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ENGLISH+CHINESE

3/31/1998

Iwai's

IWAI'S INTERNATIONAL HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

ANNUAL REPORT 1998



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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Chan Heng Fai (*Chairman and Managing Director*)
Chan Yoke Keow
Chan Sook Jin, Mary-ann
Lau Man Tak

Non-Executive Directors

Fong Kwok Jen
Lee Ka Leung, Daniel
Wooldridge Mark Dean
Wong Dor Luk, Peter

COMPANY SECRETARY

Chan Suk King, Zoe

REGISTERED OFFICE

Clarendon House
Church Street
Hamilton HM 11
Bermuda

PRINCIPAL PLACE OF BUSINESS

326 Kwun Tong Road
Kwun Tong
Kowloon
Hong Kong

PRINCIPAL BANKER

The Hongkong and Shanghai Banking Corporation Limited
Hang Seng Bank Limited

SOLICITORS

Hong Kong Bermuda

Herbert Smith
Conyers, Dill & Pearman

AUDITORS

Deloitte Touche Tohmatsu

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Corporate Services Limited
Rosebank Centre
14 Bermudiana Road
Pembroke
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Central Registration Hong Kong Limited
17th Floor
Hopewell Centre
183 Queen's Road East
Hong Kong

CHAIRMAN'S STATEMENT

On behalf of the Board, I present to you the annual report of the Group for the year ended March 31, 1998. The Group's turnover decreased by 39.4% to HK\$73,251,000 and the Group has recorded a loss of HK\$84,137,000, representing an increase of 194.0% over the year ended March 31, 1997.

REVIEW OF OPERATION AND OUTLOOK

The financial year under review was an extraordinary period for Hong Kong and the rest of Asia. In Hong Kong, which enjoyed robust economic growth in the run-up to the territory's reversion to China, the Asian currency crisis reached our shores in mid-October 1997, putting significant strain on the economy. As the market deteriorated in the second half, the retail industry came under increasing pressure. In addition to the sharp drop in consumer spending and tourist arrivals, the situation was exacerbated by high rental, staff costs and a strong Hong Kong dollar.

Consolidated turnover for the financial year under review was approximately HK\$73,251,000, as compared with HK\$120,967,000 last year, representing a decrease of 39.4%. The sales in fashion retailing was approximately HK\$71,828,000 for the year, with a decrease of 40.6% from last year. The consolidated losses before and after taxation and exceptional items were approximately HK\$78,921,000 and HK\$84,137,000, respectively. Exceptional items amounting to HK\$5,216,000 arose from fixed assets written off in respect of closure of shops.

The retail industry in Hong Kong became increasingly difficult. The Asian financial crisis brought along an adverse impact to Hong Kong's economy resulting sharp fall in property prices and stock prices. The retail business experienced soaring interest rates and the highest unemployment rate in the last 15 years. People's weakened spending power and sentiment, in addition to the decline of tourism, further hampered the Group's retail business in Hong Kong.

Recently, all of the retail chains in Hong Kong have been going through major restructuring including shop closures, staff lay offs and rental reduction negotiation with landlords in order to survive in such difficult time. The high street retailing is facing strong competition with high technology information retailing, which does not carry the burden of expensive store rental and high fashion inventory costs.

Looking ahead, the Group will continue to focus on its core business of fashion retailing. It will strive to remain competitive through the implementation of various cost control measures, which enhances the productivity of the available resources so as to increase turnover and profit margin. The focus of the Group in the coming year will be on marketing fashion through factory outlet, office outlet and fashion on-line using web site trading. We believe this is the future of the market, given the success of eCommerce in North America that has already taken place.

CHAIRMAN'S STATEMENT

REVIEW OF OPERATION AND OUTLOOK (Cont'd)

The Group expects no improvement in the retail business until the next century. Looking forward to the future, the Group is going through a name change to reflect the following directions:

- (i) cut costs or closure of non profit making store operations;
- (ii) diversification of earning base in and outside of Hong Kong in order to take advantage of the Board of Directors' global connection; and
- (iii) increase of equity and asset base through equity capital raising or compatible assets injection.

APPRECIATION

On behalf of the Directors I would like to take this opportunity to thank all our shareholders for their support and our employees for their hard work and dedication to the Group's business objectives.

On behalf of the Board
Chan Heng Fai
Chairman and Managing Director

Hong Kong, August 24, 1998

DIRECTORS AND SENIOR MANAGEMENT PROFILE

DIRECTORS

Executive Directors

Mr. Chan Heng Fai, aged 54, is the Chairman of the Company and is responsible for the Group's overall corporate policy. His experience and expertise are in the finance and banking sectors. Mr. Chan has been a director of Heng Fung since 1992. Prior to that, Mr. Chan was a director of a financial institution in the United States and several listed companies engaged in investment banking activities and property development in North America. Mr. Chan joined the Group in September 1997 and is the husband of Ms. Chan Yoke Keow, Mabel.

Ms. Chan Yoke Keow, Mabel, aged 50. Ms. Chan was appointed as a director of Heng Fung in 1992 and is responsible for general administration and strategic planning for the Heng Fung Group. Ms. Chan has over 10 years' experience in financial management and administration and is responsible for the financial management of the Group. Ms. Chan joined the Group in September 1997 and is the wife of Mr. Chan Heng Fai.

Ms. Chan Sook Jin, Mary-ann, aged 27. Ms. Chan is the daughter of Mr. Chan Heng Fai and Ms. Chan Yoke Keow, Mabel and was a relationship manager with one of the leading banks in Hong Kong prior joining the Group in September 1997.

Mr. Lau Man Tak, aged 29. He graduated from the Hong Kong Polytechnic University with a Bachelor's Degree in Accountancy and worked with an international accounting firm for over 3 years before joining Heng Fung in 1995 as financial controller. Mr. Lau is an associate member of the Association of Chartered Certified Accountants and Hong Kong Society of Accountants. He joined the Group in September 1997 and is responsible for the accounting and cashflow management of the Group.

Non-executive Directors

Mr. Fong Kwok Jen, aged 48, is a solicitor practising in Singapore. Mr. Fong is also a non-executive director of Heng Fung and was appointed as a non-executive director in September 1997.

Mr. Mark Dean Wooldridge, aged 31. He is currently a project manager of one of the leading banks in Hong Kong and is responsible for overall project management of computer system implementation. Mr. Wooldridge was appointed as a non-executive director in September 1997 and is the husband of Ms. Chan Sook Jin, Mary-ann.

Mr. Lee Ka Leung, Daniel, aged 40. Mr. Lee is a certified public accountant and is admitted to practise in Hong Kong. He is a fellow of the Association of Chartered Certified Accountants, the Hong Kong Society of Accountants and also a member of a committee of the Hong Kong Society of Accountants. Mr. Lee is also currently the managing partner of K.L.Lee & Partners C.P.A. Limited, and is a non-executive director of Heng Fung. Mr. Lee was appointed as a non-executive director in September 1997.

Mr. Wong Dor Luk, Peter, aged 55. Mr. Wong has over 30 years' experience in the fashion industry including distribution, sourcing, overseeing manufacturing and exporting to international clients in France, the United Kingdom, Germany and the US. Mr. Wong was appointed as a non-executive director in September 1997.

DIRECTORS AND SENIOR MANAGEMENT PROFILE

SENIOR MANAGEMENT

Lui Siu Fong, aged 36, is the Group's financial controller. She is responsible for the finance and accounts, management information system as well as inventory control of the Group. She is an associate member of the Hong Kong Society of Accountants, The Association of Chartered Certified Accountants and The Hong Kong Institute of Company Secretaries. Prior to joining the Group in March 1997, she had 16 years' accounting and management experience.

Wong Pui Man, aged 30, is the retail manager. She joined the Group in October 1996 and is responsible for the retail management of the Group's InWear and Matinique brand. She holds a Master's Degree in Business Administration from University of Keele in United Kingdom. She has over 9 years' experience of retail management.

Mak Chi Ngai, aged 35, is the Information Technology Supervisor. He joined the Group in April 1996. He is in charge of the information technology system and networking of the Group. He graduated from the N.S.W. Business College in Sydney, Australia with an Associate Diploma in Computing. He has 4 years' experience in computer systems.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the **ANNUAL GENERAL MEETING** of shareholders of Iwai's International Holdings Limited (the "Company") will be held at Pearl Rooms 1-3, 3/Floor, Hotel Furama Hong Kong, 1 Connaught Road, Central, Hong Kong, on Friday, September 25, 1998 at 9:00 a.m. for the following purposes:-

1. To receive and consider the audited financial statements and the directors' report and auditors' report for the year ended March 31, 1998;
2. To re-elect retiring directors and to authorise the board of directors to fix their remuneration;
3. To re-appoint the auditors of the Company and to authorise the board of directors to fix their remuneration;
4. As special business to consider and if thought fit, to pass, with or without amendments the following resolutions as ordinary resolutions:-

A. **THAT:-**

- (a) subject to paragraph (c) of this resolution the exercise by the directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot, issue and deal with additional shares in the share capital of the Company and to make or grant offers, agreements and options (including warrants, bonds, and debentures convertible into shares of the Company) which would or might require the exercise of such power, be and is hereby generally and unconditionally approved;
- (b) the approval in paragraph (a) of this resolution shall authorise the directors of the Company during the Relevant Period to make or grant offers, agreements and options (including warrants, bonds, and debentures convertible into shares of the Company) which would or might require the exercise of such power after the end of the Relevant Period;
- (c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) and issued by the directors pursuant to the approval in paragraph (a), of this resolution otherwise than pursuant to (i) a Rights Issue (as hereinafter defined), or (ii) pursuant to a grant or exercise of options issued under any share option scheme adopted by the Company or with the consent of the Company in general meeting, or (iii) an issue of shares in the Company as scrip dividends pursuant to the Bye-laws of the Company from time to time; or (iv) an issue of shares of the Company upon the exercise of rights of subscription or conversion under the terms of any warrants of the Company or any securities which are convertible into shares of the Company, shall not exceed 20 per cent. of the aggregate nominal amount of the share capital of the Company in issue at the date of the passing of this resolution and the said approval shall be limited accordingly; and

NOTICE OF ANNUAL GENERAL MEETING

(d) for the purposes of this resolution:

“Relevant Period” means the period from the passing of this resolution until whichever is the earliest of:–

- (i) the conclusion of the next Annual General Meeting of the Company;
- (ii) the expiration of the period within which the next Annual General Meeting of the Company is required by the Bye-laws of the Company or any applicable law of Bermuda to be held; and
- (iii) the revocation or variation of this resolution by an ordinary resolution of the shareholders of the Company in general meeting.

“Rights Issue” means an offer of shares open for a period fixed by the directors to holders of shares on the register on a fixed record date in proportion to their then holdings of such shares (subject to such exclusions or other arrangements as the directors may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of or the requirements of any recognised regulatory body or any stock exchange in any territory applicable to the Company).

B. THAT:–

- (a) subject to paragraph (b) of this resolution the exercise by the directors during the Relevant Period (as hereinafter defined) of all powers of the Company to purchase its own shares of HK\$0.10 each in the capital of the Company on The Stock Exchange of Hong Kong Limited (“Stock Exchange”) (“Shares”) or on any other stock exchange on which the shares of the Company may be listed and recognised by the Securities and Futures Commission and the Stock Exchange for this purpose, subject to and in accordance with all applicable laws and the requirements of the Rules Governing the Listing of Securities on the Stock Exchange or of any other stock exchange as amended from time to time, be and is hereby generally and unconditionally approved;
- (b) the aggregate nominal amount of shares in the capital of the Company to be purchased by the Company pursuant to paragraph (a) during the Relevant Period, shall be no more than 10 per cent. of the aggregate nominal amount of the existing issued share capital of the Company in issue at the date of the passing of this Resolution, and the authority pursuant to paragraph (a) shall be limited accordingly;
- (c) for the purposes of this resolution, “Relevant Period” means the period from the passing of this Resolution until whichever is the earliest of
 - (i) the conclusion of the next Annual General Meeting of the Company;
 - (ii) the expiration of the period within which the next Annual General Meeting of the Company is required by the Bye-laws of the Company or any applicable law of Bermuda to be held; and
 - (iii) the revocation or variation of this resolution by an ordinary resolution of the shareholders of the Company in general meeting.

NOTICE OF ANNUAL GENERAL MEETING

- C. That conditional upon the passing of Resolutions 4A and 4B set out in the notice convening the Annual General Meeting of the Company to be held on 25th September 1998 (the "Notice"), the general mandate granted to the directors and for the time being in force to exercise the powers of the Company to allot shares be and is hereby extended by the addition to the aggregate nominal amount of the share capital which may be allotted or agreed conditionally or unconditionally to be allotted by the directors pursuant to such general mandate of an amount representing the aggregate nominal amount of the share capital of the Company repurchased by the Company under the authority granted by the resolution set out as Resolution 4B in the Notice, provided that such amount shall not exceed 10 per cent. of the aggregate nominal amount of the share capital of the Company in issue at the date of the passing of this Resolution.
5. As special business to consider and, if thought fit, pass with or without amendments the following resolution as a Special Resolution:-

"That the name of the Company be changed to Fronteer International Holdings Limited, subject to the approval of the Registrar of Companies of Bermuda and with effect from the issuance of the relative certificate of change of name."

By Order of the Board
Chan Suk King, Zoe
Company Secretary

Hong Kong, August 25, 1998

Principal place of business in Hong Kong:
326 Kwun Tong Road
Kwun Tong
Hong Kong

Notes:

1. A member entitled to attend and vote at the above Meeting may appoint one or more proxies to attend and vote instead of him. A proxy need not be a member of the Company.
2. In order to be valid, a form of proxy together with the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy thereof, must be deposited at the principal office of the Company in Hong Kong in any event not less than 48 hours before the time appointed for holding the Meeting. Completion and return of a form of proxy will not preclude you from attending and voting in person if you are subsequently able to be present.
3. In connection with Resolution No. 4B above, the attention of shareholders is drawn to the Explanatory Statement to be sent to shareholders of the Company containing a summary of the more important provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") relating to the repurchase of shares on the Stock Exchange.

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended March 31, 1998.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. Its subsidiaries are principally engaged in the retailing of fashion apparel and accessories, property investment and financial and securities investment.

SEGMENT INFORMATION

The Group's turnover and contribution to operating loss for the year ended March 31, 1998, analysed by principal activity, are as follows:

	Turnover <i>HK\$'000</i>	Contribution to operating loss excluding exceptional item <i>HK\$'000</i>	Exceptional item <i>HK\$'000</i>	Contribution to operating loss from ordinary activities before taxation <i>HK\$'000</i>
By principal activity:				
Retailing of fashion apparel and accessories	71,828	(41,346)	(5,216)	(46,562)
Property investment	138	(7,749)	–	(7,749)
Financial and securities investment	1,285	(21,133)	–	(21,133)
	<u>73,251</u>	<u>(70,228)</u>	<u>(5,216)</u>	<u>(75,444)</u>
Corporate expenses				(3,523)
Interest expenses				<u>(5,170)</u>
Loss from ordinary activities before taxation				<u>(84,137)</u>

All of the activities of the Group are based in Hong Kong and more than 90% of the Group's turnover and operating loss are derived from Hong Kong.

SUBSIDIARIES

Details of the Company's subsidiaries at March 31, 1998 are set out in note 13 to the financial statements.

RESULTS

The results of the Group for the year ended March 31, 1998 are set out in the consolidated profit and loss account on page 15.

DIRECTORS' REPORT

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in note 19 to the financial statements.

FINANCIAL SUMMARY

A summary of the results of the Group for the five financial years ended March 31, 1998 and of the assets and liabilities of the Group as at March 31, 1995, 1996, 1997 and 1998 is set out on page 35 of the annual report.

FIXED ASSETS

Details of the movements of the fixed assets of the Group are set out in note 12 to the financial statements.

MAJOR PROPERTIES

Details of the major properties of the Group at March 31, 1998 are set out on page 36 of the annual report.

DIRECTORS

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

Executive directors:

Chan Heng Fai	<i>(appointed on September 1, 1997)</i>
Chan Yoke Keow	<i>(appointed on September 1, 1997)</i>
Chan Sook Jin, Mary-ann	<i>(redesignated on September 15, 1997)</i>
Lau Man Tak	<i>(appointed on September 1, 1997)</i>
Iwai Masaru	<i>(resigned on September 1, 1997)</i>
Tsui Yuk Man, Clare	<i>(resigned on December 2, 1997)</i>
Ng Lai Mui, Sophia	<i>(resigned on November 10, 1997)</i>

Non-executive directors:

Chan Sook Jin, Mary-ann	<i>(appointed on September 1, 1997 and redesignated on September 15, 1997)</i>
Fong Kwok Jen	<i>(appointed on September 1, 1997)</i>
Wooldridge Mark Dean	<i>(appointed on September 1, 1997)</i>
Hara Yasuhito	<i>(resigned on April 1, 1997)</i>
Tsoi David	<i>(resigned on September 1, 1997)</i>
Sakurai Takao	<i>(resigned on September 1, 1997)</i>

Independent non-executive directors:

Lee Ka Leung, Daniel	<i>(appointed on September 1, 1997)</i>
Wong Dor Luk, Peter	<i>(appointed on September 1, 1997)</i>

In accordance with Clause 87 of the Company's Bye-laws, Lau Man Tak and Wooldridge Mark Dean will retire and, being eligible, offer themselves for re-election.

The independent non-executive directors are not appointed for a specific term, but subject to retirement by rotation in accordance with the above clause of the Company's Bye-laws.

DIRECTORS' REPORT

DIRECTORS' INTERESTS IN SHARES

None of the directors or their associates, had any interests in any securities of the Company or any of its associated corporations as defined in the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance").

ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES

The Company has a share option scheme (the "Scheme") to enable the Directors to grant options to eligible employees, including executive directors, of the Company and its subsidiaries to subscribe for shares in the Company. Details of the Scheme are set out in note 18 to the financial statements.

The directors had personal interests in share options to subscribe for shares in the Company at an exercise price of HK\$0.11 per share, exercisable from February 10, 1998 to February 9, 2009 as follows:

Name of directors	Date granted	Number of share options granted during the year and balance at March 31, 1998
Chan Heng Fai	February 10, 1998	3,136,000
Chan Yoke Keow	February 10, 1998	3,136,000
Chan Sook Jin, Mary-ann	February 10, 1998	1,500,000
Lau Man Tak	February 10, 1998	1,500,000

Save as disclosed above, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the Directors and Chief Executives of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate. In addition, none of the Directors and Chief Executives or their spouses or children under the age of 18 had any right to subscribe for the securities of the Company or had exercised any such rights during the year.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contracts of significance to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

SUBSTANTIAL SHAREHOLDERS

As at March 31, 1998, the following details were recorded in the register maintained by the Company under Section 16(1) of the SDI Ordinance:

Name	Direct interest	Deemed interest	Percentage of shareholding
Sure World Capital Limited (Note)	51,557,700	-	41.1%
Rasa Sayang Limited (Note)	1,128,000	-	0.9%
Heng Fung Capital Company Limited (Note)	3,388,000	-	2.7%
Heng Fung Holdings Company Limited	-	56,073,700	44.7%
Greenyield Limited	27,150,000	-	21.6%

DIRECTORS' REPORT

SUBSTANTIAL SHAREHOLDERS (Cont'd)

Note:

The ultimate holding company of these companies is Heng Fung Holdings Company Limited.

Other than as disclosed above, the Company has not been notified of any other interests representing 10% or more of the Company's issued share capital as at March 31, 1998.

POST BALANCE SHEET EVENT

Details of a significant post balance sheet event are set out in note 28 to the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended March 31, 1998, the percentage of the Group's purchases attributable to the largest supplier was 63% and the percentage of purchases attributable to the Group's five largest suppliers was 96%. The percentage of the Group's turnover attributable to the five largest customers represented less than 30% of the Group's total turnover. None of the directors, their associates or any shareholder who, to the knowledge of the directors, owned more than 5% of the Company's share capital had any beneficial interests in transactions with the Group's five largest suppliers.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-laws although there are no restrictions against such rights under the laws in Bermuda.

COMPLIANCE WITH CODE OF BEST PRACTICE

The Company has complied throughout the year ended March 31, 1998 with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

YEAR 2000 ISSUES

The Board of Directors is well aware of the potential problems of the Year 2000 date may cause for computer systems. An overall study on the millennium bug on the Group's operation is under progress. The Board of Directors believe that the millennium bug will not have significant impact on the computer system and internal operations.

AUDITORS

During the year, Messrs. Wong Brothers & Co., who acted as auditors of the Company from its date of incorporation on August 22, 1995, retired and Messrs. Deloitte Touche Tohmatsu were appointed the auditors of the Company. A resolution will be submitted to the annual general meeting to re-appoint the auditors, Messrs. Deloitte Touche Tohmatsu.

On behalf of the Board

CHAN HENG FAI

Chairman and Managing Director

Hong Kong, August 24, 1998

AUDITORS' REPORT

**Deloitte Touche
Tohmatsu**



**德勤·關黃陳方
會計師行**

Certified Public Accountants

26th Floor, Wing On Centre
111 Connaught Road Central
Hong Kong

TO THE MEMBERS OF **IWAI'S INTERNATIONAL HOLDINGS LIMITED**

(Incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 15 to 34 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors of the Company 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 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 judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, 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.

FUNDAMENTAL UNCERTAINTY RELATING TO THE GOING CONCERN BASIS

In forming our opinion we have considered the adequacy of the disclosures made in note 2 to the financial statements which explain the dependence of the Group on the continuing financial support provided by Heng Fung Holdings Company Limited ("Heng Fung"), a substantial shareholder of the Company since July 17, 1997. The directors are satisfied that the Group will be able to meet its financial obligations as they fall due provided that Heng Fung continues to provide financial support to the Group. The financial statements have been prepared on a going concern basis, the validity of which depends upon future funding being available. The financial statements do not include any adjustments that would result from a failure to obtain such funding. We consider that appropriate disclosures have been made and our opinion is not qualified in this respect.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at March 31, 1998 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong, August 24, 1998

CONSOLIDATED PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 MARCH, 1998

	<i>Notes</i>	1998 HK\$'000	1997 HK\$'000
TURNOVER	4	<u>73,251</u>	<u>120,967</u>
OPERATING LOSS			
Continuing operations excluding exceptional items	5	(78,921)	(21,374)
Exceptional items	6	<u>(5,216)</u>	<u>(7,092)</u>
LOSS FROM ORDINARY ACTIVITIES BEFORE TAXATION		(84,137)	(28,466)
TAXATION	9	<u>-</u>	<u>(148)</u>
LOSS FOR THE YEAR		<u>(84,137)</u>	<u>(28,614)</u>
LOSS PER SHARE	11	<u>(67.04) cents</u>	<u>(22.8) cents</u>

CONSOLIDATED BALANCE SHEET

AT MARCH 31, 1998

	<i>Notes</i>	1998 HK\$'000	1997 <i>HK\$'000</i>
FIXED ASSETS	12	28,662	39,112
NET CURRENT (LIABILITIES) ASSETS	14	(51,924)	24,209
		(23,262)	63,321
<p>(Represented) financed by:</p>			
SHARE CAPITAL	17	12,550	12,550
RESERVES	19	(35,812)	48,342
(DEFICIENCY) BALANCE OF SHAREHOLDERS' FUNDS		(23,262)	60,892
OBLIGATIONS UNDER FINANCE LEASES			
- DUE AFTER ONE YEAR	20	-	2,429
		(23,262)	63,321

The financial statements on pages 15 to 34 were approved by the Board of Directors on August 24, 1998 and are signed on its behalf by:

Chan Yoke Keow
Director

Lau Man Tak
Director

BALANCE SHEET

AT MARCH 31, 1998

	<i>Notes</i>	1998 HK\$'000	1997 <i>HK\$'000</i>
INTERESTS IN SUBSIDIARIES	13	40,248	71,250
NET CURRENT LIABILITIES	14	(63,510)	(169)
NET (LIABILITIES) ASSETS		(23,262)	71,081
<i>(Represented) financed by:</i>			
SHARE CAPITAL	17	12,550	12,550
RESERVES	19	(35,812)	58,531
(DEFICIENCY) BALANCE OF SHAREHOLDERS' FUNDS		(23,262)	71,081

Chan Yoke Keow
Director

Lau Man Tak
Director

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 MARCH, 1998

	Notes	1998 HK\$'000	1997 HK\$'000
NET CASH (OUTFLOW) INFLOW FROM OPERATING ACTIVITIES	23	(37,837)	1,462
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Finance lease charges paid		(433)	(290)
Interest paid		(3,309)	(1,290)
Interest received		213	35
Rental income received		-	18
Dividend income received		-	29
Dividends paid		-	(6,275)
NET CASH OUTFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		(3,529)	(7,773)
TAXATION			
Hong Kong Profits Tax paid		(836)	(3,243)
Hong Kong Profits Tax refunded		1,078	-
NET TAX REFUNDED (PAID)		242	(3,243)
INVESTING ACTIVITIES			
Purchase of fixed assets		(5,549)	(7,005)
Proceeds from disposals of fixed assets		91	149
Proceeds from disposals of listed investments		-	2,255
Bank deposit pledged		(1,426)	-
NET CASH OUTFLOW FROM INVESTING ACTIVITIES		(6,884)	(4,601)
NET CASH OUTFLOW BEFORE FINANCING		(48,008)	(14,155)
FINANCING	24		
Advance from a related company		93,393	-
Repayment of advance from a related company		(32,196)	-
Repayment of obligations under finance leases		(5,078)	(3,783)
NET CASH INFLOW (OUTFLOW) FROM FINANCING		56,119	(3,783)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		8,111	(17,938)
CASH AND CASH EQUIVALENTS AT APRIL 1		(6,012)	11,926
CASH AND CASH EQUIVALENTS AT MARCH 31		2,099	(6,012)
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS			
Bank balances and cash		2,099	3,135
Bank overdrafts		-	(9,147)
		2,099	(6,012)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 1998

1. GENERAL

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

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

On July 17, 1997, Heng Fung Holdings Company Limited ("Heng Fung") became a substantial shareholder of the Company and has given an undertaking to make available to the Company by way of loan facilities the necessary ongoing funding for the Company's general working capital purposes and repayments of outstanding loans. In view of the continuing financial support provided by Heng Fung, the directors believe that the Company has sufficient working capital and will be able to meet its financial obligations as they fall due.

Accordingly, the financial statements have been prepared on a going concern basis. Should the Company be unable to continue its operations due to a withdrawal of such financial support, adjustments would have to be made to reduce the value of assets to their recoverable amount, to provide for any further liabilities which might arise and to reclassify fixed assets as current assets.

3. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies which have been adopted in preparing these financial statements and which conform with accounting principles generally accepted in Hong Kong are as follows:

Basis of consolidation

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

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

Turnover

Turnover represents the amounts received and receivable for goods sold, income from financial and securities investment, and property rental income during the year.

Revenue recognition

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

Rental income under operating leases is recognised on a straight line basis over the terms of the relevant leases.

Sales proceeds on trading of securities is recognised on a trade date basis when a sale and purchase contract is entered into.

Profit and loss on equity swap transactions is recognised by reference to market value of the underlying equity at the balance sheet date or expiration date of contracts.

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 1998

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Investments in subsidiaries

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

Investments in subsidiaries are included in the Company's balance sheet at cost less provision, if necessary, for any permanent diminution in value.

Fixed assets and depreciation

Fixed assets other than investment properties are stated at cost or valuation less depreciation. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its present working condition and location for its intended use. Expenditure incurred after the fixed assets have been put into operation, such as repairs and maintenance and overhaul costs, are 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 the fixed assets.

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

Land and buildings are stated in the balance sheet at their revalued amount, being the fair value on the basis of their existing use at the date of revaluation less any subsequent accumulated depreciation. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

Any surplus arising on revaluation of land and buildings is credited to the revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense when it is recognised as income. A decrease in net carrying amount arising on revaluation of an asset is charged to the profit and loss account to the extent that it exceeds the balance, if any, on the revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus is transferred to retained profits.

Depreciation is provided to write off the cost or valuation of fixed assets other than investment properties over their estimated useful lives and after taking into account their estimated residual value, using the straight line method, at the following rates per annum:

Leasehold land	Over the terms of the leases
Buildings	Over the shorter of the terms of the leases or 50 years
Furniture and fixtures	15% – 50%
Motor vehicles	25%
Vessels	15%

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the terms of the leases.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 1998

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Investment properties

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

Investment properties are stated at their open market value based on independent professional valuations at the balance sheet date. Any surplus or deficit arising on the revaluation of investment properties is credited or charged to the investment property revaluation reserve unless the balance of this reserve is insufficient to cover a deficit, in which case the excess of the deficit over the balance on the investment property revaluation reserve is charged to the profit and loss account. Where a deficit has previously been charged to the profit and loss account and a revaluation surplus subsequently arises, this surplus is credited to the profit and loss account to the extent of the deficit previously charged.

On disposal of an investment property, the balance on the investment property revaluation reserve attributable to that property is transferred to the profit and loss account.

No depreciation is provided on investment properties except where the unexpired term of the relevant lease is 20 years or less.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership of the assets concerned to the Group. Assets held under finance leases are capitalised at their fair value at the date of acquisition. The principal portion of the corresponding leasing commitments is shown as obligations of the Group. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the profit and loss account over the period of the relevant leases so as to produce a constant periodic rate of charge on the remaining balances of the obligations for each accounting period.

All other leases are classified as operating leases and the annual rentals are charged to the profit and loss account on a straight line basis over the lease term.

Stocks

Stocks represent goods held for resale and are stated at the lower of cost and net realisable value. Cost, which comprises the purchase cost and those charges that have been incurred in bringing the stocks to their present location and condition is calculated using the first-in, first-out method. Net realisable value represents the expected selling price less all costs to be incurred in selling and distribution.

Foreign currencies

Transactions in foreign currencies are translated at the rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates ruling on the balance sheet date. Profits and losses arising on translation are dealt with in the profit and loss account.

On consolidation, the financial statements of overseas subsidiaries are translated at the rates ruling on the balance sheet date. All exchange differences arising on consolidation are dealt with in the translation reserve.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 1998

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Taxation

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowed. Timing differences arise from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in the financial statements. The tax effect of timing differences, computed using the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or asset will crystallise in the foreseeable future.

Investments

Listed investments held for short-term trading purposes are stated at the lower of cost and market value on an individual investment basis at the balance sheet date.

Cash equivalents

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

4. TURNOVER

	1998 HK\$'000	1997 HK\$'000
Turnover comprises:		
Sales of goods	71,828	120,967
Financial and securities investment	1,285	–
Property rental income	138	–
	73,251	120,967

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 1998

5. OPERATING LOSS FROM CONTINUING OPERATIONS EXCLUDING EXCEPTIONAL ITEMS

	1998	1997
	HK\$'000	HK\$'000
Operating loss from continuing operations excluding exceptional items has been arrived at after charging:		
Auditors' remuneration	421	395
Depreciation		
Owned assets	8,604	7,292
Assets held under finance leases	1,822	1,593
Finance lease charges	433	290
Interest on bank borrowings wholly repayable within five years	892	1,290
Interest on other borrowings	833	-
Interest on loan from a related company	3,012	-
	5,170	1,580
Loss on disposals of fixed assets	34	-
Operating lease rentals:		
Rented premises	30,952	38,313
Furniture and fixtures	113	-
Preliminary expenses	27	-
Provision for short-term listed investments	14,733	-
and after crediting:		
Interest income	213	35
Dividend income from listed investments	-	29
Exchange gain	1,234	-
Profit on disposal of listed investments	-	124

6. EXCEPTIONAL ITEMS

	1998	1997
	HK\$'000	HK\$'000
Fixed assets written off in respect of closure of shops	5,216	5,042
Legal and professional fees and related expenses incurred by the Company in connection with disciplinary proceedings held by the Stock Exchange	-	2,050
	5,216	7,092

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 1998

7. DIRECTORS' EMOLUMENTS

	1998 HK\$'000	1997 HK\$'000
Directors' fees:		
Executive	-	-
Non-executive	120	75
	<u>120</u>	<u>75</u>
Other emoluments (executive directors):		
Salaries and other benefits	716	1,654
	<u>716</u>	<u>1,654</u>
Total emoluments	<u>836</u>	<u>1,729</u>

Emoluments of the fourteen (1997: six) directors were within the band of up to HK\$1,000,000.

8. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, two (1997: three) were directors of the Company whose emoluments are included in the disclosures in note 7 above. The emoluments of the remaining three (1997: two) individuals were as follows:

	1998 HK\$'000	1997 HK\$'000
Salaries and other benefits	1,181	757
	<u>1,181</u>	<u>757</u>

Emoluments of the remaining three (1997: two) individuals are within the band of up to HK\$1,000,000.

9. TAXATION

	1998 HK\$'000	1997 HK\$'000
The charge comprises:		
Hong Kong Profits Tax under provision in respect of prior year	-	148
Deferred taxation	-	-
	<u>-</u>	<u>148</u>

No provision for Hong Kong Profits Tax has been made in the financial statements as there is no assessable profit for the year.

Details of unprovided deferred taxation are set out in note 22 to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 1998

10. LOSS FOR THE YEAR

Of the Group's loss for the year of HK\$84,137,000 (1997: HK\$28,614,000), a loss of approximately HK\$94,343,000 (1997: HK\$5,566,000) has been dealt with in the financial statements of the Company.

11. LOSS PER SHARE

The calculation of loss per share is based on the loss for the year of HK\$84,137,000 (1997: HK\$28,614,000) and on 125,500,000 ordinary shares in issue throughout both years.

12. FIXED ASSETS

	Leasehold land and buildings HK\$'000	Investment properties HK\$'000	Furniture and fixtures HK\$'000	Motor vehicles HK\$'000	Vessels HK\$'000	Total HK\$'000
THE GROUP						
COST OR VALUATION						
At April 1, 1997	18,000	4,100	30,613	152	380	53,245
Exchange realignment	-	-	(38)	-	-	(38)
Additions	-	-	5,549	-	-	5,549
Disposals	-	-	(14,727)	-	-	(14,727)
Deficit on valuation	-	(560)	-	-	-	(560)
At March 31, 1998	18,000	3,540	21,397	152	380	43,469
Comprising:						
At cost	-	-	21,397	152	380	21,929
At valuation						
– March 31, 1998	18,000	3,540	-	-	-	21,540
	18,000	3,540	21,397	152	380	43,469
DEPRECIATION						
At April 1, 1997	-	-	13,696	152	285	14,133
Exchange realignment	-	-	(6)	-	-	(6)
Provided for the year	360	-	10,009	-	57	10,426
Eliminated on disposals	-	-	(9,386)	-	-	(9,386)
Surplus on revaluation	(360)	-	-	-	-	(360)
At March 31, 1998	-	-	14,313	152	342	14,807
NET BOOK VALUES						
At March 31, 1998	18,000	3,540	7,084	-	38	28,662
At March 31, 1997	18,000	4,100	16,917	-	95	39,112

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 1998

12. FIXED ASSETS (Cont'd)

The leasehold land and buildings and the investment properties are held on medium-term leases in Hong Kong.

The leasehold land and buildings and the investment properties of the Group were revalued at March 31, 1998 on an open market value basis by Francis Lau & Company (Surveyors) Limited, a firm of independent professional qualified valuers. The surplus arising on revaluation of leasehold land and buildings has been credited to the asset revaluation reserve (note 19). The deficit arising on revaluation of investment properties of the Group has been charged directly to the investment property revaluation reserve (note 19).

HK\$1,970,000 of investment properties of the Group are rented out under operating leases.

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

	<i>HK\$'000</i>
Cost	12,500
Accumulated depreciation	<u>(1,375)</u>
Net book value at March 31, 1998	<u><u>11,125</u></u>

The net book value of fixed assets includes an amount of HK\$nil (1997: HK\$7,240,000) in respect of assets held under finance leases.

13. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	1998	1997
	HK\$'000	<i>HK\$'000</i>
Unlisted shares, at cost	52,199	52,199
Less: Provision for permanent diminution in value	<u>(52,199)</u>	<u>(725)</u>
	<u>–</u>	<u>51,474</u>
Amounts due from subsidiaries	77,783	19,806
Less: Provision for amounts due from subsidiaries	<u>(37,022)</u>	<u>–</u>
	<u>40,761</u>	<u>19,806</u>
Amounts due to subsidiaries	<u>(513)</u>	<u>(30)</u>
	<u><u>40,248</u></u>	<u><u>71,250</u></u>

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 1998

13. INTERESTS IN SUBSIDIARIES (Cont'd)

Particulars of the subsidiaries at March 31, 1998 are as follows:

Name of subsidiary	Place of incorporation/ operations	Paid up issued share capital	Proportion of nominal value of issued capital held by the Company		Principal activities
			Directly %	Indirectly %	
Blandor International Limited	Hong Kong	Ordinary HK\$2	–	100	Operation of fashion retail shops
Ei-Ei-O (Far East) Limited	Hong Kong	Ordinary HK\$3,000,000	–	100	Operation of fashion retail shops
Iwai Denmark Limited	Hong Kong	Ordinary HK\$10,000	–	100	Inactive
Iwai Paris Limited	Hong Kong	Ordinary HK\$2	–	100	Inactive
Iwai Style Limited	Hong Kong	Ordinary HK\$2	–	100	Inactive
Iwai Tokyo Limited	Hong Kong	Ordinary HK\$2	–	100	Inactive
Iwai's Holdings (Hong Kong) Limited	Hong Kong	Ordinary HK\$1,000	–	100	Investment and property holding
		Non-voting deferred shares HK\$1,000,000 (Note)	–	–	
Iwai's Investments Limited	The British Virgin Islands/ Hong Kong	Ordinary HK\$10,000	100	–	Investment holding
Masaru Iwai Enterprises (Hong Kong) Limited	Hong Kong	Ordinary HK\$1,000,000	–	100	Trading of fashion apparel and accessories

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 1998

13. INTERESTS IN SUBSIDIARIES (Cont'd)

Name of subsidiary	Place of incorporation/ operations	Paid up issued share capital	Proportion of nominal value of issued capital held by the Company		Principal activities
			Directly %	Indirectly %	
M. Paris Hong Kong Limited	Hong Kong	Ordinary HK\$2,000,000	–	100	Operation of fashion retail shops
M. France H.K. Limited	Hong Kong	Ordinary HK\$1,000,000	–	100	Operation of fashion retail shops
Renouveau (H.K.) Limited	Hong Kong	Ordinary HK\$100,000	–	100	In liquidation
Renouveau Japan Company Limited	Japan	Ordinary ¥10,000,000	100	–	In liquidation
Rich Legend Investment Limited	Hong Kong	Ordinary HK\$2	–	100	Financial and securities investment
York Winner Investment Limited	Hong Kong	Ordinary HK\$2	–	100	Financial and securities investment

Note: The deferred shares, which are not held by the Group, carry practically no rights to dividends or to receive notice of or to attend or vote at any general meeting of the company or to participate in any distribution on winding up.

14. NET CURRENT (LIABILITIES) ASSETS

	THE GROUP		THE COMPANY	
	1998 HK\$'000	1997 HK\$'000	1998 HK\$'000	1997 HK\$'000
CURRENT ASSETS				
Stocks	4,583	33,447	–	–
Debtors, deposits and prepayments	10,911	19,042	1,615	33
Tax recoverable	2,431	2,673	–	–
Short-term listed investments (note 15)	6,459	–	–	–
Bank balances and cash	3,525	3,135	44	71
	27,909	58,297	1,659	104
CURRENT LIABILITIES				
Creditors and accrued charges	16,447	6,688	2,544	273
Bills payable	761	15,604	–	–
Amount due to a related company (note 16)	62,625	–	62,625	–
Obligations under finance leases	–	2,649	–	–
– due within one year (note 20)	–	9,147	–	–
Bank borrowings (note 21)	–	–	–	–
	79,833	34,088	65,169	273
NET CURRENT (LIABILITIES) ASSETS	(51,924)	24,209	(63,510)	(169)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 1998

15. SHORT-TERM LISTED INVESTMENTS

	THE GROUP	
	1998	1997
	HK\$'000	HK\$'000
Listed shares in Hong Kong, at cost	21,192	-
Provision for diminution in value	(14,733)	-
	<u>6,459</u>	<u>-</u>
Market value of listed shares	<u>6,459</u>	<u>-</u>

16. AMOUNT DUE TO A RELATED COMPANY

During the year, Heng Fung committed to provide loan facilities to the Group up to HK\$150,000,000. At March 31, 1998, an amount of HK\$61,197,000 utilised and due to Heng Fung's subsidiary is unsecured, bears interest at prime rate plus 3 per cent. per annum, and will be repaid on February 23, 1999. The balance of HK\$1,428,000 represents interest payable to Heng Fung's subsidiary.

17. SHARE CAPITAL

	1998 & 1997
	HK\$'000
Authorised:	
Ordinary shares of HK\$0.10 each	<u>90,000</u>
Issued and fully paid:	
Ordinary shares of HK\$0.10 each	<u>12,550</u>

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 1998

18. SHARE OPTIONS

Under the terms of the Share Option Scheme (the "Scheme") which became effective on October 2, 1995, the board of directors of the Company may offer to any director or full time employee of the Company, or any of its subsidiaries, options to subscribe for shares in the Company at a price equal to the higher of the nominal value of the shares and 80 per cent. of the average of the closing prices of the shares on the Stock Exchange on the five trading days immediately preceding the date of the grant of the options, subject to a maximum of 10 per cent. of the issued share capital of the Company from time to time. The Scheme will remain in force for a period of ten years commencing October 2, 1995.

A summary of the movement of options granted during the year is as follows:

Name	Capacity	Exercise price HK\$	Number of option shares granted on February 10, 1998 and balance at March 31, 1998
Chan Heng Fai	Director	0.11	3,136,000
Chan Yoke Keow	Director	0.11	3,136,000
Chan Sook Jin, Mary-ann	Director	0.11	1,500,000
Lau Man Tak	Director	0.11	1,500,000
			<u>9,272,000</u>

19. RESERVES

	Asset revaluation reserve HK\$'000	Investment property revaluation reserve HK\$'000	Share premium HK\$'000	Translation reserve HK\$'000	Special reserve HK\$'000	Contributed surplus HK\$'000	Retained profits (deficit) HK\$'000	Total HK\$'000
THE GROUP								
At April 1, 1997	6,894	2,447	15,594	(99)	1,602	-	21,904	48,342
Surplus (deficit) on revaluation	360	(560)	-	-	-	-	-	(200)
Exchange differences arising from translation of an overseas subsidiary's financial statements	-	-	-	183	-	-	-	183
Loss for the year	-	-	-	-	-	-	(84,137)	(84,137)
At March 31, 1998	<u>7,254</u>	<u>1,887</u>	<u>15,594</u>	<u>84</u>	<u>1,602</u>	<u>-</u>	<u>(62,233)</u>	<u>(35,812)</u>
THE COMPANY								
At April 1, 1997	-	-	15,594	-	-	48,474	(5,537)	58,531
Loss for the year	-	-	-	-	-	-	(94,343)	(94,343)
At March 31, 1998	<u>-</u>	<u>-</u>	<u>15,594</u>	<u>-</u>	<u>-</u>	<u>48,474</u>	<u>(99,880)</u>	<u>(35,812)</u>

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 1998

19. RESERVES (Cont'd)

Notes:

The special reserve of the Group represents the difference between the nominal value of the shares of the acquired subsidiaries and the nominal value of the Company's shares issued for the acquisition at the time of the group reorganisation prior to the listing of the Company's shares in 1995.

The contributed surplus of the Company represents the difference between the consolidated shareholders' funds of the subsidiaries at the date on which they were acquired by the Company, and the nominal amount of the Company's shares issued for the acquisition at the time of the group reorganisation prior to the listing of the Company's shares in 1995.

Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus account of the Company is available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if

- (a) it is, or would after the payment be, unable to pay its liabilities as they become due; or
- (b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

As at March 31, 1998, the Company has no reserve available for distribution.

20. OBLIGATIONS UNDER FINANCE LEASES

The maturity of obligations under finance leases is as follows:

	THE GROUP	
	1998	1997
	HK\$'000	HK\$'000
Within one year	-	2,649
More than one year, but not exceeding two years	-	2,429
	-	5,078
Less: Amount due within one year shown under current liabilities (note 14)	-	(2,649)
Amount due after one year	-	2,429

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 1998

21. BANK BORROWINGS

	THE GROUP	
	1998	1997
	HK\$'000	HK\$'000
Bank borrowings comprise the following:		
Bank overdrafts	-	9,147
	<u> </u>	<u> </u>
Secured	-	8,576
Unsecured	-	571
	<u> </u>	<u> </u>
	<u> </u>	<u> </u>
	-	9,147
	<u> </u>	<u> </u>

22. UNPROVIDED DEFERRED TAXATION

At the balance sheet date, the Group has a net deferred tax asset of HK\$9,003,000 (1997: HK\$2,784,000) not been recognised in the financial statements as realisation of this asset in the foreseeable future is uncertain. Details of the net unprovided deferred tax asset are as follows:

	THE GROUP	
	1998	1997
	HK\$'000	HK\$'000
Tax effect of timing differences because of:		
Deficiency (excess) of tax allowances over depreciation	75	(80)
Tax losses	8,928	2,864
	<u> </u>	<u> </u>
	9,003	2,784
	<u> </u>	<u> </u>

The amount of unprovided deferred tax credit for the year is as follows:

	THE GROUP	
	1998	1997
	HK\$'000	HK\$'000
Excess of depreciation over tax allowances	155	892
Tax losses	6,064	2,864
	<u> </u>	<u> </u>
	6,219	3,756
	<u> </u>	<u> </u>

The Company had no material unprovided deferred taxation for the year or at the balance sheet date.

Deferred tax has not been provided on the valuation surplus arising on the valuation of land and buildings and investment properties as profits arising on the disposal of these assets would not be subject to taxation. Accordingly, the valuation does not constitute a timing difference for tax purposes.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 1998

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

	1998	1997
	HK\$'000	HK\$'000
Loss from ordinary activities before taxation	(84,137)	(28,466)
Fixed assets written off in respect of closure of shops	5,216	-
Depreciation	10,426	8,885
Loss on disposals of fixed assets	34	5,091
Finance lease charges	433	290
Interest expense	4,737	1,290
Interest income	(213)	(35)
Rental income	-	(18)
Profit on disposal of listed investments	-	(124)
Dividend income from listed investments	-	(29)
Increase in short-term listed investments	(6,459)	-
Decrease in stocks	28,864	6,375
Decrease in debtors, deposits and prepayments	8,131	13,471
Increase (decrease) in creditors and accrued charges	9,759	(5,268)
Decrease in bills payable	(14,843)	-
Exchange realignment	215	-
	<hr/>	<hr/>
NET CASH (OUTFLOW) INFLOW FROM OPERATING ACTIVITIES	<u>(37,837)</u>	<u>1,462</u>

24. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Amount due to a related company	Obligations under finance leases
	HK\$	HK\$
Balance at beginning of the year	-	5,078
Net cash inflow (outflow)	61,197	(5,078)
Interest payable	1,428	-
	<hr/>	<hr/>
Balance at end of the year	<u>62,625</u>	<u>-</u>

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 1998

25. CONTINGENT LIABILITIES

(a) Guarantees

The Company has given an unlimited corporate guarantee to a bank in respect of general facilities granted to certain subsidiaries.

(b) Litigations

During the year, certain former directors issued writs against the Company and one of its subsidiaries for claims of approximately HK\$1,630,000. The directors are advised by the legal counsel of the Group and believe that it is unlikely that the former directors succeed in their claims.

26. LEASE COMMITMENTS

At the balance sheet date, the Group had commitments payable within the next year under non-cancellable operating leases in respect of rented premises as follows:

	THE GROUP	
	1998	1997
	HK\$'000	HK\$'000
Operating leases which expire:		
Within one year	10,655	12,736
In the second to fifth years inclusive	2,641	16,591
	13,296	29,327

At the balance sheet date, the Company did not have any commitments under non-cancellable operating leases.

27. PLEDGE OF ASSETS

At the balance sheet date, the Group has pledged leasehold land and buildings and a bank deposit with carrying values of HK\$18,000,000 and HK\$1,426,000 respectively to secure banking facilities granted to the Group.

28. POST BALANCE SHEET EVENT

On July 2, 1998, the Company has entered into a placing agreement for a private placing of 25,100,000 new shares of HK\$0.1 each in the share capital of the Company at a price of HK\$0.11 per placing share. This price represents a discount of approximately 40.5 per cent. to the closing price of HK\$0.185 per share quoted on the Stock Exchange on July 2, 1998. The new shares represent approximately 20 per cent. of the Company's existing share capital and 16.7 per cent. of the Company's issued share capital as enlarged by the issue of new shares. The majority of the net proceeds of the issue of the new shares will be used to fund the increased working capital requirements of the Company.

29. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current year's presentation.

FINANCIAL SUMMARY

	For the year ended March 31,				1998 HK\$'000
	1994 <i>HK\$'000</i>	1995 <i>HK\$'000</i>	1996 <i>HK\$'000</i>	1997 <i>HK\$'000</i>	
RESULTS					
TURNOVER	<u>124,375</u>	<u>129,167</u>	<u>120,817</u>	<u>120,967</u>	<u>73,251</u>
OPERATING PROFIT (LOSS)					
Continuing operations excluding exceptional items	17,457	24,731	19,568	(21,374)	(78,921)
Exceptional items	-	23,094	-	(7,092)	(5,216)
PROFIT (LOSS) FROM ORDINARY ACTIVITIES BEFORE TAXATION	17,457	47,825	19,568	(28,466)	(84,137)
TAXATION	(2,136)	(3,820)	(3,440)	(148)	-
PROFIT (LOSS) FOR THE YEAR	<u>15,321</u>	<u>44,005</u>	<u>16,128</u>	<u>(28,614)</u>	<u>(84,137)</u>

	As at March 31,			1998 HK\$'000
	1995 <i>HK\$'000</i>	1996 <i>HK\$'000</i>	1997 <i>HK\$'000</i>	
ASSETS AND LIABILITIES				
TOTAL ASSETS	99,853	123,578	97,409	56,571
TOTAL LIABILITIES	(57,088)	(34,285)	(36,517)	(79,833)
BALANCE (DEFICIENCY) OF SHAREHOLDERS' FUNDS	<u>42,765</u>	<u>89,293</u>	<u>60,892</u>	<u>(23,262)</u>

Notes:

- (1) The results of the Group for each of the year ended March 31, 1994 and 1995 have been extracted from the Company's prospectus dated October 6, 1995 and have been prepared on a combined basis to indicate the results of the Group as if the current Group structure had been in existence throughout those years.
- (2) The Company was incorporated on August 22, 1995 and became the holding company of the companies now comprising the Group on October 2, 1995. Accordingly, the only balance sheets that have been prepared for the Group are those as set out above.

PARTICULARS OF MAJOR PROPERTIES

(A) LEASEHOLD LAND AND BUILDINGS

Name/location	Type	Lease term
No. 326 Kwun Tong Road Kwun Tong Kowloon Hong Kong	Industrial	Medium term lease

(B) INVESTMENT PROPERTIES

Name/location	Type	Lease term
Unit A on 7th Floor Good Luck Industrial Building No. 105 How Ming Street Kwun Tong Kowloon Hong Kong	Industrial	Medium term lease
Unit A on 11th Floor Good Luck Industrial Building No. 105 How Ming Street Kwun Tong Kowloon Hong Kong	Industrial	Medium term lease
Car Parking Space No. P9 on Ground Floor No. 105 How Ming Street Kwun Tong Kowloon Hong Kong	Car park	Medium term lease