
Notes to the Accounts

At 31st December, 1992

1. BASIS OF PRESENTATION OF PROFORMA COMBINED RESULTS

To facilitate the comparison of results, the directors consider that it is more meaningful to include the combined results of the Group for the year ended 31st December, 1991 as if the group structure which became effective in June, 1991 had been in existence throughout that year.

2. PRINCIPAL ACCOUNTING POLICIES

(a) Basis of consolidation

The consolidated accounts incorporate the audited accounts of Giordano Holdings Limited and its subsidiaries made up to 31st December, 1992.

The results of subsidiaries acquired during the year are dealt with in the consolidated profit and loss account from the effective dates of acquisition.

Capital reserve or goodwill arising on consolidation represents the excess or deficit of the fair value of the net assets of the subsidiaries at the dates of acquisition over the value of the consideration paid.

The capital reserve and goodwill arising on consolidation are offset against each other and the net amount is written off against reserves or included in reserves, where appropriate.

All material intercompany transactions and balances within the Group are eliminated on consolidation.

(b) Subsidiaries

Investment in subsidiaries are carried at cost, unless, in the opinion of the directors, there has been a permanent diminution in value when they are written down to directors' valuation.

(c) Associated company

An associated company is a company, other than a subsidiary in which the Group holds, not less than 20 percent and not more than 50 percent of the equity as a long term investment and exercises a significant influence in its management. The associated company is accounted for under the equity method of accounting.

2. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

(d) Fixed assets

Depreciation on fixed assets is calculated to write off their costs on a straight line basis over their expected useful lives to the Group. The principal annual rates used for this purpose are:

Leasehold improvements	20% - 50%
Plant and machinery	20%
Furniture and fixtures	20% - 50%
Office equipment	20% - 25%
Motor vehicles	20% - 25%
Leisure boat	20%

(e) Export quota entitlements

Purchased permanent export quota entitlements are capitalised and amortised over five years.

Temporary export quota entitlements acquired are expensed in the year in which they are utilised.

Export quota entitlements allocated by the authorities in Hong Kong are not capitalised and are not included as assets in the accounts.

(f) Other intangible assets

Preliminary expenses in respect of retail shops and office premises are written off over the terms of the respective leases.

(g) Other investments

Purchased club debentures are capitalised and amortised over three years with effect from this year.

(h) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on a weighted average basis and is arrived at as follows:

- (i) Raw materials and purchased goods - invoiced prices plus procurement costs.
- (ii) Work in progress and finished goods - cost of direct materials, direct labour and an appropriate proportion of production overheads.

Net realisable value is the price at which inventories can be sold in the normal course of business after allowing for the costs of realisation and, where appropriate, the cost of conversion from their existing state to a finished condition.

2. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

(i) Taxation

The charge for taxation is based on the profit for the year as adjusted for items which are non-assessable or disallowable. 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 accounts. The tax effect of timing differences, computed under the liability method, is recognised in the accounts to the extent that it is probable a liability or asset will crystallise in the foreseeable future.

(j) Translation of foreign currencies

Foreign currency transactions during the year are translated into Hong Kong dollars at the rates of exchange ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are incorporated into the accounts by translating foreign currencies into Hong Kong dollars at the rates of exchange ruling at the balance sheet date. Exchange differences arising are included in operating results.

The accounts of overseas subsidiaries and branches at the year end are translated into Hong Kong dollars at the rates of exchange ruling at the balance sheet date. Exchange differences arising on the translation of share capital and opening reserves of these entities are taken directly to exchange reserve.

(k) Operating leases

Rentals applicable to operating leases, under which substantially all the benefits and risks of the ownership remain with the lessor, are charged to the profit and loss account as incurred.

3. TURNOVER

Turnover comprises sales at invoiced value to customers outside the Group, less returns and discounts.

4. OPERATING PROFIT

	Group	
	1992	1991
	HK\$'000	HK\$'000
The operating profit is stated after charging:		
Auditors' remuneration	1,028	874
Amortisation of intangible assets	3,449	2,904
Depreciation of fixed assets	38,567	21,791
Amortisation of other investments	980	0
Interest on bank loans and overdrafts repayable within 5 years	462	630
Interest on other borrowings repayable within 5 years	0	978
Operating lease rentals in respect of retail shops, office premises, factories and warehouses	250,408	159,759
and after crediting:		
Interest income	1,500	3,584
Net income arising from temporary transfer of export quota entitlements	5,784	4,613
Net gain on exchange	1,624	5,603

5. DIRECTORS' EMOLUMENTS

The aggregate amounts of the directors' emoluments disclosed pursuant to Section 161 of the Companies Ordinance are as follows:

	Group	
	1992	1991
	HK\$'000	HK\$'000
As directors	350	300
For management	9,600	7,799
	9,950	8,099

6. TAXATION

(a) The charge for taxation in the consolidated profit and loss account represents:

	Group	
	1992	1991
	HK\$'000	HK\$'000
Hong Kong profits tax	5,002	6,276
Overseas taxation	24,564	10,745
Deferred taxation (Note 20)	912	880
	30,478	17,901

The provision for taxation of the Company and its Hong Kong subsidiaries is calculated by applying the current rate of taxation of 17.5% (1991: 16.5%) to the estimated assessable profits earned in or derived from Hong Kong during the year.

Taxation on the profits of other subsidiaries operating overseas is calculated at the rates applicable in the respective jurisdictions.

(b) Taxation in the balance sheet represents the amount provided for Hong Kong profits tax and overseas taxation less provisional tax paid.

7. PROFIT ATTRIBUTABLE TO THE MEMBERS

Included in the profit of HK\$115,091,000 (1991: HK\$73,174,000), attributable to the members of Giordano Holdings Limited is HK\$85,916,000 (1991: HK\$452,663,000), including dividends from subsidiaries amounting to HK\$84,974,000 (1991: HK\$446,147,000), which has been dealt with in the accounts of the Company.

8. DIVIDENDS

	1992	1991
	HK\$'000	HK\$'000
Interim dividend of 2.5 cents (1991: nil) per share paid on 9th September 1992	15,516	0
Special cash dividend (1991: 1 cent per share)	0	6,010
Proposed final dividend of 5 cents (1991: 4 cents) per share	31,029	24,038
	<u>46,545</u>	<u>30,048</u>

9. EARNINGS PER SHARE

- (a) The calculation of earnings per share for 1992 is based on the consolidated operating profit attributable to the members for the year of HK\$115,091,000 (1991: HK\$73,174,000) and the weighted average of 606,866,075 shares (1991: 389,394,015 shares) in issue during that year.
- (b) The calculation of combined earnings per share for 1991 is based on the combined profit after taxation for the year of HK\$85,130,000 and the weighted average of 537,500,000 shares that would have been in issue during the year on the basis of presentation as set out in note 1 to the accounts on page 32.

10. INTANGIBLE ASSETS

	Group	
	1992	1991
	HK\$'000	HK\$'000
Purchased permanent export quota entitlements	17,019	17,112
Less: Amounts amortised	(13,615)	(10,367)
	<u>3,404</u>	<u>6,745</u>
Other intangible assets	1,679	1,817
Less: Amounts amortised	(1,376)	(1,678)
	<u>303</u>	<u>139</u>
Total intangible assets	<u>3,707</u>	<u>6,884</u>

Other intangible assets include the preliminary expenses and lease premium in respect of retail shops and office premises.

11. FIXED ASSETS

	Plant & machinery	Leasehold improvements, furniture, fixtures & equipment	Motor vehicles & leisure boat	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
The Group:				
Cost				
At 1st January, 1992	17,391	105,695	6,663	129,749
Translation difference	0	(8)	(3)	(11)
On acquisition of subsidiaries	4,627	1,475	111	6,213
Additions	8,791	64,356	4,549	77,696
Disposals	(125)	(15,299)	(1,105)	(16,529)
At 31st December, 1992	<u>30,684</u>	<u>156,219</u>	<u>10,215</u>	<u>197,118</u>
Aggregate depreciation				
At 1st January, 1992	9,627	59,664	2,599	71,890
Translation difference	0	(69)	(1)	(70)
On acquisition of subsidiaries	629	57	2	688
Charge for the year	4,314	32,374	1,879	38,567
Disposals	(84)	(13,701)	(525)	(14,310)
At 31st December, 1992	<u>14,486</u>	<u>78,325</u>	<u>3,954</u>	<u>96,765</u>
Net book value at 31st December, 1992	<u>16,198</u>	<u>77,894</u>	<u>6,261</u>	<u>100,353</u>
Net book value at 31st December, 1991	<u>7,764</u>	<u>46,031</u>	<u>4,064</u>	<u>57,859</u>

11. FIXED ASSETS (CONT'D)

	Furniture, fixtures & equipment	Motor vehicles & leisure boat	Total
	HK\$'000	HK\$'000	HK\$'000
The Company:			
Cost			
At 1st January, 1992	6,830	1,045	7,875
Additions	7,684	0	7,684
Disposals	(1,903)	0	(1,903)
At 31st December, 1992	12,611	1,045	13,656
Aggregate depreciation			
At 1st January, 1992	733	197	930
Charge for the year	2,029	312	2,341
Disposals	(804)	0	(804)
At 31st December, 1992	1,958	509	2,467
Net book value at 31st December, 1992	10,653	536	11,189
Net book value at 31st December, 1991	6,097	848	6,945

12. INTEREST IN SUBSIDIARIES

	Company	
	1992	1991
	HK\$'000	HK\$'000
Unlisted shares, at cost	442,570	441,922
Amounts due from subsidiaries	224,928	200,949
	667,498	642,871

During the year, the Company acquired from Comitex Holdings Limited the entire issued share capital of Gloss Mind Limited and the shareholder's loan for a total cash consideration of HK\$8,500,000.

Details of subsidiaries are set out in note 24 to the accounts on pages 47 to 49.

13. INTEREST IN AN ASSOCIATED COMPANY

	Group		Company	
	1992	1991	1992	1991
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Unlisted shares, at cost	0	0	200	0
Share of net liabilities	(10,200)	0	0	0
Loan to an associated company	30,400	0	30,400	0
	20,200	0	30,600	0

At 31st December, 1992, the Group had an effective 20 percent interest in the equity of Tiger Enterprises Limited ("Tiger") which was incorporated in Hong Kong. Tiger and its subsidiaries ("Tiger group") are engaged in the manufacture, wholesale and retail distribution of garments and other accessories, under the "GIORDANO" brand, in the People's Republic of China.

14. OTHER INVESTMENTS

	Group		Company	
	1992	1991	1992	1991
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Club debentures, at cost	2,936	1,777	2,821	1,660
Less: amounts amortised	(980)	0	(940)	0
	1,956	1,777	1,881	1,660

15. CURRENT ASSETS

	Group		Company	
	1992	1991	1992	1991
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Inventories (Note 17)	389,603	242,773	0	58
Trade and bills receivable	73,186	42,647	270	637
Other receivables, deposits and prepayments	84,690	42,448	1,372	699
Bank and cash balances	72,729	71,289	6,511	13,462
	620,208	399,157	8,153	14,856

16. CURRENT LIABILITIES

	Group		Company	
	1992	1991	1992	1991
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Trade and bills payable	210,183	64,173	0	0
Other payables and accruals	115,896	64,495	4,324	5,664
Taxation (Note 6(b))	24,195	21,179	120	217
Proposed dividends	31,029	30,048	31,029	30,048
	381,303	179,895	35,473	35,929

17. INVENTORIES

	Group		Company	
	1992	1991	1992	1991
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Raw materials	40,716	7,913	0	0
Work in progress	64,383	52,373	0	0
Finished goods	284,504	182,487	0	58
	389,603	242,773	0	58

18. SHARE CAPITAL

	1992	1991
	HK\$'000	HK\$'000
Authorised:		
800,000,000 ordinary shares of HK\$0.10 each	80,000	80,000
Issued and fully paid:		
615,925,000 ordinary shares of HK\$0.10 each (1991: 600,000,000 ordinary shares of HK\$0.10 each)	61,593	60,000

On 28th February, 1992, options to subscribe for 7,600,000 shares at HK\$1.46 per share were granted to certain directors and employees under the employee share option scheme ("the scheme"). These options can be exercised at any time during the period commencing six calendar months after the date of grant and expiring on the fifth anniversary date of grant. During the year, 15,925,000 options granted under the scheme were exercised. In this connection, the Company issued and allotted 14,775,000 shares and 1,150,000 shares of HK\$0.10 per share at a premium of HK\$0.71 and HK\$1.36 per share respectively for cash to certain directors and employees of the Group who have exercised their share options under the scheme.

Subsequent to the balance sheet date, the Company has issued and allotted 2,150,000 shares and 2,500,000 shares of HK\$0.10 each at a premium of HK\$0.71 and HK\$1.36 per share respectively for cash to employees of the Group who have exercised their share options under the scheme.

19. RESERVES

	Group		Company	
	1992 HK\$'000	1991 HK\$'000	1992 HK\$'000	1991 HK\$'000
(a) Share premium:				
Balance at 1st January	147,029	0	147,029	0
Arising on issue of new shares during the year	12,054	162,000	12,054	162,000
Share issuing expenses	(73)	(14,971)	(73)	(14,971)
Balance at 31st December	159,010	147,029	159,010	147,029
(b) Capital reserve:				
Balance at 1st January	0	0	380,000	0
Transfer from retained profits	0	0	0	380,000
Balance at 31st December	0	0	380,000	380,000
(c) Exchange reserve:				
Balance at 1st January	4,066	1,265	0	0
Exchange differences arising from translation of the accounts of overseas subsidiaries and branches	1,536	2,801	0	0
Balance at 31st December	5,602	4,066	0	0
(d) Retained profits:				
Balance at 1st January	72,144	30,681	42,615	0
Retained profit for the year	68,546	43,126	39,371	422,615
Goodwill arising on consolidation written off	(5,218)	(1,663)	0	0
Transfer to capital reserve	0	0	0	(380,000)
Balance at 31st December	135,472	72,144	81,986	42,615
Total reserves at 31st December	300,084	223,239	620,996	569,644

20. DEFERRED TAXATION

	Group		Company	
	1992 HK\$'000	1991 HK\$'000	1992 HK\$'000	1991 HK\$'000
Balance at 1st January	2,543	1,013	759	0
Translation difference on opening balance	(11)	31	0	0
Deferred tax liabilities of subsidiaries acquired	0	619	0	0
Transfer from profit and loss account (Note 6(a))	912	880	500	759
Balance at 31st December	3,444	2,543	1,259	759

The deferred tax liabilities which arise mainly from accelerated depreciation allowances have been fully provided for in these accounts. The deferred tax asset in respect of tax losses not taken up in the consolidated accounts as at 31st December, 1992 arising from the deduction of the GIORDANO trademark valued at HK\$380,000,000 for tax purpose, was HK\$55,153,000 (1991: HK\$61,891,000).

21. RELATED PARTY TRANSACTIONS

During the year, the Group, in the normal course of business, entered into the following transactions with certain related companies:

	Group	
	1992 HK\$'000	1991 HK\$'000
Purchases of sweaters from Comitex Knitters Limited	99,121	91,852
Income arising from sourcing of raw materials and garment processing and royalties income from Tiger and its subsidiaries	70,928	0

22. COMMITMENTS

At 31st December, 1992, the Group had minimum commitments under operating leases in respect of retail shops, office premises, factories and warehouses to make payments in the next year as set out below:

	Group	
	1992	1991
	HK\$'000	HK\$'000
Operating leases which expire:		
Within one year	32,320	40,459
In the second to fifth years inclusive	129,722	81,498
Over five years	0	2,496
	<u>162,042</u>	<u>124,453</u>

23. CONTINGENT LIABILITIES

At 31st December, 1992, the Group had contingent liabilities not included in the accounts in respect of the following:

	Group	
	1992	1991
	HK\$'000	HK\$'000
(a) Export bills discounted with recourse	4,309	5,680
(b) Letters of credit issued but not yet utilised	35,111	7,046
(c) Bank guarantees in lieu of utility deposits	7,008	3,103
(d) Guarantee notes to vendor	5,339	0
	<u>51,767</u>	<u>15,829</u>

Trade financing facilities granted by banks to certain subsidiaries were guaranteed by the Company.

At 31st December, 1992, the amount of such facilities utilised was HK\$51,767,000.

24. SUBSIDIARIES

At 31st December, 1992 the Company held shares in the following subsidiaries:-

Name of subsidiary	Country of incorporation	Effective percentage of equity holding		Issued and fully paid share capital	Principal activities and country of operation
		1992	1991		
Giordano Limited	Hong Kong	100	100	Ordinary HK\$5,000,000	Retailing of apparel and accessories in Hong Kong
Giordano Originals (Singapore) Private Limited	Republic of Singapore	100	100	Ordinary S\$1,900,002	Retailing of apparel and accessories in Singapore
East Jean Limited	Hong Kong	100	100	Ordinary HK\$1,000,000	Retailing of apparel and accessories in Taiwan
Giordano (Japan) Limited	Japan	100	-	Ordinary Yen10,000,000	Retailing of apparel and accessories in Japan
Giordano (Macau) Limited	Macau	100	-	Ordinary MOP50,000	Retailing of apparel and accessories in Macau

24. SUBSIDIARIES (CONT'D)

Name of subsidiary	Country of incorporation	Effective percentage of equity holding		Issued and fully paid share capital	Principal activities and country of operation
		1992	1991		
Aktiviti Padu (M) Sdn. Bhd.	Malaysia	100	-	Ordinary M\$2	Retailing of apparel and accessories in Malaysia
Cohin Knitting & Garment Manufacturers Limited	Hong Kong	100	100	Ordinary HK\$2,000 Non-voting deferred HK\$3,261,000	Manufacturing of fine knitwear in Hong Kong and the People's Republic of China
Gloss Mind Limited	Hong Kong	100	-	Ordinary HK\$2	Manufacturing of woven products in the People's Republic of China
Walton International Limited	Cayman Islands	100	100	Ordinary US\$102	Licensing of trademarks in Hong Kong

24. SUBSIDIARIES (CONT'D)

Name of subsidiary	Country of incorporation	Effective percentage of equity holding		Issued and fully paid share capital	Principal activities and country of operation
		1992	1991		
St. Hooks Brothers Limited	Hong Kong	100	100	Ordinary HK\$2	Dormant
Uniform Master Limited	Hong Kong	100	100	Ordinary HK\$2	Dormant
Giordano International Limited	Cayman Islands	100	100	Ordinary US\$2	Dormant
Master Trend Garments Limited	Hong Kong	100	-	Ordinary HK\$2	Dormant
CG Limited	Hong Kong	100	100	Ordinary HK\$200 Non-voting deferred HK\$500,000	Dormant
Eternal Business Limited *	Hong Kong	100	100	Ordinary HK\$100	Holding of shop leases in Hong Kong

* indirect subsidiary