clarendon House

Church Street

Hamilton HM11

Bermuda

SUB-REGISTRAR AND TRANSFER AGENT IN HONG KONG

Secretaries Limited

Ground Floor

Bank of East Asia

Harbour View Centre

56 Gloucester Road

Wanchai, Hong Kong

LEGAL ADVISERS TO THE COMPANY

Wilkinson & Grist

6th Floor

Prince's Building

10 Chater Road

Hong Kong

LEGAL ADVISERS ON BERMUDA LAW

Conyers Dill & Pearman

2901, One Exchange Square

8 Connaught Place

Hong Kong

PRINCIPAL BANKERS

Standard Chartered Bank

Citibank, N.A.

The Hongkong and Shanghai Banking

Corporation Limited

Citic Ka Wah Bank Limited

KBC Bank N.V.

Fortis Bank Asia HK

The Bank of East Asia, Limited

Bank of China (Hong Kong) Limited

AUDITORS

Ernst & Young

15th Floor, Hutchison House

10 Harcourt Road

Central, Hong Kong